

INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

THIRTY-SECOND MEETING OF MINISTERS

COMMUNIQUÉ

October 5, 1985

1. The Ministers of the Group of Twenty-Four on International Monetary Affairs held their Thirty-Second Meeting in Seoul Republic of Korea, on October 5, 1985, Mr. Juan V. Sourrouille, Minister of Economy, Argentina, was in the Chair, with Mr. Tesfaye Dinka, Minister of Finance, Ethiopia, and Mr. Vlado Klemencic, Federal Secretary for Finance, Yugoslavia, as Vice-Chairmen. The meeting was attended by Mr. J. de Larosière, Managing Director, International Monetary Fund, Mr. A. W. Clausen, President, the World Bank, Mr. D. R. Clarke, Development Committee, Mr. Y. Berthelot, Deputy Secretary General, UNCTAD, Mr. P. Malan, Director General Analysis and Policies Division, United Nations Mr. Sidney Dell, UNITAR, Mr. Massood V. Samii, Head, Finance Section, OPEC, Mr. Y. Seyyid Abdulai, Director General OPEC Fund, Mr. Abdurahman Hersi, Islamic Development Bank, Mr. Faik Ali Abdul-Rasool President, Iraqi Fund for External Development, and Mr. Hamad Al-Sayari, Governor, Saudi Arabian Monetary Agency. Mr. Liu Hongru, Vice-Chairman of the Council and First Deputy Governor, People's Bank of China, attended as invitee.

2. The meeting of Ministers was preceded on October 2, 1985 by the Forty-Fourth Meeting of Deputies of the Group of Twenty-Four, with Mr. E. A. Zalduendo of Argentina as Chairman, and Mr. Tadesse Gebre Kidan, Ethiopia, and Mr. C. Dujmovic, Yugoslavia, as Vice-Chairmen.

The Reform of the International Monetary and Financial System

3. Ministers stressed that the international economy continues to be characterized by low rates of growth, high levels of unemployment in most countries, volatility and misalignment of exchange rates, lack of policy co-ordination among major industrial countries, insufficient development finance, a net outflow of resources from developing to developed countries, high real interest rates, an inadequate system of liquidity creation and distribution, and rising protectionism. They stressed that the nature of these problems is largely systemic and urged that consideration be given to the reform of the prevailing international monetary and financial system. The international community should work toward international conditions that will be supportive of a balanced development of the world economy and the accelerated development of the developing countries. The Ministers presented their views on these matters in the August 21, 1985 G-24 Report submitted to the Interim and Development Committees for their consideration. The views of the Ministers on the agenda items before these committees are presented below.

World Economic Outlook

4. Ministers reiterated their view that economic and financial conditions for many developing countries remain characterized by low or negative growth rates, declining per capita incomes, increasing unemployment, cutbacks in investment, unfavorable terms of trade, stringency in liquidity, a further sharp decline in commodity prices in 1985, deterioration of export revenues, acute compression of imports, scarcity of external financing, and heavy debt-service burdens; and they noted that these problems, together with the slowdown in world economic growth during 1985, current-account imbalances and an intensification of protectionism in the industrial countries, and high unemployment in Europe suggest that the world economic situation remains uncertain and unsustainable.

5. Ministers stressed the need to attain a set of mutually consistent policies in developed countries aimed at bringing about symmetrical international adjustment and growth of world output and trade, taking into account the urgent need for increased real resource transfers to, and sustained growth in, developing countries; and they emphasized that a lowering of the U.S. fiscal deficit and interest rates is an urgent requirement of the world economy and that developed countries should roll back protectionist measures, refrain from introducing new restrictions on trade, and improve access to their markets for exports of developing countries. They urged other industrial countries, especially those that have successfully moderated inflation, to shift the emphasis of their macroeconomic policies to expand recovery.

6. Ministers observed that the "negative" adjustment that many developing countries have been forced to undertake has had adverse economic, social and political effects; and they stressed the consequent need to move toward a more "positive" type of growth-oriented adjustment.

