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Development Committee – G24 Meeting March 1979

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INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

EIGHTEENTH MEETING OF MINISTERS

International Monetary Fund
Washington, D.C.

March 6, 1979

RECORD OF PROCEEDINGS

CONTENTS

10:00 a.m., Tuesday, March 6, 1979

Chairmen: A. G. N. Kazi
David Ibarra-Muñoz

1. OPENING REMARKS

The Chairman welcomed Ministers to the Eighteenth Meeting of Ministers of the Group of Twenty-Four. In 1978, high rates of inflation and the slow pace of recovery in developed countries had continued to create difficult problems of adjustment for developing countries, particularly given the renewed deterioration in their terms of trade. The problems might have been eased if there had been greater access for developing countries' exports to the markets of industrialized countries; in fact, however, trade barriers had been intensified.

More recently, the Chairman continued, there had been some progress in the area of international adjustment that was reflected in the relative calm that had been seen in the exchange markets, and in favorable developments in demand management and the redistribution of current account balances in developed countries. However, that improvement had been confined to the developed industrial world, and the developing countries continued to face the prospect of a considerable increase in their current account deficit, which was expected to rise from $22 billion in 1977 to $38 billion in 1979. More disquieting was the fact that the increase in the deficit was due primarily to adverse price movements and increased debt servicing liabilities in the developing countries rather than to any increase in the volume of imports. It had been suggested that, even at a level of $38 billion, the deficit was not much higher than those that had been previously experienced by the developing countries. But it should be recognized that the deficits of the past had been experienced against a background of much higher rates of growth in the developing world. In the current and expected situation, therefore, the was an urgent need to reduce the size of the deficit by removing restrictions on the exports of developing countries. Those who were complacent about the problem because the deficits could be financed should remember that much of the financing would be on commercial terms and only added to the debts and liabilities of the developing world. Moreover, the poorest developing countries continued to find it difficult to cover the deficit and had perforce to curtail imports at the cost of their growth and development. It was thus necessary to increase official development aid as well as Fund assistance to needy countries.

Some satisfaction could be derived from agreements reached in 1978 in respect of the Fund's Seventh General Review of Quotas and the new allocation of SDRs, the Chairman remarked. Moreover, the supplementary financing facility had recently become operational and should also prove of use so long as it was administered flexibly and with a view to the difficult problems of adjustment with which the developing countries were faced. Unfortunately, such measures only touched on the fringe of the problem and there was as yet no great progress toward finding arrangements under which the burden of the adjustment process in the world payments situation would be shared more equitably by all countries. The oil-producing countries had made a substantial contribution to the adjustment process by dramatically reducing their external surplus, but the developed industrialized countries would have to reduce trade barriers against the exports of developing countries and to ensure greater economic coordination amongst themselves of optimum growth and better utilization of productive capacities were to be achieved. In a world characterized by gross underutilization of capacity, the adjustment process might, inter alia, facilitate the flow of resources to developing countries in order to maintain a high level of demand for imports from the developed countries.

The Ministers took note of the statement by the Chairman.

2. INSTALLATION OF BUREAU

Mr. Kazi then passed the chairmanship to his successor, Mr. David Ibarra-Muñoz Secretary of Finance and Public Credit of Mexico. Mr. O.O. Vincent, Governor, Central Bank of Nigeria, was Vice-Chairman.

3. APPROVAL OF THE AGENDA

Without discussion, the Ministers accepted the agenda proposed by the chairman.

4. REPORT BY THE DEPUTIES

The Chairman of the Deputies of the Group of Twenty-Four presented to the Ministers the report prepared by the Deputies at their Twenty-Seventh Meeting (see Annex I).

It had not been felt necessary, the Chairman of the Deputies explained, to detail in the report the way in which the Deputies proposed to coordinate their work with the Group of Seventy-Seven in the light of the Resolution adopted in Arusha, or to describe the preparatory work necessary to prepare a strategy for developing countries prior to the Belgrade meeting. The Deputies had felt that, some time before or during the UNCTAD V meeting, in Manila, beginning in May 1979, the Group of Twenty-Four or the Bureau of the Group of Twenty-Four should meet to take up the subjects that would be dealt with during that meeting; following UNCTAD V, two or three meetings should be held to deal with the various issues to be presented to the Group of Seventy-Seven through the Ministers of the Group of Twenty-Four on the effect of reform of the international monetary system, the objectives to be pursued by developing countries, and the strategy to be followed.

