

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

**THE THIRTY-NINTH MEETING OF MINISTERS**

**COMMUNIQUÉ**

**September 24, 1988**

1. Ministers of the Group of Twenty-Four on International Monetary Affairs held their Thirty-Ninth Meeting in Berlin (West), Federal Republic of Germany, on September 24, 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. Ali Majedi, Senior Deputy Minister of Economic Affairs and Finance, 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. Goran Ohlin, Assistant Secretary General, United Nations, Mr. Yves Berthelot, Deputy Secretary-General, UNCTAD, Mr. Olivier Castro, Executive Secretary, Central American Monetary Council, Mr. Jafar Saad, Head Economics and Finance, OPEC, Mr. Y. Seyyid Abdulai, Director General, OPEC Fund, Mr. Carlos Massad, Economic Commission for Latin America and the Caribbean, Mr. Abdurahman N. Hersi, Advisor, Islamic Development Bank, Mr. Hikmat O. Al-Hadithi, Minister of Finance, Iraq, and Mr. Osama J. Faquih, Deputy Minister of Finance, Saudi Arabia, Mr. Xiang Huaicheng, Vice Minister of Finance, People's Republic of China, attended as invitee.

2. The meeting of Ministers was preceded on September 22, 1988 by the Fifty-Second Meeting of the Deputies of the Group of Twenty-Four with Mr. Sergio Silva do Amaral, of Brazil, as Chairman, and Mr. Jean-Paul Leyimangoye, of Gabon, and Mr. Masoud Mozayeni, of the Islamic Republic of Iran, as Vice-Chairmen.

**World Economic Outlook and International Economic Policy Coordination**

3. Ministers noted that expansion in the world economy during the current year will be relatively high, but regretted that it will be unevenly distributed and that the economic and financial conditions in the developing countries will show hardly any improvement over those registered in 1987, indicating thereby the limited spillover effects of rapid growth in industrial countries on developing countries.

4. Ministers expressed concern that against this scenario and the slowdown in world economic growth expected for 1989, the continued large fiscal and external imbalances, and the intensification of protectionism in the industrial countries, the world economic situation remains highly uncertain.

5. Ministers emphasized that the heavy burden of international adjustment has been borne by developing countries, particularly by the heavily indebted countries, and therefore stressed the need for the adoption of policies in industrial countries to take into account the urgent need for increased real resource transfers to developing countries, so as to create the conditions for sustained and durable overall growth to facilitate balanced global adjustment.

6. Ministers warned that overreaction to apprehension about the prospects of inflation in industrial countries (which continues to be moderate) will inhibit growth of the world economy, further increase the already high interest rates, and aggravate the debt problem.

### **Developments in the Debt Situation and Strategy**

7. Ministers noted that notwithstanding some progress, the debt situation is not on the way to a solution. Despite the implementation of serious adjustment programs, debtor countries have not been able to achieve the explicit goals of the strategy, i.e., to restore sustained growth and regain creditworthiness and access to voluntary new lending. Instead, they are facing increased difficulties, including the free-rider syndrome affecting banks, in obtaining even concerted loans.

8. Ministers warned that the deterioration in per capita incomes and in social indicators has in turn led to growing frustration as well as increasing political unrest in debtor countries, which can make it more difficult to conduct an orderly solution to the debt problem.

9. Ministers underscored that the increase in interest rates raises worrisome prospects for the debt situation and insisted that debt service should be limited to a percentage of export earnings that would be compatible with the development needs and with the economic and social requirements of each country.

10. Ministers noted that despite an expansion in world trade, the terms of trade of developing countries have further deteriorated. Even for countries that have benefited from larger export revenues, much of the gains have been overtaken by an increase in interest rates.

11. Ministers reaffirmed their determination to pursue the necessary growth-oriented adjustment programs but noted that such programs have been hampered by a high level of resource transfers from developing countries and the debt overhang that seriously affects their capacity to invest and grow, as well as to manage their economies, since the debt aggravates their fiscal deficits and, consequently, accentuates inflationary pressures.

12. Ministers welcomed the recent decision by some industrial countries to extend debt relief to low-income countries, stressed the need for quick implementation of such relief, and urged the developed countries to enlarge the granting of these advantages to low-income countries implementing adjustment programs with or without Fund resources. In this connection, Ministers also urged 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.

13. Ministers further emphasized the difficulties that debtor countries are facing as a result of excessive conditionalities and inconsistent requirements of different creditors and multilateral institutions. Adjustment programs supported by the Fund, policy-based lending from the World Bank, trade policies of industrial countries, and demands by creditor banks are often incompatible among themselves and raise additional constraints on the management of the economies of debtor countries, as well as on their capacity to meet the legitimate expectations of their people.

