



Group of 10 communiqué

Ministers call for fiscal rectitude

Following is the text of the communiqué issued by the finance ministers and central bank governors of the Group of 10 on September 21.

The finance ministers and central bank governors of the countries of the Group of 10 (G-10) met in Dubai, United Arab Emirates, on September 21. John Manley, Deputy Prime Minister and Minister of Finance of Canada and current head of the G-10, chaired the meeting. Ministers and governors took note of reports from Sir Andrew Large, Chair of the Deputies of the G-10; John Taylor, Chair of Working Party No. 3 of the Organization for Economic Cooperation and Development; and Malcolm Knight, General Manager of the Bank for International Settlements.

Ministers and governors discussed the general economic climate and key challenges facing the G-10 economies. They welcomed the recent prospects of improvement in the overall economic outlook, including the acceleration of activity in the United States and Japan and the reforms being implemented

in Europe. They agreed that supportive macroeconomic policy measures are contributing to a recovery. However, they noted that some risks remain. Ministers and governors discussed the significant internal and external imbalances that persist and that could weigh on the sustainability of the recovery. They underscored the need for fiscal consolidation as the recovery takes hold to cope with the mounting fiscal pressures associated with population aging. They also stressed the need for continued progress on structural reform to raise potential growth, enhance economies' resilience to possible shocks, and contribute to the unwinding of global imbalances.

Ministers and governors welcomed the increasingly widespread use of collective action clauses in international sovereign bond issues. In this context, they noted the significant role that had been played by the Group of 10 Working Group on Contractual Clauses, via both its report and its consultations with issuers and market participants on the content and impact of collective action clauses. They looked forward to the inclusion of such clauses as a standard feature of bond issues in all major legal jurisdictions as an important element of the debt resolution framework.

Treasury Secretary John Snow of the United States was elected Chair of the Group of 10 for the coming year. ■



Donald Johnston, left, Secretary General of the Organization for Economic Cooperation and Development, speaks with John Manley, Canadian Finance Minister.

Group of 24 communiqué

Rich countries should live up to commitments

Following is the text of the communiqué issued by the finance ministers and central bank governors of the Intergovernmental Group of 24 on International Monetary Affairs and Development on September 20.

Ministers of the Intergovernmental Group of 24 on International Monetary Affairs and Development held their seventieth meeting in Dubai, United Arab Emirates, on September 20. Fuad Siniora, Minister of Finance, Lebanon, was in the chair, with Senator Conrad Enill, Minister in the Ministry of Finance, Trinidad and Tobago, as First Vice-Chair, and Paul Toungui, Minister of State, Finance, Economy, Budget, and Privatization, Gabon, as Second Vice-Chair. The meeting of the ministers was preceded on September 19 by the eighty-second meeting of the deputies of the Group of 24, with Alain Bifani, Director-General, Ministry of Finance, Lebanon, as Chair.

Global economic prospects

Ministers observe that, notwithstanding the abatement of some of the uncertainties [about] the global economy, the outlook continues to be subject to important risks, owing to the persistent global imbalances, the slow pace of economic recovery, and the limited progress in addressing structural problems in major advanced economies. They consider that the continued heavy dependence on the United States for global growth and the large current account imbalances among the major regions create the risk of disorderly currency movements and a resurgence of protectionist pressures.

Ministers encourage the U.S. authorities to develop a medium-term framework to reverse the deterioration in the U.S. fiscal accounts. They consider that stronger fiscal and monetary stimulus measures in Europe would contribute to world recovery, while structural

adjustments remain the key to better medium-term performance. While recognizing the tentative signs of recovery in Japan, ministers consider that stronger efforts are needed to overcome the weaknesses of the financial sector and restore public finance sustainability. They note that progress toward macroeconomic stability and growth-oriented policies have enabled developing countries, particularly those in Asia, to contribute to sustaining world economic activity.

Ministers reiterate their call to strengthen international cooperative efforts to effectively address macroeconomic imbalances and strengthen the short- and medium-term global growth prospects. This could be achieved through ensuring a stable international economic and financial environment; scaling up assistance toward the achievement of the Millennium Development Goals (MDGs); and making substantial progress in the WTO [World Trade Organization] Doha Round. All countries and groups of countries meeting in Dubai this week must reaffirm their commitment to the shared economic and development goals and to the actions necessary to achieve them.

Ministers welcome the opportunity to meet for the first time in the Arab region. They note the achievements and resilience of the Arab countries in the face of regional uncertainties while recognizing the need for further reforms. Ministers note the unstable security and economic situation in Iraq. They call on the United Nations to assume its leading role in restoring peace and addressing the rebuilding needs of the country. Ministers are encouraged by the constructive role the international financial institutions are prepared to play in the reconstruction process. They look forward to the achievement of tangible progress that is essential for the well-being of the Iraqi people and the region as a whole. Ministers call on the donor community to provide the necessary financing for the reconstruction and rebuilding efforts in Afghanistan. Ministers reiterate their deep concern about the deteriorating security situation in the Palestinian Territories and the loss of life and systemic destruction of infrastructure and private property. They call on donors to release urgently needed funds to ease the hardship of the Palestinian people.

Trade

Ministers express grave concern about the failure of the WTO Cancún ministerial meeting, which represents a major setback to the objectives of global growth and poverty reduction. This is the result of the unwillingness of major advanced economies to remove barriers to agricultural imports and subsidies to their farm producers. Ministers stress the need for the adoption of a rules-based process for decision

making in the WTO that would involve all countries. They believe that multilateral trade negotiations should be concluded within the agreed time frame. Advanced economies should respect their long-standing commitments to open their markets to developing countries, phase out subsidies in agriculture, and remove quotas and high tariffs in such areas as textiles and clothing. Ministers urge that multilateral trade negotiations resume shortly and be conducted in a manner consistent with the principle of comparative advantage and the development needs of countries.