The Ministers agreed to consider the report by the Deputies paragraph by paragraph, and to use it as the basis for their communiqué.

Paragraphs 1-2: Economic Setting - Problems of Stagflation in Industrialized Countries

The Minister from Brazil, referring to the last line of paragraph 2, suggested replacing the words "to overcome their external payments problems" by the words "as well as their external payments situation."

The Ministers approved paragraphs 1 and 2 with the amendment proposed by the Minister from Brazil.

Paragraphs 3-4: The International Adjustment Process and Protectionism

The Acting Minister from India noted that paragraph 4 seemed to suggest that the factors responsible for the undesirable trend in the current account of the non-oil developing countries were all of equal weight. It was his feeling that the substantial deterioration in the terms of trade was by far the most important matter and that the second sentence of paragraph 4 should be rewritten along the following lines: "That undesirable trend, they considered, had been occasioned mainly by the substantial deterioration in the terms of trade of non-oil developing countries, which were expected to worsen in 1979." The sentence could then go on to refer to the slow growth of trade and the intensification of protectionist measures in industrial countries.

Mr. Finaish, Executive Director, IMF, commented that the deterioration in the terms of trade had occurred in all developing countries, both oil producing and non-oil producing alike.

The Chairman indicated that Mr. Finaish's concern could perhaps be met by deleting the word "non-oil" from the sentence referring to the deterioration in the terms of trade.

The Minister from the Philippines requested clarification of the final two sentences of paragraph 3.

The Chairman said that the sentences had been discussed at meetings of the Deputies and referred to the fact that progress made in the multilateral trade negotiations had not met the provisions of the Tokyo Declaration, particularly with respect to preferential treatment for developing countries.

Mr. Corea, Secretary-General, UNCTAD, stated that, while it was impossible to anticipate the final results of the multilateral trade negotiations, it was the prevailing view that they would not bring about any great relief to developing countries, particularly in terms of the Tokyo Declaration. The agenda for UNCTAD V called for a review of progress under the multilateral trade negotiations, and it was open to decision whether any follow-up action would be required in light of the evaluation of those negotiations.

The Minister from the Philippines commented that, in light of the explanations given, he could go along with paragraph 3 as written.

The Ministers approved paragraphs 3 and 4 as amended.

Paragraphs 5-6 : Impact of World Economic Conditions and the Adjustment Process in the Developing Countries--Some Conclusions and Recommendations

The Acting Minister from Ghana observed that in the last line of paragraph 6 the Deputies "recommended" that the representation of developing countries in the World Bank be at least maintained. He would be happier if the words "strongly urged" were used instead of "recommended."

The Minister from Brazil supported the suggestion of the Acting Minister from Ghana. In addition, he would propose substituting the word "developing countries" for the pronoun "their" in the same sentence.

Mr. El-Naggar, Executive Director, IBRD, remarked that the last sentence of paragraph 5 seemed to suggest that the contribution that developing countries could make to the adjustment process was related to a greater flow of capital. However, the contribution of developing countries to adjustment should be related both to the transfer of resources and to the acceleration of their exports, and he would suggest that the sentence be reworded on the following lines: "Ministers were of the opinion that the significant economic potential of the developing countries could play a major role in the adjustment process at higher levels of economic activity if a favorable climate is created for their exports and for financial flows or for the transfer of resources."

With respect to paragraph 6, Mr. El-Naggar proposed that the following sentences be inserted after the third sentence: "They expressed the hope that current negotiations on the replenishment of IDA VI will result in a substantial increase in IDA resources in real terms. They also supported the doubling of World Bank capital, as well as the maintenance of voting rights of developing countries and their representation on the Board." The paragraph could then continue with the words "They also urged donor countries to increase the flow of ODA to reach the United Nations target of 0.7 per cent of the GNP."