14. Ministers strongly insisted on the need to translate into concrete and urgent actions the international consensus on the imperative of growth, which will require a reversal of the negative resource transfers by means of both an increase in the inflow of resources to developing countries as well as interest rate and debt reduction mechanisms. Ministers urged each of the parties involved to take their part in the emerging debt reduction approaches and requested particularly that:

- industrial country governments assume their central responsibility in the debt strategy, as regulators of their financial systems, as members of the Paris Club, as major shareholders of the multilateral financial institutions, and as major creditors;

- creditor banks face with determination the new realities of the market, which point to the mutual benefit of debt burden reduction, the need to take into account the growing differentiation among banks in the rescheduling exercises, and the need to remove the inconsistencies of these exercises, including cross-conditionalities and linkages; and

- multilateral financial institutions grant the necessary support to the implementation of debt reduction mechanisms and adopt a more flexible approach toward conditionality, taking into account that short-term and sector-specific requirements should be made consistent with broad growth and social objectives as well as with the conditions of the world economy.

### **Overdue Financial Obligations to the Fund**

15. Ministers noted the report of the Executive Board to the Interim Committee on overdue financial obligations and stressed the need for a cooperative, positive, and flexible approach to this problem, since it is an aspect of the global debt problem which involves not only the Fund members concerned, but also the Fund itself, its entire membership, and the international financial community in general.

16. Ministers emphasized that in adopting any course of corrective action, the Fund should consider members' capacity to pay their overdue financial obligations and stressed that the adoption of any punitive measures relating to overdue obligations would be counterproductive and should not be considered.

17. Ministers stressed that in addressing the problem of overdue obligations consideration could be given to the relevant provisions of the Articles of Agreement such as rescheduling of overdue repurchases or payment of charges in the member's own currency.

18. Ministers urged the Fund to conduct a review of the Executive Board Decision on Payment Restrictions for Security Reasons, with a view to making possible settlement of overdue financial obligations for those members who have been forced into this situation because of the payments restrictions imposed on them by certain other members.

### **Access Limits for 1989**

19. Ministers noted with deep concern that present access limits, compounded by actual Fund practice of keeping effective access below present formal limits, prevent the Fund from discharging its role of fostering growth-oriented adjustment.

20. Ministers stressed the need to increase access limits and effective access to the Fund's facilities and to introduce more flexibility in Fund lending policies.

21. Ministers reiterated that the Fund's Policy on Enlarged Access should be continued at least until total Fund quotas are increased in order to bear an appropriate relationship to the size of the world economy.

### **Ninth General Review of Quotas**

22. Ministers reiterated that the work on the Ninth General Review of Quotas should be concluded expeditiously, and not later than April 30, 1989, to enable the Fund to discharge its responsibilities for the orderly functioning of the international monetary system and for adequately financing growth-oriented adjustment programs of member countries.

23. Ministers underscored that there should be at least a doubling, of quotas in the light of the uncertain outlook for the world economy and the need to strengthen the quota-based nature of the institution.

24. Ministers expressed their concern about the prospects of a decline in the share of developing countries in total quotas and the voting power. They noted that the predominant use of equi-proportional increases would largely prevent such declines, and stressed the need for developing need--based criteria for calculating quotas.

25. Ministers underlined the need for better voting balance between industrial and developing countries in the Fund's Executive Board and reiterated that the present geographical representation of developing country regions in the Executive Board should not be reduced.

### **The Question of SDR Allocations**

26. Ministers urged the few major countries that still oppose regular SDR allocations to review their stand in the light of the conclusion by the staff that regular allocations of SDRs would be justified, even taking into account the new approach to the concept of international liquidity. Furthermore, regular allocations would facilitate growth-oriented adjustment efforts by developing countries and improve the functioning and stability of the international monetary system.

27. Ministers stressed the need for an immediate allocation of not less than SDR 30 billion.

### **Poverty Issues, Including the Impact of Structural and Adjustment Policies on Poverty Alleviation**

28. Ministers expressed regret that poverty has been acute, growing and pervasive in the developing world. Ministers deplored the profound adverse effects that the debt and development crises of the 1980s have had on the already serious poverty problem. Ministers expressed concern that in many cases adjustment programs have had an adverse social and economic impact, particularly on the poor.