7. Ministers pointed out that, in spite of harsh adjustment efforts by debtor developing countries and significant debt rescheduling, external debt-servicing continues to impose a very heavy burden; and they emphasized that the resolution of the debt problem requires the cooperation of debtor and creditor countries commercial banks and international financial institutions. Also required is the co-responsibility of debtors and creditors symmetry of adjustment, and cooperative efforts to find a durable solution to the debt problem in a global framework.

8. Ministers emphasized that the solution of the debt problem transcends the market mechanisms and therefore requires imaginative approaches that take into account the social, economic and political context; and they stressed that a lasting and stable solution to the external debt problem requires, inter alia, a collective, continuing and comprehensive dialogue between governments of creditor and debtor countries and the commercial banks so that an appropriate framework is devised to consider these issues in a constructive way. They noted that regulatory agencies and public accountants' bodies should provide flexible ground rules to give banks room to consider alternative methods for a greater diversity of lending approaches.

9. Ministers urged that the terms and conditions of restructuring operations, including multiyear rescheduling, should be improved and adjusted to take into account natural disasters and other exogenous developments that could diminish a country's ability to pursue a path of development that is compatible with its social political and economic objectives; and they observed that debt-service payments cannot claim an unreasonable proportion of export earnings.

10. Ministers emphasized that urgent consideration must be given to developing mechanisms that would roll over or refinance a significant proportion of interest payments on bank debts; they called for the establishment of a new facility in the International Monetary Fund to provide compensation for interest rate increases, given that the large variability in interest rates has a severe impact on indebted developing countries; and they reiterated the request for a study of the possibility of implementing such a facility (see G-24 Press Communiqué No. 30 of September 21, 1984). They noted that the Fund, together with other multilateral institutions, should develop new mechanisms to help those countries which because of adverse exogenous factors were not able to repay their obligations to the Fund according to a fixed schedule.

11. Ministers emphasized that "enhanced surveillance" by the Fund should not be a necessary condition for multiyear debt rescheduling. The catalytic role of the Fund should, in principle, be exercised without enhanced surveillance; they stressed that in cases where it proves necessary, enhanced surveillance should be considered exceptional and is justifiable only at the request of a member country in the context of a multiyear debt rescheduling and should be limited to the debt consolidation period or the grace period. They expressed the view that the main objective of enhanced surveillance should be the early normalization of market relations between the member country and the international financial community and that, if this objective is not achieved, enhanced surveillance should be discontinued.

12. Ministers emphasized that in spite of Paris Club efforts to respond to the rescheduling needs of a large and diverse group of debtor countries, the results of those efforts have been insufficient given the tendency of some creditor governments to reduce the amounts of debt covered in the rescheduling negotiations and to increase the interest rate on rescheduled debt. Taking note of the mutual benefits for both creditors and debtors alike, Ministers urged that meaningful relief should be provided and that Paris Club official creditors should be more cooperative in agreeing to multiyear reschedulings.

13. Ministers requested that new credits should be extended by official export-credit agencies to those developing countries that have had their official debts rescheduled and also to those with critical financial problems.

14. Ministers reiterated that, to alleviate the external debt burden of the low-income countries and to make it more consistent with their repayment capacity and development requirements, Trade and Development Board Resolution 165 (S-IX) must be expeditiously and fully implemented; and outstanding bilateral official development assistance loans must be converted into grants for all least developed countries.

15. Ministers reiterated that a Task Force should be established by the Development Committee to examine all aspects, of the debt problem, including a new and realistic diagnosis of the problem, and to study mechanisms for alleviating the debt burden including, inter alia, the provision of additional resources, with due regard to the specific problems of low-income countries. The composition of this Task Force must give adequate representation to debtor countries and its conclusions should be presented to the Development Committee for consideration at its Spring 1986 meeting. The work of the Task Force must not prejudice other initiatives on the part of debtor and creditor countries for alleviating the debt problem.

16. Ministers stressed the need for a significant increase in the transfer of real resources to developing countries and, toward this end, the resources of multilateral finance institutions should be substantially strengthened to enable them to respond more effectively to the needs of developing countries for growth, development, and adjustment; in particular, they called for an early expansion of the capital base of the World Bank and of regional development banks.