The Acting Minister from India endorsed Mr. El-Naggar's suggested amendment to paragraph 6. On the proposed wording for paragraph 5, he wondered whether the omission of the words "the levels of world trade" had been intentional. He believed that it made sense to retain those words as well as the last clause of the paragraph. Combining his suggestions with those of Mr. El-Naggar, the sentence would then read "Ministers were of the opinion that the singificant economic potential of developing countries could play a major role in the adjustment process at higher levels of world trade and economic activity if a favorable climate is created for their exports and if greater flows of capital were available on suitable terms."

Mr. El-Naggar said that he could accept the amendment proposed by the Acting Minister from India. With respect to the amendments to paragraph 6 as proposed by the delegates from Ghana and Brazil, he wondered whether his own formulation with respect to IDA and the World Bank did not remove the necessity for the last sentence of paragraph 6 on the maintenance of representation. The suggestion to replace the word "recommended" by the word "strongly urged" could be easily incorporated into his own proposed amendment, which would then read "They expressed the hope that current negotiations on the replenishment of IDA VI will result in a substantial increase in IDA resources in real terms. They strongly support the doubling of World Bank capital, as well as the maintenance of the voting rights of developing countries and their representation on the Board."

The Minister from Brazil observed that Mr. El-Naggar's proposal omitted the concept in the report of the Deputies which stated that representation in the World Bank should be "at least maintained." However, Mr. El-Naggar, as an Executive Director of the Bank was perhaps better able to see the internal problems that might arise in the discussion of the World Bank capital; he could therefore go along with the suggested text.

The Acting Minister from Ghana said that he could agree to the formulation suggested by Mr. El-Naggar.

Mr. Kharmawan, Executive Director, IMF, remarked that he had also wondered whether the words "at least" should not be retained in the formulation presented by Mr. El-Naggar. There might be some substantial difference between what Mr. El-Naggar proposed and what was included in the original text.

Mr. El-Naggar said that he had no objection to maintaining the expression "at least" in the amended version of paragraph 6. His second suggested sentence would then read "They strongly supported the doubling of World Bank capital and stressed the need for at least maintaining the voting rights of developing countries as well as their representation on the Board."

The Ministers accepted paragraphs 5 and 6 as amended.

Paragraph 7: UNDP/UNCTAD Project INT/75/015, The Balance of Payments Adjustment Process in Developing Countries: Report to the Group of Twenty-Four

The Chairman called on Mr. Corea to introduce the study by UNDP/UNCTAD on the Balance of Payments Adjustment Process in Developing Countries.

Mr. Corea observed that one would have to go back to the 1930s to find a period in which the world economy had been in as serious a disarray as it was at present. The world was bewildered by a number of inconsistencies in international economic policy, the first of which concerned the need to reconcile financial stability with world development. At the Eleventh Meeting of the Interim Committee of the International Monetary Fund great hopes had been placed on the prospects for what had then been described as better balance within the industrial world, a balance to be secured by an acceleration of growth rates in Western Europe and Japan and a slowing down of the economy of the United States. Even if such a readjustment led to a stabilization of currency relationship--and there was presently little sign that it would--there remained serious questions about the implications for developing countries that had already experienced over a prolonged period the adverse repercussions of stagnation combined with inflation. The UNDP/UNCTAD study, prepared under the direction of Mr. Sidney Dell, had documented the disruptive impact of the developments of the past several years on the economic growth of developing countries; particular emphasis had been given to the impact of those developments on capital formation, which had dropped sharply in a number of developing countries, and upon levels of real earnings and real wages, which had in several instances been declining at rates without precedent in the past 30 years.

A second inconsistency, closely related to the first, arose out of attempts by countries to achieve and maintain financial stability in a world of currency instability, Mr. Corea continued. The flexibility of exchange rates that it had been hoped would remedy the growing international disequilibrium of the 1960s had itself created a new set of problems and had raised the question whether financial stability was even possible under conditions in which speculative short-term capital movements were so common in the exchange markets.