29. Ministers noted that economic growth is a necessary but not a sufficient condition for reducing poverty and called on the international community to provide support for policies that will not only raise output growth but also pay special attention to programs targeted to the poor, as well as for the introduction of operational criteria for effective consideration of the poverty implications of both adjustment programs and lending policies by multilateral financial institutions.

30. Ministers welcomed the efforts of the World Bank to strengthen its capacity to expand programs for poverty alleviation and urged industrial countries to provide additional resources for such programs, including increased concessional resources to low-income countries in accordance with the recommendations of the Task Force on Concessional Flows.

31. Ministers noted that excessive reliance on demand-compressing policies would aggravate poverty and urged the Fund to help design programs in a way to avoid any such adverse effects on the poor.

32. Likewise, Ministers urged the Bank to design its policy-based lending so as to avoid any negative impact on the poor and stressed that the Bank's concern for poverty reduction should not be limited to programs for immediate relief but should lead to the design of lending policies that are conducive not only to growth but also to an improvement in income distribution.

### **Impact of Industrial Policies of the Developed Countries on the Developing Countries**

33. Ministers endorsed the recent major conclusions by both the Bank and Fund staffs concerning the adverse effects of industrial policies of the developed countries on the developing countries as well as on their own economies. In this connection, they deplored that such industrial policies give rise to restrictive measures that adversely affect the growth prospects of developing countries as a whole and their capacity to service their external debt as well as to improve their standards of living.

34. Ministers urged developed countries to undertake needed structural adjustment in their own economies rather than resort to inappropriate industrial and trade policies that, besides harming their economies, lead to a misallocation of global resources and lower growth prospects in the developing countries and the world.

35. Ministers pointed out the contradiction between the restrictive domestic and trade policies of industrial countries as practiced and the nature of the policy advice on trade and domestic policy liberalization that their governments and the international institutions urge on developing countries.

36. Ministers urged the Fund to strengthen effective surveillance over the industrial and trade policies of developed countries through Article IV consultations and the world economic outlook exercises. Ministers also urged the Bank to strengthen and disseminate its analysis of industrial and trade policies of developed countries and the costs they impose on developing countries. In this context, Ministers underlined the need for the Development Committee to review Fund and Bank endeavors in these areas during its forthcoming meetings, with a view to recommending progressively appropriate actions.

### **Review of Developments in Respect of the Low and Middle-Income Heavily indebted Countries**

37. Ministers stressed the grave consequences of the debt overhang for developing countries' economic welfare and growth prospects.

38. Ministers noted that interest and debt reduction has become a necessary ingredient in the resolution of the problem in view of the insufficiency of new financing and emphasized in this context the need for political leadership by the major industrial countries.

39. Ministers considered that the so-called market-based voluntary approach to interest and debt reduction is inhibited by the absence of a supportive fiscal, regulatory and credit enhancement framework in industrial creditor countries.

40. Ministers noted the continuing serious efforts of the heavily indebted countries to implement economic adjustment programs.

41. Ministers commended the efforts of the World Bank, supported by the donor community, to launch its initiative of a special program of assistance for the debt-distressed low-income African countries but urged once again that more extensive and intensified efforts should be made to include those countries that are currently excluded from the initiative.

42. Ministers underlined the serious problems faced by many lower middle-income IDA-eligible countries whose heavy indebtedness, which is mainly to official creditors, is jeopardizing their growth prospects and further depressing 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.

### **Trends in the Transfer of Resources**

43. Ministers noted with deep concern that developing countries as a group have transferred to developed countries a substantial amount of resources at an extremely high cost in terms of investment and consumption. In this respect, they 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 their needs for economic growth, poverty reduction, structural adjustment, and the resolution of their debt difficulties."

44. Ministers deplored the fact that official development assistance (ODA), rather than increasing toward the internationally agreed target, fell by 5.4 percent in real terms in 1987 while net disbursements from bilateral donors and multilateral agencies fell even further in 1987, from \$11.8 billion to \$9.6 billion, or by 18.6 percent in real terms.

45. Ministers emphasized that to sustain the adjustment and development efforts currently underway in low-income countries, the flow of concessional resources to such countries should be substantially increased.

46. Ministers expressed serious concern that Bank lending during fiscal year 1988 resulted in a negative net transfer of \$3.5 billion. Insofar as the Fund is concerned, total repurchases exceeded purchases in 1987 and in 1988 (January-June) by SDR 4.4 billion and SDR 1.5 billion, respectively. In view of this, Ministers stressed the need to reverse this trend, as well as to reduce the costs of Bank lending. Furthermore, Ministers urged the Bank and the Fund to fully exercise their catalytic role in mobilizing resources for all developing countries, including advisory services and technical assistance.

