# INTERGOVERNMENTAL GROUP-OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

## Thirty-Eighth Meeting of Ministers

## COMMUNIQUÉ

**April 13, 1988**

1. Ministers of the Group of Twenty-Four on International Monetary Affairs held their Thirty-Eighth Meeting in Washington, D.C. on April 13, 1988. Mr. Mailson Ferreira da Nóbrega, Minister of Finance, Brazil, was in the Chair, with Mr. Jean-Pierre Lemboumba-Lepandou, Minister of Finance, Gabon, and Mr. Masoud Mozayeni, Vice Governor, Bank Markazi Jomhouri Islami Iran, Islamic Republic of Iran, as Vice-Chairmen. The meeting was attended by Mr. M. Camdessus, Managing Director, International Monetary Fund, Mr. B. B. Conable, President, World Bank, Mr. Bernard T. G. Chidzero, Chairman, Development Committee, Mr. Ahmed Ghezal, Chairman, Group of Seventy-Seven, Mr. Rafeeuddin Ahmed, Under Secretary General, United Nations, Mr. K. K. S. Dadzie, Secretary-General, UNCTAD, Mr. Olivier Castro, Executive Secretary, Central American Monetary Council, Mr. Akinbolaji Iwayemi, OPEC, Mr. Y. Seyyid Abdulai, Director General, OPEC Fund, Mr. Hikmat 0. Al-Hadithi, Minister of Finance, Iraq, Mr. Mohamed Berrada, Minister of Finance, Morocco, and Mr. Osama J. Faquih, Deputy Minister of Finance, Saudi Arabia; Mr. Tian Yinong, Vice Minister of Finance, People's Republic of China, attended as invitee.

2. The meeting of Ministers was preceded on April 11 and 12 by the Fifty-first Meeting of Deputies of the Group of Twenty-Four with Mr. Sergio Silva do Amaral, Brazil, as Chairman, and Mr. Jean-Paul Leyimangoye, Gabon, and Mr. Masoud Kozayeni, Islamic Republic of Iran, as Vice-Chairmen.

**World Economic Outlook**

3. Ministers noted that growth projections for industrial countries for the short and medium term remain modest; even this modest growth foreseen for industrial countries is threatened by serious fiscal and external imbalances among the major industrial countries. In the short term, they are below potential output growth; in the medium term, structural changes together with policy coordination among industrial countries are needed in order to ensure higher growth rates and to improve the overall adjustment.

4. Ministers stressed that fiscal retrenchment in industrial countries with external deficits should be accompanied by fiscal expansion in industrial countries with external surpluses and by an increase in financial flows to developing countries, if a future slowdown in worldwide growth or even a recession is to be avoided.

5. Ministers emphasized that without increased growth in industrial countries, opening of their

markets and an improvement in commodity prices, developing countries and, in particular, debtor countries cannot improve their own growth rates or improve their external position despite continued courageous adjustment measures.

6. Ministers deplored the lack of progress in improving the debt situation of developing countries, which is hindering growth not only in these countries but also in the industrial countries.

7. Ministers stressed that the low-income countries face daunting problems resulting from, among other factors, considerably weakened commodity prices, increased protectionism in industrial countries, a heavy debt burden, and declining concessional flows, and called for intensified efforts to address their particular problems.

8. Ministers recognized the need for developing countries, particularly the heavily indebted ones, to sustain, whenever possible, the efforts necessary to raise domestic savings, both public and private, and re-emphasized, however, that the major reductions achieved by these countries in their current-account deficits have been brought about at the expense of growth and investment.

**Debt Situation and Strategy**

9. Ministers pointed out that the overall debt situation is still critical. Debt service ratios remain high and unsustainable, while massive negative resource transfers have forced an increasing number of countries to suspend interest payments.

10. Ministers reiterated that the experience of six years of failed expectations has shown that there is no way out of the debt problem without a reversal in the negative transfer of resources and a reduction in the debt overhang. Debt service should be adapted to the debtors' capacity to repay taking into account their need for adjustment with growth.