A third inconsistency was related to the asymmetrical behavior of prices of manufactured goods and primary commodities, Mr. Corea observed. The prices of manufactures had been increasing, mainly as a result of cost factors in the industrial countries, while commodity prices had exhibited wide fluctuations mostly around a downward trend. The international economic system could not function smoothly without effective measures to stabilize the prices of commodities and to strengthen and regulate commodity markets. In that connection, he believed that the international community should give high priority to the implementation of the integrated program for commodities that was intended to improve the working of commodity markets and, in that context, should proceed rapidly with the establishment of the Common Financing Fund, negotiation on which was due to convene in Geneva in resumed session the following week.

A fourth inconsistency noted in the study concerned the distinction between surplus and deficit countries, Mr. Corea remarked. Surplus countries maintained, not unreasonably, that their surpluses were structural in character and that structural adjustment took much time and organizational imagination. While the surplus countries were permitted an indefinite period of time in which to adjust their surpluses downward, the international community insisted on adjustment by deficit countries within a rather rigid time frame. Since the world seemed to accept the fact that the structural surpluses would continue, the only effect of insisting on a symmetrical adjustment by deficit countries was to shift the deficits from one country to another with a deflationary impact upon the system as a whole.

The distribution of the burden of adjustment between rich and poor countries was a fifth inconsistency covered by the report, Mr. Corea stated. In general, the burden of adjustment fell least heavily on those countries most able to bear it, with a disproportionate share shouldered by the poorest developing countries. At the same time, there was a lack of adequate financing on concessional terms for such countries and there was thus an urgent need to increase such financing from both multilateral and bilateral sources. Finally, the report noted that the international community often required prompt adjustment in countries faced with balance of payments deficits while tolerating increasingly restricted trade measures in the industrial countries that tended to frustrate the efforts of the deficit countries to adjust. The restrictive measures had been defended as a means of giving industrialized countries adequate time in which to adjust to imports from low-wage countries but, in the case of textiles, the period of adjustment since the first international textile arrangement had already lasted for more than 16 years. No such extension of the time allotted for adjustment was possible in the case of balance of payments difficulties that called for structural changes. Moreover, as noted in the report, while great emphasis was placed on exchange rate realignment as a means of correcting external imbalances by improving the export competitiveness of the countries concerned, the efficacy of the exchange rate weapon was being eroded by the growing wave of protectionism that removed products of export interest to developing countries from the influence of the price mechanism and the forces of competition.

The inconsistencies he had listed, and others tended to generate conflict and tension within the international monetary system, leaving the weakest and poorest countries to fend for themselves, Mr. Corea remarked. The UNDP/UNCTAD report suggested that any improvement in the adjustment process in developing countries would require the creation of an international environment conducive to that end, including the maintenance of high levels of economic activity, the stabilization of commodity markets, the assurance of access to those markets, the easing of Fund conditionality, and an increase in Fund resources available for balance of payments support. It would then be possible for countries to undertake the structural changes necessary for a truly meaningful adjustment process, and some of the pressures on developing countries--often resulting from external forces for which those countries were not responsible--would be reduced.

Since its beginning at Bretton Woods, the Fund had undergone an evolution in philosophy and method of operations, Mr. Corea observed. At one time drawings on the Fund's resources had been subject to a relatively lenient regime that included no requirements for agreement with the Fund on the economic policies to be pursued by member countries; at present, however, the conditions imposed on drawings were such that most countries regarded reccourse to the Fund as a last resort to be contemplated only under conditions of extreme pressure. The situation was such that it had even been argued that the current rules of conditionality were in fact reducing the effectiveness of the Fund's cooperation with its member countries. While he was encouraged by the new guidelines on conditionality recently agreed by the Executive Board of the IMF, that decision did not deal--nor had it been intended to--with the full range of problems set out in the UNDP/UNCTAD report. One would have to say that, even if the new decision had been in effect throughout the period covered by the report, the essential difficulties described in the study would not have been materially affected.