17. Ministers expressed concern at the declining trend in ODA flows at a time when low-income countries are struggling to alleviate poverty and resolve the problems of development; and they urged the developed countries to redouble their efforts to expand ODA flows. They reiterated their disappointment at the inadequate levels of IDA VII resources and urged that the imbalance between the needs of low-income countries and the availability of IDA resources be redressed during the Eighth Replenishment.

18. Ministers urged that particular attention should be paid to the plight of sub-Saharan African countries, which have been suffering a decline in output for several years and whose ability to grow and adjust is seriously constrained by limited access to capital markets, a weak resource base, unfavorable terms of trade, a heavy debt burden, and recurring severe natural disasters. In this context, they stressed the urgent need for additional financial flows on concessional terms to the region.

19. Ministers reiterated that the role of developing countries in the decision-making process in the international financial institutions needs to be substantially increased. The present geographical representation of developing countries' regions on the Boards of the World Bank and the International Monetary Fund should be preserved.

The Question of Allocation of SDRs

20. Ministers expressed concern about the acute stringency in the reserve position of a large number of developing countries at present and, noting the long-term global need for international reserves supplementation, emphasized that a substantial allocation of SDRs would help to meet that concern by promoting economic recovery without being inflationary.

21. Ministers deplored the undue postponement of approval of an allocation in the Fourth Basic Period which has occurred despite the fact that the requirements for an allocation set forth in the Articles have been satisfied and the need for an allocation clearly exists. Ministers urged the few member countries that have not so far found it possible to agree to an allocation to reconsider their position; and they requested the Interim Committee to develop the positive consensus necessary for the approval of an immediate allocation of at least SDR 15 billion before the end of 1985, and thereafter annual allocations of a similar amount; and they emphasized that regular allocations are a prerequisite for making the SDR the principal reserve asset in the system.

22. Ministers reaffirmed their view that the unconditional character of SDR allocations must be maintained in accordance with the letter and spirit of the Articles of Agreement and reiterated the call for the establishment of a link between the SDR allocations and development financing needs, a proposal which is all the more justified in the context of the present world economic

situation.

The Question of Access Limits for 1986

23. Ministers expressed dissatisfaction with the drastic reduction in formal access limits to Fund resources in 1985 and with the restrictiveness of actual Fund financing in individual cases which has discouraged some members from approaching the Fund for assistance.

24. Ministers emphasized the need to continue the Enlarged Access Policy, necessitated, *inter alia*, by the inadequacy of quotas, which have remained insufficient even after the Eighth General Review and do not yet bear an appropriate relationship to world trade.

25. Ministers stressed the need for maintaining, as a minimum, the current annual, triennial and cumulative access limits under the Enlarged Access Policy to enable the Fund to play an effective role in the adjustment process; they also urged that these access limits should be made effective.

26. Ministers pointed out that since the special facilities are not temporary in nature, the annual review of access limits under these facilities should be dropped; and they stressed the urgent need to restore the access limit under the Compensatory Financing Facility to 100 percent of quota and the joint limit in relation to both export shortfalls and cereal import excesses to 125 percent of quota, and to reverse the recently increased conditionality being applied to the Compensatory Financing Facility to make it a truly quick-disbursing facility. Moreover, the Compensatory Financing Facility should compensate the full amount of the calculated shortfall and its resources should be offered on a virtually automatic basis.

27. Ministers urged that, as directed by the Interim Committee, the Fund, in implementing its policies on access to its resources should pay particular attention to the very difficult circumstances of the small-quota, low-income member countries, and should not reduce its financing to such countries; and they stressed that the conditionality relating to financing for these countries should be reduced, considering their special problems.

The Use of Trust Fund Reflows

28. Ministers observed that the economic plight of the low-income developing countries continues to be serious, and that prospects for improvement in the foreseeable future are extremely bleak.

29. Ministers emphasized that the Trust Fund reflows should be provided on the same terms and conditions as the Trust Fund loans to low-income developing countries. They stressed that disbursements of Trust Fund reflows should be quick and not be based upon adherence to specific performance criteria or the attainment of quantitative targets under arrangements with eligible countries.

30. Ministers pointed out that the use of the Special Disbursement Account should be separate from, and additional to, other concessional assistance.