Crisis prevention and resolution

Ministers note that successive financial crises over the past decade have underlined the risks associated with the operation of the current international financial regime. They point out that the high costs of crises fall disproportionately on developing countries, whose difficulties are made worse by negative net capital flows. Ministers call on the international financial institutions to play an effective catalytic role



to promote positive capital flows to developing countries and to help mitigate these costs and risks.

Among the measures that the IMF should adopt are

- making IMF surveillance over major countries' policies effective to ensure uniformity of treatment among the membership;
- supporting measures to ensure greater stability in short-term capital flows;
- redesigning and strengthening the IMF's precautionary financing facilities, including the Contingent Credit Lines; and
- encouraging countercyclical macroeconomic policies in developing countries, consistent with medium-term debt sustainability.

The shrinking size of the IMF's financial resources in relation to the world economy and financial markets, the relative decline of the quota shares of developing countries, and the shortcomings of the IMF's precautionary facilities create uncertainty regarding the provision of an appropriate IMF response to financial crises. As a result, numerous developing countries have built up their reserves to protect themselves at a high opportunity cost. Ministers call for enhancing the IMF's capacity and readiness to provide prompt and sufficient financial support, on reasonable terms, for countries that face potential financial crises.

Group of 24 finance ministers brief the press. From left to right: Ariel Buiara, Director of the G-24 Secretariat; Alain Bifani, Director General of the Lebanese Ministry of Finance; G-24 Chairman Fuad Siniora; and G-24 First Vice-Chairman Senator Conrad Enill, Minister of Finance of Trinidad and Tobago.

Ministers reiterate their call for a general and substantial allocation of SDRs, which would help offset the current deflationary pressures in the world economy and reduce the cost of holding reserves. They reiterate the need for the early ratification by all members of the special, onetime allocation under the proposed Fourth Amendment.

Ministers welcome the increasing voluntary use of collective action clauses in sovereign bond contracts by both developing and advanced economies. They stress that proposals for a voluntary code of conduct to deal with debt restructuring need to be agreed by private creditors and sovereign issuers. Ministers believe that debt sustainability analyses should be based on country-specific circumstances, and they strongly caution against a mechanical reliance on benchmarks.

Support for poverty reduction in low- and middle-income countries

Ministers note that a substantial, timely, and predictable amount of additional official development assistance is needed over the short and medium terms for developing countries—particularly in sub-Saharan

Africa—to meet the MDGs. They urge the donor community to raise the level of official assistance to the internationally agreed target of 0.7 percent of GNP to help developing countries meet the MDGs. The delivery of assistance must be made more flexible, and donor support must be aligned with

home-grown strategies. Ministers consider that a higher proportion of official assistance to the poorest and most vulnerable countries in particular should be in the form of grants. They agree with the World Bank's assessment that substantial additional resources can be effectively used to give momentum to the attainment of the MDGs. Ministers support the formulation of new proposals to mobilize the needed additional financing.

Ministers welcome the roles of the IMF and the World Bank in improving development outcomes and in helping to support the efforts of the international community to meet the MDGs through their facilities for debt relief, growth promotion, and poverty reduction. While recognizing that the macroeconomic situation in many low- and middle-income countries has improved, ministers urge the international community to ensure that the IMF and the

World Bank have sufficient financial resources to continue their support to these countries. In particular, the medium-term lending capacity of the IMF's Poverty Reduction and Growth Facility needs to be strengthened. Ministers stress the need to provide additional technical assistance to enable low-income countries to effectively lead the formulation of their poverty reduction strategy papers. They note that, although the HIPC [Heavily Indebted Poor Countries] Initiative has contributed to reducing the debt stock of a number of low-income countries, their overall debt burden remains high. They urge that efforts be enhanced to bring more countries to decision and completion points and that debt burdens be further reduced, including by limiting debt service of the poorest countries to 5–10 percent of their exports, as proposed by some donors.

Participation of developing countries in IMF and World Bank decision making

Ministers reiterate that, to enhance the legitimacy of the IMF and the World Bank, the underrepresentation of developing countries in the decision-making processes of these institutions should be seriously and promptly addressed, as agreed in the Monterrey Consensus. They call for a timetable leading to an early completion of work toward enhancing the voting power, voice, and participation of developing countries in these institutions and for the regular reporting of progress. Ministers consider that strengthening the representation of developing countries should include a new quota formula and a quota distribution that reflect correctly the relative economic position of countries in the world economy. They consider that the position of sub-Saharan Africa should not be weakened. Also, basic votes should be substantially increased to restore their original role in relation to total voting power. While welcoming the recent administrative measures to strengthen the capacity of sub-Saharan African chairs on the Boards of the IMF and the World Bank, ministers consider that these measures cannot substitute for an increase in developing countries' voting power.

Commodities

Noting the devastating effect of commodity price shocks on developing countries, ministers call for the reform of the IMF's Compensatory Financing Facility to make it usable and ask the World Bank to develop instruments to assist countries to deal with commodity price risks. ■



From left: H.E. Bassary Toure, Minister of Economy and Finance, Mali; H.E. Jean Baptiste Compaore, Minister in charge of Budget and Finance, Burkina Faso; and H.E. Baltazar Engonga Edjo, Minister of Economy and Finance, Equatorial Guinea.