The world was a long way from a situation in which the adjustment process was firmly established in the broad context of long-run development, Mr. Corea considered. Negotiations between member countries and the Fund on adjustment measures and policies required in connection with stand-by arrangements did not yet explicitly address the question of ensuring consistency between short-run and long-run objectives, and of minimizing the disruption of development programs. Certainly, there was a need for international institutions to achieve the goals they had set for themselves; but there was also a need for cooperation among those institutions to find solutions to problems that cut across their responsibilities. Payments problems, for example, were inextricably linked to problems in other areas, notably those of trade, long-term capital flows, employment and development. Surveillance over and management of the world economy required more than the considerations currently taken into account in the context of the adjustment process. What was needed was not only a reconsideration of the Fund's assessment of its role in such matters, but a concerted movement toward greater consistency of purpose in the international community as a whole. In that connection, the Group of Twenty-Four had a great responsibility as well as an opportunity for leadership in the introduction of new ideas. Those in UNCTAD stood ready to provide whatever support and assistance was necessary in working out new approaches to the problems he had described.

The fifth session of UNCTAD would convene in a few weeks in Manila, Mr. Corea noted. The agenda for UNCTAD V was wide-ranging, encompassing problems affecting development and relations between developed and developing countries, problems with respect to access to markets, trade difficulties, long-term transfer of resources, debt problems, and other issues in the areas of money and finance. He hoped that the results of the conference in Manila would give support to the work of the Group of Twenty-Four.

The Chairman suggested that the UNDP/UNCTAD study should be accepted, and that paragraph 7 of the report of the Deputies should be considered in light of Mr. Corea's statement.

The Acting Minister from India said that the order of the last three sentences of paragraph 7 should perhaps be changed. As currently written, the major recommendation--namely, the creation of a medium-term facility--came after the proposal for a long-term facility for financing purchases of capital goods by developing countries. Moreover, he had some difficulty with the sentence referring to the proposal for a long-term facility, since it was his feeling that in the discussion among the Deputies of the Group of Twenty-Four there had been no clear conclusion regarding such a facility; it was only a further examination of the possibility for such a facility that had been agreed.

The Chairman of the Deputies noted that, while there had been some expressions of dissent on the part of certain participants in the debate, the majority of speakers had supported the proposal for a long-term facility for financing purchases of capital goods by developing countries.

The Governor from Pakistan recalled that the proposal referred to by the Chairman of the Deputies contained several controversial points. He would therefore support the formulation put forth by the delegate from India.

The Acting Minister from Iran remarked that he had no objection to the suggestion made by the delegate from India. With respect to the sentence on the medium-term facility, he would prefer to delete the words "to be managed by the Fund." The proposal had not been fully studied in the Fund, particularly by the Executive Directors from the developing countries, and it might be better later to determine which institution was the most suitable for managing the facility suggested in the report.

The Minister from Mexico read the following statement from paragraph 7 of the conclusions of the meeting of the Ministers of the Group of Seventy-Seven in Arusha: "The establishment in the World Bank of a long-term facility to finance purchases of capital goods by developing countries should be considered as quickly as possible with a view to taking a positive decision as early as possible." It would be inconsistent for the Group of Twenty-Four to adopt a position that was at variance with the conclusions reached by the Group of Seventy-Seven.

Following further discussion, the Ministers agreed that, after the words "they strongly supported the doubling of World Bank capital and stressed the need for at least maintaining the voting rights of developing countries as well as their representation on the Board" in paragraph 6, the following words would be inserted:

> "In this connection, they supported strongly the proposal for the creation of a medium-term facility for balance of payments support over a period of five to ten years. They also took note of the decision of the Ministers of the Group of Seventy-Seven, adopted at its last meeting held in Arusha, Tanzania, regarding the establishment of a long-term facility for financing purchases of

capital goods by developing countries that would also help to stimulate the capital goods producing sectors of industrialized countries, as well as regarding the link between SDR allocation and development assistance. The two financing facilities would need to have provisions for interest subsidies for the poorest of the developing countries. They also agreed on the need to review the various financing facilities proposed, in the light of the existing mechanisms for balance of payments and development finance. They also urged donor countries to increase the flow of ODA to reach the United Nations target of 0.7 per cent of GNP."

Paragraph 7 would then end with the following sentence: "In this regard, they expressed support for the view that an expansion of the flow of long-term capital through bilateral and multilateral channels should be regarded as an indispensable ingredient for improving the international environment for adjustment."