31. Ministers took a position against creating any arrangements for collaboration between the Fund and the World Bank in the use of Trust Fund reflows or otherwise, which would lead to additional conditionalities and cross conditionalities.

Consideration of Reports on the Intentional Monetary System

32. Ministers underlined the need for improvement and reform of the inter-national monetary and financial system in view of its continuing malfunctioning; they welcomed the initiation of the consideration of the Reports on the Inter-national Monetary System and urged that a decision be taken at the October 1985 Interim Committee meeting on a timetable for completing the necessary follow-up action and for making a further detailed examination of the proposals in these Reports, taken together; and, towards this end, Ministers called for the creation of a representative Committee of Ministers from developing and industrial countries which could perhaps take the form of a joint subcommittee of both the Interim and Development Committees, and recommended that this subcommittee should conduct its business on the basis of consensus; this examination should not, however, lead to postponement of decisions on urgent matters such as the allocation of SDRs, and increase in quotas, IDA replenishment the general capital increase of the World Bank, ODA flows the need to roll back protectionism and the alleviation of the debt burden, all of which have been under consideration or would have been considered in the normal course of events.

33. Ministers reaffirmed that an effective reform of the international monetary and financial system requires the convening of an international conference, and they expressed the view that the proposed representative committee of Ministers will be an effective step in preparing for such a conference.

The Size of the General Capital Increase of the World Bank

34. Ministers reiterated that the role of the Bank is one of commitment to development, growth, and poverty alleviation as enshrined in the Articles of Agreement, and they strongly supported the Bank's efforts to remain active in facing the challenging circumstances of developing member countries in the years ahead.

35. Ministers reiterated their dissatisfaction with the reduction in the Bank and IDA lending programs in FY 1985 at a time when developing countries face severely constrained financial and economic conditions; one of the main causes of the reduction was a tightening of economic policy conditionality, which should be reassessed and reviewed in the context of the Bank's role as a development institution. Ministers also expressed concern about the emphasis placed on the Bank's catalytic role.

36. Ministers expressed concern at the projected reduction in lending by the World Bank and at the delay in quantifying its additional capital requirements despite a call from the Development Committee to do so.

37. Ministers cautioned that various stretching mechanisms being considered in the World Bank, such as the deferring of disbursements and the accelerating of repayments, are not in line with the Bank's role as a development institution and that, in any event, such mechanisms are not a substitute for an enlarged capital base.

38. Ministers welcomed the proposal for revising repayment terms for future IBRD commitments, taking into account country and project circumstances and they urged that such liberalization be applied to all low-income countries and also to middle-income countries whose debt-servicing poses problems; in this connection, they also urged a review of the Bank's internal policy on limits to cost sharing and a flexible application of country ceilings.

39. Ministers emphasized that only net transfers from official agencies like the World Bank are available to borrowing countries for development purposes; and they highlighted the need, under current circumstances, to maintain net positive transfers to these countries at levels commensurate with their growth and development requirements.

40. Ministers emphasized that the resource implications of the World Bank's role should be based on a lending growth rate of at least 6.2 percent per annum in real terms, which by itself will enable net transfers to remain at reasonable levels; in this context, they urged that a lending level of \$20 billion per annum by FY 1990 should be the minimum and that the Bank should have a built-in capacity to lend at higher levels if circumstances and opportunities so warrant, and they stressed that the expansion of the Bank's lending operations to these levels should not be constrained by lack of capital

41. Ministers reiterated that given the urgent needs of the developing countries, the case for an early and substantial expansion of the capital base of the World Bank has been established in unmistakable terms; and they stressed for the commencement without further delay of negotiations for a general capital increase whose size, at a minimum, should double the current authorized capital.

Recommendations of the Task Force on Concessional Flows

42. Ministers welcomed the report of the Task Force on Concessional Flows and its conclusion that donor countries should redouble efforts to increase the supply of ODA as a matter of urgency, and they stressed that an action program should be drawn up for implementing the recommendations of the Task Force.

43. Ministers emphasized that the various coping mechanisms considered by the Task Force for supplementing traditional ODA flows offer no substitute for increases in such flows and that the need for such an increase is unmistakable and urgent.

