DEVELOPMENT COMMITTEE

(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
on the
Transfer of Real Resources to Developing Countries)

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April 21, 1996

G-24 COMMUNIQUE

The attached communique of the 54th meeting of the Ministers of the Intergovernmental Group of Twenty-four held in Washington, D.C. on April 21, 1996 is circulated for the information of the Development Committee at the request of their Chairman, Mr. Qazi Alimullah, Deputy Chairman of the Planning Commission of Pakistan for Finance and Economic Affairs.

INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

Communiqué

April 21, 1996

Ministers of the Intergovernmental Group of Twenty-Four on International Monetary Affairs held their Fifty-Fourth Meeting in Washington, D.C., on April 21, 1996. Mr. Qazi Alimullah, Deputy Chairman of the Planning Commission, of Pakistan was in the Chair, with Mr. Antonio Casas-González of Venezuela as First Vice-Chairman, and Mr. Ali Hamdi of Algeria as Second Vice-Chairman. The meeting was attended by Mr. Michel Camdessus, Managing Director, International Monetary Fund, Mr. James Wolfensohn, President, World Bank, Mr. Mohamed Kabbaj, Chairman, Development Committee, Mr. Roger Lawrence, Deputy to the Secretary General, UNCTAD, Mr. G. K. Helleiner, G-24 Research Coordinator, Mr. Y. Seyyid Abdulai, Director-General, OPEC Fund for International Development, Mr. Abdul Aziz Jalloh, Islamic Development Bank, Mr. Carlos Juan Moneta, Latin American Economic System, Mr. Chen Yuan, People's Republic of China, Mr. Abdeltif Loudyi, Morocco, and Mr. Abdelaziz N. Alorayer, Saudi Arabia.

The meeting of the Ministers was preceded on April 20, 1996 by the Sixty-Seventh Meeting of the Deputies of the Group of Twenty-Four, with Mr. Aziz Ali Mohammed of Pakistan as Chairman, Mr. William Larralde of Venezuela as First Vice-Chairman, and Mr. Kacim Brachemi, of Algeria, as Second Vice-Chairman.

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I. World Economic Outlook

1. Ministers noted with satisfaction the continued good performance of the world economy, to which developing countries had contributed markedly through their much stronger performance, which was largely the outcome of their sustained macroeconomic and structural reform efforts. They noted, in particular, the growth momentum of many developing countries and their increased resilience in the face of an adverse external environment.

2. Ministers were encouraged by the prospects of greater price and exchange rate stability and the resumption of growth in Japan and signs of recovery in Europe. However, they expressed concern about the slow progress toward fiscal consolidation and the persistence of large financial imbalances and structural rigidities in some industrial countries. The associated growth of public debt, combined with high levels of unemployment, intensified risks of greater protectionism. In addition to constraining the effectiveness of fiscal policy and placing an excessive burden on monetary policy, the drain on world saving resulting from these fiscal deficits was primarily responsible for the persistence of high real interest rates. Ministers emphasized that this had serious consequences for investment, especially for developing countries, whose growing

integration into global capital markets has made them far more sensitive to movements in international interest rates.

3. While noting the improved performance of countries in sub-Saharan Africa, which resulted largely from their own adjustment and reform efforts, Ministers were concerned that growth remained fragile and insufficient to evoke any marked alleviation of poverty. The weaker trend in prices for both fuel and non-fuel commodities projected for the next few years would constitute a serious impediment to growth in the region. Ministers stressed the need for a comprehensive program for addressing the problems of these countries in a manner that would match strong reform and adjustment efforts with adequate inflows of concessional assistance, including significant and timely debt relief for heavily indebted poor countries.

II. Surveillance

4. Noting the impact that policy developments in the principal industrial countries have on growth prospects, exchange and interest rates, and trade patterns in the world economy, Ministers emphasized the continuing need for enhanced policy coordination and transparency to avoid the misalignments among major currencies and the disruptive shifts in capital flows that can prove costly to the adjustment efforts of the developing countries.

5. Ministers considered that the growing integration of financial markets and the massive increase in the volume of private capital flows had greatly intensified the need for effective Fund surveillance to contain the contagion effects associated with market disturbances or sudden policy changes. They welcomed the greater forthrightness in the Fund's treatment of sensitive issues, in particular, the exchange rate policies of the major industrial countries and the policy-mix and timing of action to prevent overheating in fast-growing emerging market economies.

6. Ministers commended the Fund management for the progress made toward greater balance in the exercise of surveillance. They noted, however, that the Fund continued to exert an asymmetric influence on the policies of developing and transition countries, owing to their need for financial assistance. They encouraged the Fund to work toward achieving greater influence on the policies of industrial countries, so as to eliminate this asymmetry.

7. Ministers welcomed the establishment by the Fund of the Special Data Dissemination Standard to guide members in publishing a regular and timely flow of economic and financial data. They underscored that, for a number of countries with less developed statistical systems, even the general standard could be achieved only over time and with substantial technical assistance from the Fund.

III. Fund Quotas and Borrowing Arrangements

8. Ministers highlighted the need to strengthen the Fund's financial resources in the face of continued and potential demands on the Fund and the ongoing decline in the liquidity ratio. They stressed the need to ensure that the Fund was equipped to effectively perform its growing responsibilities in a global economy characterized by volatile capital flows. In this regard,

Ministers reiterated their position that the Fund should rely primarily on quotas and that a doubling of quotas would be commensurate with its evolving role.

9. Ministers emphasized the importance of maintaining a proper balance in the representation of members and regions within the Executive Board of the Fund and expressed serious concerns about the relative decline in the quota share of developing countries over time. They stressed that the quota increase under the Eleventh General Review of Quotas should be predominately equiproportional to ensure an adequate increase in quotas for all members and to help maintain the quota share of the developing countries.