Paragraph 8: The Supplementary Financing Facility

No comment.

Paragraphs 9-10: Further Uses of SDRs

Following a brief discussion, Ministers agreed that, as the matter of the link between SDR allocations and development assistance had been included in paragraph 6, it could be deleted from paragraph 10. With that amendment they accepted paragraphs 9 and 10.

Paragraph 11: Review of the Question of a Substitution Account

Mr. de Larosière, Managing Director, IMF, considered that it would be awkward to suggest that the substitution account might be used to promote the development process. The discussions of a substitution account in the Executive Board of the Fund were at a preliminary stage, and their outcome might be adversely affected by the implications of the first sentence. The substitution account was a device intended to help countries, either developed or developing, to meet a possible need for diversification in their reserves; for the scheme to succeed, the assets backing the instruments in the substitution account would have to be fully liquid. That liquidity might be put in question with the suggestion that the scheme be used to promote the development process.

The Acting Minister from Colombia supported the proposal by Mr. de Larosière to delete from paragraph 11 the words "including the possible use of such an account to promote the development process."

Mr. Mayobre, Executive Director, IBRD, said that it was important to consider the development process in the establishment of a substitution account. Mr. de Larosière had suggested that no reference should be made to the development process because the discussions were at a preliminary stage in the Executive Board of the Fund; but he believed that was precisely the time when the views of the developing countries should be made known. He understood there were several alternative schemes, but within those alternatives account could be taken of the development process. The sentence in paragraph 11 should be left unchanged.

The Chairman proposed the following wording as a compromise: "...for the establishment of a substitution account, in which specific consideration would be given to the problems faced by developing and industrialized countries."

The Acting Minister from Iran supported the compromise wording proposed by the Chairman. He wondered, however, whether the final sentence could not be deleted.

The Acting Minister from India, referring to the Chairman's proposed text, stated that he saw no reason to make reference to the industrialized countries. Perhaps Mr. de Larosière's concern would be met if the sentence read in part "and were of the view that this proposal still required further study, particularly in the light of the needs of the developing countries."

Mr. de Larosière reiterated that any attempt to link the substitution account to development problems would, at such an early stage in the discussions, endanger the future of the account itself. The best formulation might be to add after the words "still required further study" something along the lines of "under all its aspects." Such language would allow the debates to proceed along any lines that Ministers might desire.

The Ministers agreed to the suggested language by Mr. de Larosière.

Paragraphs 12-13: Matters related to the Group of 77, and particularly, the Impact of the Resolutions adopted in Arusha, Tanzania on the Group of 24

Mr. El-Naggar suggested that the word "Fund" in the last line of paragraph 12 be changed to "IMF" in order to prevent an erroneous connection with "Common Fund" in the previous line.

The Ministers approved paragraph 12 as amended by Mr. El-Naggar.

The Minister from Brazil, referring to the last sentence of paragraph 13, asked for clarification on the preparatory work to be undertaken by the Group of Twenty-Four prior to the Belgrade Annual Meetings of the Fund and the World Bank.

The Chairman of the Deputies noted that the Group of Seventy-Seven at its meeting in Arusha had decided to convene a meeting of Finance Ministers to be held in Belgrade prior to the Annual Meetings of the Fund and the Bank in order to consider the possibilities of carrying out an effective monetary reform. They had requested the Group of Twenty-Four to undertake the preparatory work for that meeting; in the main, the work entailed identifying the major elements of the strategy and the objectives to be followed by the developing countries to achieve their aims.

The Minister from Brazil wondered whether paragraph 13 might not be reworded to give emphasis to the Group of Twenty-Four rather than to the Group of Seventy-Seven. The Group of Twenty-Four could take note of the work of the Group of Seventy-Seven at its meeting in Arusha and state that it would continue work on proposals for an effective reform of the international monetary system, which could serve as a basis for the meeting of the Group of Seventy-Seven in Belgrade prior to the Annual Meetings.