11. Ministers noted that heavy debt service has compelled several capital-importing countries to generate considerable surpluses in their trade balances at the cost of investment and growth. This substantial adjustment has entailed extremely low GDP growth rates and a decline in per capita income.

12. Ministers underlined that restructuring agreements with commercial banks have provided short-term relief rather than improved medium-term prospects for sustainable growth and increased payment capacity, since private banks are increasingly reluctant to provide new resources and bank advisory committees have not proved to be innovative enough to accept and develop new mechanisms.

13. Ministers urged creditor governments, private banks, and multilateral financial institutions to join in efforts to achieve those goals, particularly:

(a) The adoption of a new approach to debt rescheduling with private banks which may include interest rate reduction, effective safeguard mechanisms, and adequate compensation for the negative impact of currency redenomination on the debt service; elimination of commis-sions and reimbursable expenses charged to debtors in the context of refinancing and fresh-money agreements with commercial banks should also be included;

(b) The development and implementation of new debt conversion mechanisms that permit the transfer of a substantial part of the market discount to debtor countries;

(c) A departure from the "short-leash" approach, which entails endless negotiations between creditors and debtors, is urgently needed; indebted countries need financial assurances during the medium term that may allow them to implement viable programs of adjustment and structural reform;

(d) More flexible rescheduling by the Paris Club, in terms of interest rates and amortization periods, and an increase in resource flows -- as well as better terms and conditions of new insurance coverage, guarantees and loans -- from official creditors;

(e) The adoption of a debt reconstruction approach by multilateral financial institutions to be manifested in different ways, including a more flexible attitude in dealing with overdue financial obligations to these institutions; and

(f) Creation, in a cooperative spirit, of a less receptive environment to capital flight from debtor countries, so as to complement their efforts to promote domestic savings in pursuance of growth--oriented programs.

14. Ministers stressed that current regulatory and tax norms in industrial countries in some cases penalize and generally do not allow for flexibility in the search for the debt restructuring solutions which are now needed to re-establish genuine trade and investment financing flows; and

15. Ministers insisted that the approach toward the debt of low-income countries should include the cancellation of official debts to industrial countries, conversion of part of their debts into grants, and rescheduling of the remaining part on concessional terms, taking into consideration a realistic assessment of their capability to pay.

**Role of the Fund in Adjustment and Financing**

**a) Extended Fund Facility and Program Design**

16. Ministers welcomed the recent efforts in the Fund to improve the design, conditionalities, and application of the EFF in order to make it a more useful instrument in the promotion of adjustment with growth.

17. Ministers reiterated the long-standing position of the Group that if such a Facility is to contribute to the satisfactory growth of developing countries, its terms and conditions should be tailored to their specific political, social, and economic requirements; EFF programs, as well as any other Fund arrangements, should avoid the devaluation of the domestic currency beyond levels based on differential inflation rates.

18. Ministers urged the IMF Board to complete a major EFF review that could send a positive signal on the effective role of the Fund in fostering growth.

19. Ministers stressed the need to increase access limits and to provide adequate financing compatible with adequate rates of growth and to adjust conditionalities to this effect. This could include, inter alia, reducing the number of performance criteria by limiting them to those that are indispensable to ensure progress in adjustment with growth. For this purpose, wherever possible, the frequency of testing dates should be reduced from three-monthly to six-monthly periods; care should be taken to avoid an imbalance between policy actions required of countries and the volume and periodicity of drawings, which can only lead to unrealistic adjustment programs.

20. Ministers emphasized the recommendations of the Report of the G-24 on the Role of the Fund in Adjustment with Growth: growth exercises should be performed prior to financial exercises; conditionality should be limited to the minimum, and the financing made available should be substantial so as to give effective support to the implementation of growth-oriented adjustment; and program length could be extended up to five years; and

21. Ministers urged the Fund to adopt a flexible approach to monitoring the program, particularly when problems arise owing to exogenous factors.