47. Ministers insisted on the absolute need to keep the issue of transfer of resources under serious consideration and called on the Development Committee to consider broad policy recommendations at its April 1989 meeting. In this context, Ministers reaffirmed that the mandate of the Development Committee is to focus on "the broad question of the transfer of real resources to developing countries and to recommend measures to be adopted in order to implement its conclusion."

### **The World Bank's Environmental Program**

48. Ministers emphasized that the national environmental problems are often a consequence of the generally widespread poor living conditions in developing countries, and asked the World Bank and other multilateral development agencies to concentrate on actions to finance activities that deal with the causes of the problem, namely, poverty.

49. Ministers welcomed the efforts of the World Bank and other multi-lateral development agencies, as well as efforts of governmental and nongovernmental organizations, to cope with environmental problems. They stressed, however, that in designing its programs the Bank should rely on its own assessment and on continuous dialogue with borrowing countries, and should take into account poverty reduction, economic growth, and environmental protection as mutually consistent objectives.

50. Ministers recalled the need to expand the Bank's programs and funding to alleviate and prevent environmental deterioration. They emphasized, however, that such support should focus on assisting developing countries to protect or preserve their environment according to their own national priorities, rather than by incorporating conditionality into Bank-supported operations.

51. Ministers stressed the need for additional and concessional resources to cover additional costs originating from environmental concerns and reiterated the need for the establishment of a new financial facility to finance projects to improve the environment, alleviate poverty, and enhance the social infrastructure. Ministers also supported the recent innovative approaches to finance environmental programs with resources coming from a reduction in the debt burden.

52. Ministers noted with deep concern that the widespread emphasis on environmental issues in industrial countries is inconsistent with the frequent use of developing countries as "pollution havens." In this respect, the disposal of industrial materials, including toxic waste, by industrial countries in developing countries' territories and coastal waters must be arrested and banned by international conventions. Industrial countries and the World Bank should assist and facilitate solutions that would eliminate such hazards.

### **Current International Trade Issues**

53. Ministers drew attention to recent estimates mentioned by the President's Report to the Development Committee, which indicate that trade liberalization in developed countries would lead to an increase in GNP of as much as 3 percent in developing countries.

54. Ministers stressed that the protectionist policies of the industrial countries hamper the adjustment process of developing countries that have been following outward-oriented policies on the recommendation of international financial organizations.

55. Ministers emphasized the basic need for all GATT CONTRACTING PARTIES to fully adhere to the standstill and rollback commitments subscribed to in the Declaration of Punta del Este, of 1986.

56. Ministers stressed the importance of the link between trade and finance and in this context regretted the increase in protectionist measures in the developed countries through tariff and non-tariff barriers, including the abuse of instruments not meant by the GATT to be protectionist, such as countervailing duties and antidumping rules, which are all detrimental to the growth prospects of developing countries.

57. Ministers expressed concern about the adoption of protectionist trade legislation in the industrial world, without taking into due consideration the GATT rules, and condemned the utilization of unilateral retaliatory measures based on national law as opposed to the use of mechanisms provided by multilateral trade institutions.

58. Ministers deplored the fact that GSP schemes often exclude key exports of developing countries and can be withdrawn unilaterally, and urged developed countries to refrain from the use of the GSP as a means of obtaining concessions from developing countries in both trade and non-trade related policy areas.

59. Ministers called on the industrial countries to eliminate tariff escalation and other forms of protection on sectors of special interest to developing countries and to avoid the use of voluntary



export restraint arrangements and subsidies to local producers in order to encourage development along the lines of comparative advantage.

60. Ministers recommended the application of relative reciprocity over time for the commitments resulting from the Uruguay Round, in line with the individual development, financial and trade needs of the developing countries and in accordance with the principle of special and more favorable treatment for these countries, as recognized in the GATT framework of rights and obligations.

### **Reform of the International Monetary and Financial System**

61. Ministers reiterated the call for the creation of a representative Committee of Ministers from developing and industrial countries to consider the reform and improvement of the international monetary system. This Committee could perhaps take the form of a joint subcommittee of both the Interim and Development Committees and should conduct its business on the basis of consensus.

62. 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**

63. Ministers welcomed the decision by the UNDP to continue its financial support to G-24 initiatives and mandated the Chairman of the Bureau to pursue discussions with the UNDP to work out details on counterpart funding by the G-24 countries.