The Minister from Yugoslavia recalled that the Group of Seventy-Seven had assigned to the Group of Twenty-Four and to his country the responsibility for preparing work that would enable the Ministers of the Group of Seventy-Seven to determine a strategy and principal direction for the involvement of developing countries in future negotiations on the reform of the international monetary system. The UNCTAD Secretariat and the Executive Directors from developing countries in the IMF and the World Bank would also cooperate, and he suggested that active participation be encouraged by the ministers and governors of developing countries in the Interim and Development Committees. A well prepared Belgrade meeting of the Ministers of Finance of the Group of Seventy-Seven would contribute greatly to the evolution of an international monetary system that would better serve the interests of developing and developed countries alike.

Mr. El-Naggar wondered whether the meeting in Belgrade should not have a broader purpose than merely the reform of the international monetary system. Perhaps the first sentence of paragraph 13 should be reworded to suggest that the Group of Seventy-Seven would meet to discuss "monetary and international monetary and financial issues."

Mr. Mayobre remarked that the Group of Seventy-Seven had asked the Group of Twenty-Four specifically to undertake the preliminary work for the Belgrade meeting on issues related to the reform of the international monetary system. Paragraph 13 was designed to be an endorsement or acceptance of that request.

Following a further brief discussion the Ministers agreed to the following wording for paragraph 13: "The Deputies noted with satisfaction that the Ministers of Finance of the Group of Seventy-Seven had agreed to meet in Belgrade before the Annual Meeting of the IMF/IBRD, in order to discuss, inter alia, proposals for an effective reform of the international monetary system, and had requested the Group of Twenty-Four to undertake the preparatory work necessary to formulate the developing countries' position regarding the above-mentioned reform. It was decided that the Group of Twenty-Four will undertake the preparatory work."

5. PLACE AND DATE OF NEXT MEETING

The Minister from Yugoslavia noted that it was perhaps appropriate to discuss the timing of the meeting of the Group of Seventy-Seven in Belgrade, as well as the meetings of the Deputies and Ministers of the Group of Twenty-Four. The Annual Meetings would begin on Tuesday, October 2. The Development Committee meeting would take place on Monday, October 1, and the Interim Committee meeting on Sunday, September 30. He would suggest that the Ministers of the Group of Seventy-Seven meet on Saturday, September 29, and that the Ministers of the Group of Twenty-Four met on Friday, September 28. The Deputies of the Group of Twenty-Four could meet on September 26 and 27.

The Ministers agreed that they would meet again in Belgrade, Yugoslavia on September 28, 1979.

The Ministers instructed their Deputies to prepare a communiqué (see Annex II) and adjourned at 12:50 p.m.

INTERGOVERNMENTAL GROUP OF TWENTY-FOUR
ON INTERNATIONAL MONETARY AFFAIRS

EIGHTEENTH MEETING OF MINISTERS

March 6, 1979

REPORT TO MINISTERS

1. The Deputies of the Group of Twenty-Four reviewed the international economic situation and expressed their concern over the persistence of low rates of growth and substantial underutilized capacity in a number of industrial countries in 1978. The prospects for 1979 appeared to be no better, and there existed the disquieting possibility of a further deterioration in world economic activity. They noted that, notwithstanding the sluggish rates of growth, no significant progress was made in the industrial countries with respect to inflation, and that their unemployment rates during 1978 were, on average, significantly higher than in the recession year of 1975.

2. The Deputies regarded the economic outlook as unfavorable for the developing countries, not only because of its adverse effect upon world trade, but also because it was likely to intensify the protectionist trends in the industrial countries. This could frustrate the efforts of the developing countries to improve their growth performance and to overcome their external payments problems.

3. The Deputies expressed dismay at the proliferation of trade restrictions in the developed countries. They urged them to adopt more liberal trade policies as a fundamental step towards an improved functioning of the international adjustment process. In this connection, they also expressed their dissatisfaction at the lack of progress in the implementation of the Tokyo Declaration regarding preferential treatment for developing countries. They noted that special attention will be given to this issue during UNCTAD-5, and hoped that it would lead to effective trade liberalization in favor of the developing countries within the framework of the GATT.