**b) Compensatory Financing Facility**

22. Ministers took note of the Informal Remarks on the CFF and ECM made by the Chairman of the Executive Board on April 7, 1988.

23. Ministers deplored any attempts to increase the conditionality for the use of the CFF and to subject access to the upper tranche to the existence of an adjustment program with the Fund.

24. Ministers urged the Fund to restore the quick-disbursing character of the CFF in order to provide countries experiencing any sort of export shortfall with timely assistance.

25. Ministers reiterated that financing under the CFF should be related to the magnitude of the export shortfall rather than to quotas, and that low conditionality is more in line with the original aim of the Facility; and

26. Ministers stressed that changes in the present CFF should contemplate a liberalized access to the lowest compensatory tranche along the lines of the pre-1983 guidelines.

**c) External Contingency Mechanisms**

27. Ministers welcomed the idea of providing external contingency financing to countries undertaking adjustment programs. The mechanism should support growth-oriented response to changes in exogenous circumstances; maximum compensatory access would not be less than maximum access for meeting external contingencies.

28. Ministers also emphasized that the inclusion of interest, exchange rate and growth contingencies in the mechanism is essential. They insisted that the necessary mix of financing and adjustment be specified at the outset of the program and that continued access be made automatic without additional conditionality.

**d) Ninth General Review of Quotas**

29. Ministers expressed concern that the Ninth General Review of Quotas has not yet been concluded and stressed the need for the review to be concluded as soon as possible to enable the Fund to discharge its responsibilities for an orderly functioning of the international monetary system and for adequate financing for the adjustment programs of member countries.

30. Ministers emphasized that a doubling of quotas is more than justified in view of the outlook for the world economy in the next five years as well as the decline of financing from other sources; such an increase would support the role that the Fund needs to play in supporting adjustment with growth, and would strengthen the quota-based nature of the institution.

31. Ministers underlined the need for better balance between industrial and developing countries in the Fund's Executive Board. They underscored that the share of developing countries in total quota shares in the Fund should be increased. In this connection, consideration could be given to increasing the voting power of developing countries and their representation on the Board and to need-based indicators, such as per capita income, in the calculation of quotas. They reiterated that the present geographical representation of developing country regions in the Executive Board of the Fund should be preserved.

32. Ministers requested that payment arrangements similar to those for the Eighth General Review of Quotas be devised for the payment of quota increases under the Ninth Review.

**e) Question of SDR Allocations**

33. Ministers emphasized that a new SDR allocation would enhance the efficiency of the reserve system, improve the stability of the international monetary system, and accelerate the expansion of the world economy and particularly of the developing countries.

34. Ministers agreed that recent developments in the world economy have confirmed the need for a resumption of SDR allocations on a scale consistent with the growth of international reserves and in line with the projected growth of world imports, which will help satisfy the long--term global need for transformation and orderly growth of reserve assets, without rekindling inflation.

35. Ministers deplored the fact that the failure by a small number of countries to recognize that the conditions for an allocation of SDRs set out in the Articles of Agreement have been met has for a long time prevented a new allocation.

36. Ministers noted that the argument that international financial institutions and markets are able to provide adequate exchange reserves to heavily indebted countries has not been confirmed by recent experience; this has increased the vulnerability of the adjustment efforts of those

countries. In this regard, Ministers urged a substantial new allocation of not less than SDR 30 billion over the next two years.

**Progress Report on Issues in the G-10 and G-24 Reports Concerning the Role of the Fund**

37. Ministers expressed their concern about the lack of progress by the Fund in addressing issues that are considered vital for the adjustment necessary to promote growth and a viable balance-of-payments position in the developing countries.

38. Ministers urged the Fund to adopt expeditiously concrete measures to implement the recommendations set forth in the Report of the G-24 on the Role of the Fund in Adjustment with Growth.

