IMF SURVEY

Group of 24 communiqué

Representatives of developing countries call for comprehensive approach to debt issues

Following are edited excerpts of the communiqué issued by the ministers of the Intergovernmental Group of 24 on International Monetary Affairs (the Group of 24) in Washington, D.C., on September 25. The full text of the communiqué is available on the IMF's website: www.imf.org.

World economic outlook

Global economic prospects and financial markets have improved in the past few months, largely allaying the earlier fears of a worldwide economic recession and a financial meltdown. However, the recovery in the developing world is still quite fragile, and a number of risks and uncertainties continue to pose challenges for policymakers.

A major concern arises from the unbalanced growth pattern among major industrial countries. The persistence of macroeconomic imbalances generates the potential risk of sharp corrections in asset markets, especially in the U.S. equity market and in foreign exchange markets worldwide. Despite some stabilization in international financial markets, net capital flows to developing countries and transition economies have not yet recovered from the very low level reached in 1998. Moreover, the distribution of flows remains uneven, and interest rate spreads are still very large. Oil prices remain volatile, while nonfuel commodity prices remain depressed, and an early improvement in developing countries' terms of trade appears unlikely. Increasing protectionist tendencies in industrial countries, particularly nontariff barriers, aggravate difficulties for developing country exports. Despite the various initiatives currently in place to address the problems of the heavily indebted poor countries, comprehensive relief is yet to be achieved. Furthermore, adverse reactions to actual or perceived Y2K compliance problems create an additional risk factor in the lead-up to the year 2000.

In noting the adjustment efforts undertaken by developing countries, ministers consider that the uncertainty surrounding the sustainability of global growth requires a parallel effort on the part of industrial countries, particularly by strengthening macroeconomic policy coordination. They are of the view that enhanced policy coordination is crucial to contain sharp fluctuations in exchange rates among the major international currencies, which create severe difficulties for developing countries. Ministers stress that a significant lowering of selective tariff and nontariff barriers in industrial countries is imperative to help developing economies integrate into the global economy and achieve satisfactory growth rates.

Involving the private sector

Ministers recognize that the role of private capital flows will continue to expand in an increasingly integrated global economy. Therefore, it is difficult to visualize the prevention or resolution of financial crises without direct and timely private sector involvement. In this regard, the major challenge for the international community is to

Chandrika Bandaranaika Kumaratunga, President of Sri Lanka, takes her seat to chair the Group of 24 meeting.

develop a market-friendly strategy for involving the private sector in a manner that does not disrupt or unduly raise the cost of capital flows to developing countries. Ministers suggest that any strategy should minimize spillover effects on other borrowers. They encourage further progress toward voluntary arrangements for private sector participation before crises arise, such as through contingent credit lines, embedded call options, and debt-service insurance. Other provisions are also needed to cover both crisis prevention and resolution, including bankruptcy procedures, the establishment of creditor-debtor councils, and in extreme cases the possibility of a standstill of debt repayments. In addition, ministers stress the importance of symmetrical disclosure of relevant information between the private and public sectors.

Ministers consider that the current piecemeal approach being discussed in international forums needs to be integrated into a comprehensive and structured framework, which should have sufficient operational flexibility. In this regard, the design of the framework could benefit from the case-by-case experiments currently under way. Such a framework must evolve on the basis of a broader participation of the international community, especially developing countries, and should be implemented on a voluntary basis. Pending the establishment of the framework, the principles under consideration should not be applied retroactively.

At the Group of 24 meeting, Finance Minister of Gabon, Emile Doumba (right), consults with his Financial Advisor, Michael Adande.

Ministers stress that, while the IMF has an important role to play in the evolution of this framework, its role should be that of a facilitator, rather than an arbiter enforcing particular modes of handling the relations of sovereign debtors with their creditors.

Ministers note that some industrial countries have indicated their willingness to incorporate majority restructuring and majority-enforcement provisions in bond issues in their markets, and they encourage other industrial countries to follow this lead while reiterating their concern about the possible adverse impact on interest rate spreads of developing countries' bonds.

While welcoming the idea of creating creditors' committees, ministers support the suggestion to define general principles and operational procedures rather than attempting to establish a standing body for negotiations with sovereign debtors for all creditors.

Surveillance and standards

Ministers welcome the increased emphasis being placed on IMF surveillance of capital account and financial sector issues, vulnerability analysis, cross-country comparisons, and international aspects of a country's macroeconomic policies, especially with respect to the largest industrial economies. They also appreciate the progress made in the direction of greater transparency of IMF operations, while reiterating the importance of maintaining the IMF's role as confidential and trusted advisor. Ministers encourage the continuation of the external evaluation process, which is making significant contributions to the improvement of various aspects of the IMF's activities. The increased attention given to standards of transparency and disclosure is acceptable as part of IMF surveillance as long as it remains within the core competencies of the IMF and subscription to international standards remains voluntary. Assessments made on countries' practices in these areas, however, should take fully into account their institutional capacities and stage of development, so as not to place developing countries at a comparative disadvantage in their efforts in developing their financial systems. Appropriate additional technical assistance should be provided to help developing countries prepare for the implementation of international standards. Ministers stress that adherence to international standards should not be used in determining IMF conditionality.