10. They also called for a review of the number of basic votes, which would enhance the participation of developing countries, especially a number of smaller ones, in decision making in the Fund. They stressed, however, that any such review should not lead to a delay in concluding the Eleventh Review.

11. Ministers were concerned that discussions on enlarging the size and scope of the General Arrangements to Borrow (GAB) were being held outside the Fund, and stressed that:

- final decisions on enlargement should be taken in close consultation with the Fund;
- new contributors should participate in the policy decision-making and implementation process;
- activation procedures should be streamlined; and
- there should be no distinction between contributors and others in terms of access.

In addition, Ministers emphasized that these and any other borrowing arrangements should not be regarded as substitutes for an adequate increase in quotas.

12. Ministers cautioned against the introduction of higher rates of charge or surcharges on large-scale uses of Fund resources either as a means to strengthen the Fund's financial position or for any other purpose.

IV. Role of the SDR

13. Ministers noted that, for many countries, the cost of acquiring reserves through borrowing in capital markets was substantial. In addition, a number of countries lacked access to private capital markets and were forced to obtain reserves by compressing imports, consumption, and investment. Moreover, countries are facing difficulties in obtaining sufficient amounts of SDRs to reconstitute their reserve positions in the IMF, or, at times, repurchase SDRs to meet their obligations to the IMF. Thus, SDR allocations have an important role to play in the international monetary system, not only to protect the role of the SDR as a reserve asset, but also as a means to promote equity among members.

14. Against this background, Ministers welcomed the recent IMF seminar on the role of the SDR, and noted with interest the proposals put forward, especially those made by representatives from developing countries. In reiterating their continued support for a general SDR allocation in accordance with the Fund's existing Articles of Agreement, Ministers also expressed their willingness to consider further proposals to secure greater participation and equity in the SDR

system and to realize the full potential of the SDR as a source of both conditional and unconditional liquidity.

15. Ministers encouraged the Fund to review further the issues related to the future role of the SDR, including its possible role in preventing, or alleviating, systemic crises by providing a channel for large-scale financing on a temporary basis.

V. Continuation of ESAF Operations

16. Ministers emphasized the important contribution made by the enhanced structural adjustment facility (ESAF) in helping low-income developing countries to implement the comprehensive macroeconomic and structural policies needed to strengthen their balance of payments positions, foster growth, and attract private capital. While noting the consensus in the Fund's Executive Board on the establishment of a self-sustained ESAF, they expressed concerns about the difficulties being encountered in reaching agreement on financing the ESAF. They stressed the need to maintain ESAF funding at an adequate level and to assure the continuation of the self-sustained ESAF on a concessional basis. They urged the membership to resolve the remaining issues promptly in order also to assure the Fund's contribution to the proposed framework for resolving the debt problems of the heavily indebted poor countries.

VI. Debt Problems of Heavily Indebted Poor Countries

17. Ministers noted the joint proposal put forward by the World Bank and IMF managements for resolving the debt problems of heavily indebted poor countries, including their debts to the multilateral institutions. They emphasized that any workable solution would require additionality of resources, so as to preclude any transfer of limited concessional resources from one set of objectives to another. It would also have to be comprehensive in character and deal with the total debt of heavily indebted poor countries, rather than only their multilateral obligations. In this regard, they supported the World Bank and IMF managements' proposal that Paris Club creditors provide net present value concessionality of up to 90 percent in flow rescheduling and stock of debt operations.

18. Ministers cautioned, however, that the eligibility criteria prescribed for beneficiary countries should not be so restrictive as to exclude some of the countries for whom this facility is intended. In this context, Ministers felt that debt sustainability analyses should be more realistic as to export projections, aid availabilities, and the fiscal constraints of debtor governments, while taking into account the overall debt/GDP ratio. Ministers emphasized that such analyses should be carried out with due participation by the debtor governments, contributing donors, and the Bretton Woods Institutions.

19. Ministers recognized the need for recipient countries to steadfastly pursue programs of economic reform. However, they considered that the proposed periods for the establishment of a track record were excessively long and rigid. They felt that flexibility with respect to the eligibility criteria, the timetables, and the scale of relief would help governments sustain their reform efforts. The Ministers called upon all concerned multilateral and bilateral creditors to

work toward an early finalization of an action plan that would be commensurate with the vigorous adjustment efforts of these countries.

VII. International Development Association (IDA)

20. Ministers took note of the recently concluded agreement regarding the Eleventh Replenishment of IDA and the creative approaches adopted to maintain the broad multilateral character of IDA and ensure a successful outcome, despite growing resistance in leading donor countries. Ministers regretted that bilateral donor contributions to IDA-11 would be less than those for IDA-9 and IDA-10 and expressed serious concerns regarding the longer-term prospects of IDA. They urged donor countries to make every effort to ensure the continuity of this important source of development assistance for the poorest countries.

VIII. Multilateral Development Bank (MDBs) Task Force Report

21. Ministers commended the report for its primary emphasis on poverty reduction in the developing world and were generally supportive of the recommendations contained in it. They endorsed the importance of country ownership of programs and projects. Noting that the MDBs would remain an important source of external resource flows to a majority of developing countries, Ministers stressed that the effectiveness of the MDBs hinges on their continued access to concessional financing.

22. Ministers had reservations about whether the MDBs could be an appropriate source of policy advice in the area of promoting good governance and civil society--issues that fall within the jurisdiction of borrowing governments. Given the mandates of the MDBs, the conditions attached to financial assistance should be directly relevant to the success of the programs they support and performance should be judged on the basis of objectively measurable criteria. Ministers expressed serious concerns about the use of environmental, governance, human rights, labor standards, or other issues to further protectionist interests in industrial countries.