39. Ministers welcomed the Board's decision to establish the Enhanced Structural Adjustment Facility, but stressed the need for reducing its conditionality content in order to make it a more useful instrument by accelerating the flow of resources to eligible countries.

40. Ministers expressed concern that in spite of the withdrawal of commercial banks from voluntary lending to most developing countries, repayments to the Fund continue to exceed drawings from that institution, reflecting its failure to adapt its policies to current needs.

**Adequacy of All Forms of Resource Transfers to All Developing Countries to Enhance the Momentum of Their Development**

41. Ministers welcomed the report on adequacy of resource flows to developing countries prepared by the World Bank and emphasized the importance of the Development Committee continuing to keep a regular overview of the subject so that it can effectively discharge its mandate of policymaking on this subject.

42. Ministers endorsed the statement in the President's Report to the Development Committee that "the overriding issue is that the volume of financial flows to developing countries is inadequate to meet the needs for economic growth, poverty alleviation, structural adjustment, and the resolution of debt difficulties..."

43. Ministers underscored that the lack of finance has reached such proportions since 1982 that developing countries, particularly those with relatively high external-debt service obligations, are forced to transfer real resources to the industrial world through unprecedented surpluses in their balance of trade and nonfactor services, a situation that has been aggravated by the deterioration in their terms of trade.

44. Ministers emphasized that the process of severe adjustment in conditions of inadequate external financing has not only affected investment, but has entailed serious social, economic and political costs, jeopardizing the future prospects for growth and development in these countries, and threatening their social and political stability.

45. Ministers stressed that the current situation is clearly unsustainable and insisted that it cannot be dealt with through domestic policy reforms in individual developing countries alone. Serious structural reforms are also needed in industrial countries.

46. Ministers regretted that Official Development Assistance (ODA) is likely to decline as a proportion of GDP of donor countries. In this context, they called on all developed countries to adopt a time-bound program for reaching expeditiously at least the internationally agreed target for ODA of 0.7 percent of their GNP.

47. Ministers emphasized the urgency of enhancing the flow of concessional resources to low-income countries to enable them to tackle the problems of poverty alleviation and development and urged that early steps be taken for implementing the recommendations of the Task Force on Concessional Flows which has called for redoubled efforts to expand the flow of ODA to all low-income countries as a matter of urgency. In this connection, the Ministers strongly supported the current initiatives by the World Bank to mobilize additional concessional resources for low-income Asian countries.

48. Ministers urged industrial countries to meet the need for concessional debt relief for low-income countries, including interest rate relief, further conversions of loans into grants, and outright cancellations.

49. Ministers recognized the serious problems faced by many lower middle-income and IDA-eligible countries whose heavy indebtedness, which is mainly to official creditors, is jeopardizing their growth and further depressing the living standards of their people, particularly of the poor. They urged the Bank and Fund to be more responsive to the needs of these countries and to take initiatives to encourage debt relief to them.

50. Ministers welcomed the World Bank President's report to the Development Committee recognizing that the Bank can expand its activities in facilitating the development of market-based mechanisms for the reduction of both the stock of debt and debt service; and they urged that these ideas be pursued vigorously.

51. Ministers underlined that all developing countries should benefit in an adequate and equitable manner from the Bank's catalytic role in mobilizing resources, including its advisory services and technical assistance.

**Environment and Development**

52. Ministers welcomed the efforts being made by the World Bank to enhance its support for environmental programs, and emphasized that such support should focus on assisting developing countries to protect and preserve their environment according to their own national priorities and programs rather than on incorporating conditionality in Bank assisted projects and programs.

53. Ministers emphasized that national environmental problems are often a consequence of the widespread, poor living conditions in developing countries. The World Bank and other multilateral development agencies should concentrate actions to finance activities that deal with

the causes of the problem, namely, poverty.

54. Ministers stressed the need for additional resources for financing activities aimed at reversing environmental deterioration.