44. Ministers expressed concern that the growth in ODA has not kept pace with the economic capacity of developed countries and, in this context, they urged that a timetable for reaching the 0.7 percent ODA/GNP ratio be adopted and implemented. They expressed reservations about the reliability of the forecast of DAC that ODA will increase by only 2 percent annually real terms, a

rate they regarded as grossly inadequate and unacceptable.

45. Ministers expressed concern that, despite IDA's significant contributions to the low-income countries through high net transfers, proven effective utilization of resources, alleviation of poverty and provision of technical assistance, the share of IDA in total ODA flows has declined; and they urged that steps be taken to strengthen IDA as a multilateral institution.

46. Ministers urged that the imbalance between the increased need for concessional flows by all low-income countries and the low level of funding under IDA VII be urgently redressed and that, for this purpose, steps be taken to commence and complete IDA VIII negotiations without delay.

Mid-Term Review of IDA VII

47. Ministers reiterated the importance of IDA's role in promoting economic development increasing productivity -- thus helping to raise standards of living and to alleviate poverty --and providing technical assistance in less -developed countries.

48. Ministers expressed deep disappointment at the steep decline in the availability of IDA resources and at the lack of political will shown by donor countries so far in arranging supplementary financing for the very inadequate Seventh Replenishment of IDA. The curtailment of resources can have only negative consequences for less developed countries in the long run.

49. Ministers emphasized that IDA's basic task has traditionally been to finance specific investment where sustained commitment and support are required; they deplored the excessive emphasis on policy-based lending and the recent attempt to introduce macroeconomic conditionality in IDA operations.

50. Ministers expressed disappointment that the mid-term review of IDA VII has deviated from its original purpose of considering ways of supplementing IDA VII resources; they deplored suggestions for any hardening of IDA terms at a time when the volume of such flows has diminished, and they emphasized that the circumstances of low-income countries do not warrant consideration of those suggestions.

51. Ministers expressed the view that negotiations for the Eighth Replenishment of IDA should be started soon so that an IDA VIII of adequate size can be in place at the latest by September 1986; they emphasized that the size of IDA VIII should take into account the increased requirements of all low-income countries and the inadequacy of IDA VII.

52. Ministers reiterated that, in the application of their policies the multilateral financial institutions should recognize the special needs and characteristics of low-income countries.

Special Facility for Sub-Saharan Africa

53. Ministers welcomed the establishment of the Special Facility for sub-Saharan Africa and for the contributions made available to the Facility. They stressed that the size of the Facility is

grossly inadequate relative to the immense needs of sub-Saharan Africa, and they urged additional contributions from donor countries.

54. Ministers supported the recommendations of the Executive Directors of the World Bank for transferring to this Facility the amount of US\$150 million from the Bank's net income.

55. Ministers agreed that the access and terms and conditions for lending from the Facility should be the same as those of IDA; they underlined the importance of quick disbursements from the Facility and strongly supported the initiative to ensure that IDA credits continue to be supplemented with funds from the Special Facility.

Multilateral Investment Guarantee Agency (MIGA)

56. Ministers recognized that private direct investment can have a role to play, particularly as a source of transfer of technology and skills. However, they underlined that such investment should serve the host developing country's needs and conform to its national laws, policies, and priorities and cannot be a substitute for concessional and non-concessional flows to developing countries.

57. Ministers took note of the recent decision of the World Bank's Executive Board recommending the establishment of MIGA. They noted the view of those countries that are interested that the creation of this Agency could be a positive step to increase the flows of private direct investments. They also noted the concerns of those other countries that have reservations about MIGA.

Solidarity with Mexico

58. Ministers expressed their solidarity with the Mexican people following the tragic earthquake that has caused so much human loss and suffering, and they called upon the international community to give its strong support to alleviating the economic and financial strains that the disaster has created.

59. The next ordinary meeting of the Group of Twenty-Four will be held in Washington, D.C. on the occasion of the Spring sessions of the Interim and Development Committees.

60. Ministers expressed gratitude to the Government and people of Korea for their hospitality and warm welcome and for the arrangements made for the meetings of the Group of Twenty-Four.