Ministers note the ongoing work on a new capital adequacy framework aimed at strengthening the soundness of the global banking system. They caution against such a framework resulting in more stringent conditions and impeding access for developing countries to international capital markets. The role of credit-rating agencies in the risk-weight-setting process should be examined with caution.

Conditionality

Ministers express concern about the intrusiveness into sociopolitical matters—stretching beyond the mandate of the Bretton Woods institutions—as reflected in the increasing tendency to extend conditionality to issues of governance and social policy. New layers of conditionality are being added with respect to private sector involvement in crisis resolution that are likely to raise the costs of access to markets, if not prevent access altogether. Ministers express their strong reservation to applying Enhanced Structural Adjustment Facility (ESAF) and International Development Association (IDA) conditionality to the regular operations of the Bretton Woods institutions.

Exchange rate regimes

Ministers note that the volatility between the three major currencies poses risks not merely to their respective economies but more so to others—particularly developing countries. Therefore, they call for stronger international policy coordination to reduce such volatility and for closer surveillance of the major industrial countries, including on the international implications of their domestic policies.

Ministers reiterate the right of members, as recognized in the IMF's Articles of Agreement, to choose their own exchange rate regime. They are of the view that there is no single regime that is most appropriate for all countries. Ministers stress that the IMF's financial support should not be based on the choice of any particular exchange rate regime.

Capital account liberalization

In light of the recent financial crises, ministers consider that the coordination of various elements in the process toward capital account liberalization is of critical importance to minimize potential risks. These elements include a consistent macroeconomic policy framework, a sound and well-regulated domestic financial sector, and an appropriate contingency mechanism to deal with potential threats to the sustainability of open capital account regimes. As the applicability of the recently introduced Contingent Credit Lines (CCL) appears limited, ministers call for a reexamination of all possible options, including the evolution of a global lender of last resort. Further analysis of the use and effectiveness of specific controls is needed, particularly in relation to the operation of derivatives markets and their impact on the effectiveness of financial regulation and supervision.

SDR allocation

Ministers consider that the SDR instrument should be more readily used to supplement members' reserves at times of liquidity uncertainties. The present circumstances, in which developing countries are faced with a sharp contraction in capital flows and very high interest rate spreads, justify in our view a sizable general SDR allocation. Such a strengthening of members' reserves would also give more confidence to members seeking a greater integration into the world economy. Ministers also urge the ratification of the Fourth Amendment on the equity allocation of SDRs as soon as possible.

Institutional arrangements

Ministers support the proposed transformation of the IMF's Interim Committee into the International Monetary and Financial Committee, and they note the strengthening of IMF-Bank collaboration. They are aware of proposals to establish informal mechanisms for dialogue between "systemically significant" countries. Ministers stress that, in order for such mechanisms to gain ownership and representativeness, the choice of participants should take into account the constituency structure of the Bretton Woods institutions. They consider that such mechanisms should not undermine the role of the Bretton Woods institutions' Executive Boards and Committees as the appropriate forums for addressing the main issues facing the international monetary and financial system.

While welcoming the establishment of the Financial Stability Forum, ministers consider that developing countries should be appropriately represented in order to ensure that their views are properly reflected.

Development financing

Ministers welcome the Cologne Debt Initiative and the global consensus for deeper, broader, and more rapid debt relief to foster sustainable development and poverty reduction among the heavily indebted poor countries (HIPCs). They agree that the resources being freed by the HIPC Initiative should be directed to poverty-reduction efforts, and they welcome in particular the proposal to make sustainable poverty reduction a central focus of the ESAF. They stress that, as resources released by the initiative will not be sufficient to meet poverty reduction and social needs or enhance growth prospects, additional concessional resources should be mobilized. Ministers see merit in developing a general framework, which would properly take into consideration social issues and the link between debt relief and poverty reduction in World Bank- and IMF-supported programs under the enhanced HIPC (HIPC II), as well as strengthen countries' ownership of programs and reforms. The implementation of poverty-reduction programs should not delay the delivery of debt relief or overburden members with conditionality.

Ministers are concerned about the difficulties being encountered in securing the necessary funding for the enhanced HIPC framework. They call for an equitable burden sharing among all creditors. Funding for the enhanced HIPC should not be at the expense of non-HIPC developing countries, including those borrowing from multilateral and regional development banks, or the development and poverty-reduction needs of the HIPC countries themselves. In this connection, they express their serious concerns about using IDA resources in any form to fund the HIPC Initiative. Many developing countries have already made pledges and contributions—some in excess of what industrial countries have already made in relation to their capacity to contribute. Industrial countries—particularly the Group of Seven countries—should provide more resources than those currently pledged.

Ministers welcome the IMF proposal to implement off-market gold transactions as a way to minimize the possible adverse effect on the gold market. Every effort must be made to minimize the cost of increased reserve tranche positions on developing countries.

Ministers express serious concern about the debt problems of middle-income heavily indebted countries and non-HIPC low-income countries, and they urge that consideration be given to alleviating their debt burdens. ■

Correction

In the *IMF Survey Supplement,* which was issued on September 13, the table of IMF Quotas (on page 7) lists Belgium, Estonia, Namibia, Qatar, and Uruguay as not having completed payment of their quota increases. These countries have, in fact, completed payment of their increases.