55. Ministers underscored the need for increasing Bank assistance preferably by the establishment of a new funding facility to finance projects that could improve the environment, alleviate poverty, and enhance the social infrastructure, and urged that such assistance be provided on more concessional terms.

56. Ministers stressed that in projects financed by official development agencies, additional costs originating from environmental concerns should receive concessional treatment from additional allocations.

## Reports

### a) The "Headroom" Situation and Progress Toward a General Capital Increase of the World Bank

57. Ministers welcomed the agreement reached by the Board of Executive Directors on the General Capital Increase of the World Bank. They stressed the need to achieve formal ratification by the membership at the earliest possible date. They encouraged front-loaded subscriptions of the paid-in component, as well as accelerated subscriptions of already allocated but as yet unsubscribed shares.

58. Ministers expressed support for the high case of the World Bank's lending program, namely, $24 billion per annum by fiscal year 1992. By the same token, they reiterated their concern at the declining net transfers from the World Bank to the developing countries, and emphasized that the Bank should strive to achieve a lending and disbursement program which would provide for reasonable net transfers to all developing countries.

59. Ministers emphasized that the structure of loan charges and -repayment terms of the World Bank needs to be reviewed as a matter of urgency, and urged that such a review should lead to restoration of repayment terms by reverting to pre-1976 annuity-type patterns, particularly for the low-income countries, and by adjusting the structure of the commitment fee so as to reduce it.

60. Ministers expressed concern at the adverse impact of exchange-rate adjustments on the disbursed and outstanding debt of the Bank's borrowing countries and called on the World Bank to consider measures for alleviating this burden.

61. Ministers emphasized the need for the Bank to take a more active and innovative role in coping with the problems of debt and poverty in all developing countries.

62. Ministers underscored their serious concern at the declining "headroom" available to the World Bank for expansion of its lending operations, and pointed out that the only long-term

solution is to adopt the SDR as the standard of value of Bank's Capital. In this connection they took note of the Ad Hoc Committee set up by the Executive Board of the World Bank, and urged that this Committee complete its work expeditiously.

63. Ministers underscored further their serious concern at the continued erosion of the voting power of small IBRD members and consequently that of developing countries as a group. They affirmed their support for considering ways to maintain the present representation of smaller members in the Board and to raise the voting power of developing countries as a group to at least the pre-1984 SCI level. In this connection, they took note of the Ad Hoc Committee on Voting Power of Smaller Countries set up by the Executive Board of the World Bank, and urged this Committee to put forward its recommendations expeditiously, with a view to enhancing the voting power of the smaller member countries and the developing countries as a group, including possible amendment of the Articles of Agreement of the Bank regarding the basic votes.

**b) Status of the Enhancement of the Structural Adjustment Facility (ESAF) of the IMF**

64. Ministers welcomed the progress made in the implementation of the ESAF and called on all countries that have not already done so to make their maximum contributions within their possibilities.

**c) Developments on World Bank Proposal for a Special Assistance Program for Low-income Countries Facing Exceptional Difficulties, Especially the Seriously Indebted Countries in sub-Saharan Africa**

65. Ministers appreciated the continued efforts by the governments of sub-Saharan Africa and those of other low-income countries in implementing reforms despite the unfavorable external economic environment, poor external resource flows, and high cost of adjustment.

66. Ministers noted efforts by the World Bank, supported by other donors, to launch its initiative of a special assistance program for the debt-distressed low-income African countries, but they urged that efforts be made to assist the other indebted developing countries which are currently excluded from the initiative.

67. Ministers called on the international community to address the problem of deteriorating commodity prices, which affect the economic prospects of all developing countries and particularly the low-income countries of sub-Saharan Africa.

68. Ministers noted the difficult debt burden faced by low-income countries and the measures that have been undertaken by the Paris Club, including longer maturities in rescheduling, and requested that bolder and innovative measures, such as multi-year reschedulings, interest rate relief, and outright debt forgiveness, be adopted in order to address more firmly the worsening debt problem.

69. Ministers commended those creditor countries that have taken the lead in introducing mechanisms, such as debt forgiveness, that could ease the debt burden of low-income countries, they encouraged them to continue with innovative actions in addressing debt issues, and called

on other countries to follow the example.

70. Ministers emphasized that a proper balance between project and policy-based lending should be maintained so that policy-based lending is not undertaken at the expense of traditional project lending, and so that the long-term effects of development constraints be mitigated.

**Review of the World Bank's Graduation Policy**

71. Ministers re-emphasized the call on the IBRD to implement the 'Statement on Graduation' unanimously adopted by the Executive Directors on September 11, 1984, according to which graduation can only take place with the agreement of the country concerned and is subject to review if warranted by changed circumstances. Ministers expressed grave concern about the fact that recent Bank practice seems to contravene the 'Statement on Graduation.'

**d) Current International Trade Issues**

72. Ministers expressed deep concern that the adjustment efforts and growth prospects of developing countries have been hindered and jeopardized by the protectionist practices of industrial countries, discriminatory measures, the mechanism of "voluntary export" restraints, and agricultural subsidies.

73. Ministers emphasized the harmful effects of industrial countries' protectionist policies on the world economy as a whole and especially on developing countries, owing to the high direct and indirect costs created by those policies, and recalled that protectionist practices in industrial countries are in contradiction of prescriptions put forward by both the IMF and the World Bank toward export-led growth in developing countries.

74. Ministers reiterated the Development Committee's request in its 1987 Spring Communiqué that the Bank and the Fund should prepare a report to provide an in-depth study on the impact of the industrial policies of the developed countries on developing countries for consideration by the Committee at its next meeting. This study should cover the international resource allocation aspects of the industrial countries' protectionism and subsidy policies and their effect on the growth prospects of developing countries so that definite recommendations can be put to the Development Committee.

75. Ministers stressed that it is essential that all GATT Contracting Parties, particularly industrial countries, fully adhere to the standstill and rollback commitments subscribed to in the Declaration of Punta del Este and in the Uruguay Round. They underscored that those benefits obtained ultimately by developing countries must not be nullified by conditionalities created by the international financial organizations.

76. Ministers called on industrial countries to improve access to their markets by developing countries' exports as the most obvious, accepted, and efficient way to expand commercial flows, ensure growth, and make it possible for developing countries to meet financial obligations and, consequently, contribute to the solution of the debt problem.

## Reform of the International Monetary and Financial System

77. Ministers reiterated the call for the creation of a representative Committee of Ministers from developing, and for industrial countries to examine the proposals of the Group of 10 and the Group of 24 on the reform and improvement of the international monetary system, so that necessary follow-up actions are pursued. This Committee could perhaps take the form of a joint subcommittee of both Interim and Development Committees and should conduct its business on the basis of consensus.

78. Ministers reiterated that an effective reform of the international monetary and financial system requires the convening of an international conference, and expressed the view that the proposed representative Committee of Ministers mentioned in the preceding paragraph will be an effective step in preparing for such a conference.

## Program of Research and Studies and Relations with UNCTAD/UNDP

79. Ministers reiterated the utmost importance of the continuity of UNCTAD/UNDP support to the Group of 24 and its deep appreciation of the efficient and fruitful cooperation with the Group. At the same time, Ministers recommended to the Chairman and the Bureau of the Group that they take up this subject with the Administrator of the UNDP in order to ensure its support to the Group of 24 and to discuss modalities of voluntary counterpart funding.

## Special Initiatives by G-24

80. Ministers recommended the establishment of a working group to prepare a report on the expected role of the World Bank in the 1990s, and supported the idea of setting up an informal group to examine the interest in, as well as the feasibility of, organizing a G-24 sponsored meeting on financing growth in the 1990s.