4. The Deputies expressed serious concern at the substantial deficit of the current account of the non-oil developing countries in 1978, and the prospects for a further deterioration, to US$38 billion in 1979. That undesirable trend, they considered, had been occasioned by, inter alia: the slow growth of trade; a substantial deterioration in the terms of trade of non-oil developing countries, which were expected to worsen

in 1979; and by the intensification of protectionist measures in industrial countries during 1978. The Deputies regretted that the international fora had so far failed to deal adequately with these problems.

5. The Deputies emphasized that the policies adopted by the developing countries had contributed to the sustenance of economic activity in the industrial countries, through their expanded imports, associated with the development effort. They also noted the contribution made by the oil exporting developing countries to the adjustment process, as reflected by the marked decline in their external surplus from $33 billion in 1977 to $9.0 billion in 1978; despite this reduction in their surplus, they maintained their levels of assistance to other less developed countries. Deputies were of the opinion that the significant economic potential of the developing countries could play a major role in the adjustment process at higher levels of world trade and economic activity, if greater flows of capital were available on suitable terms.

6. The Deputies noted with concern the decline in the net inflow of private long-term capital envisaged for 1979. The development process will suffer a setback if official long-term capital and aid to all developing countries do not increase sufficiently to offset such a decline, In this context, Deputies stressed the need for providing larger resources to the multilateral financial institutions, through a substantial increase in their capital. They also urged donor countries to increase the flow of ODA to reach the United Nations target of 0.7 per cent of the GNP. It was recommended further that their representation in the World Bank be at least maintained.

7. The Deputies received with appreciation the document on the balance of payments adjustment process in the developing countries prepared at their request by UNDP/UNCTAD. They agreed with the fundamental conclusion of the study that, in determining the volume and conditionality governing balance of payments assistance, a clearer distinction needs to be made between the causal factors attributable to the domestic policies of the developing countries and the external elements beyond their control. In this regard, they expressed support for the view that an expansion of the flow of long-term capital through bilateral and multilateral channels should be regarded as an indispensable ingredient for improving the international environment for adjustment. In this connection they supported the proposal for a long-term facility for financing purchases of capital goods by developing countries that would also help to stimulate the capital goods producing sectors of industrialized countries. They also supported strongly the proposal for the creation of a medium-term facility to be managed by the Fund for balance of payments support over periods of 5 to 10 years. Both these facilities would need to have provision for interest subsidy for the poorest of the developing countries.

8. The Deputies noted the coming into effect of the Supplementary Financing Facility on February 23, 1979. They observed that the additional resources provided through this facility may play an important role in facilitating the adjustment process of developing countries. However, they expressed concern over the fact that the use of these resources would be subject to the harsh conditionality applicable to the higher credit tranches. They hoped that as a result of the recent review of conditionality carried out by Executive Directors, greater flexibility would be introduced in the use of Fund resources.

9. The Deputies welcomed the decisions recently taken by the Fund's Executive Board relating to further uses of SDRs and urged the adoption of measures to enhance the role of the SDR as an international reserve asset. They noted that the reconstitution obligation had been reduced from 30 to 15 per cent and stressed the need for its complete abrogation.

10. The Deputies also welcomed the recent decision for a new allocation of SDRs over the next three years. They felt that the time was ripe for an agreement on the question of a link between SDR allocation and development assistance.

11. The Deputies noted the progress of deliberations in the Fund's Executive Board for the establishment of a substitution account and were of the view that this proposal still required further study including the possible use of such an account to promote the development process. They agreed that participation of developing countries should be voluntary.

12. The Deputies reiterated the need for the prompt establishment of the Common Fund of the Integrated Program for Commodities, and for a reform of the Fund compensatory and buffer stock facilities.

13. The Deputies noted with satisfaction that the Ministers of Finance of the Group of 77 will meet in Belgrade before the Annual Meeting of the IMF/IBRD, in order to discuss proposals for an effective reform of the international monetary system. In this context, it was decided that the Group of 24 would undertake the preparatory work necessary to formulate the developing countries' position regarding the above-mentioned reform.

INTERGOVERNMENTAL GROUP OF TWENTY-FOUR
ON INTERNATIONAL MONETARY AFFAIRS

EIGHTEENTH MEETING OF MINISTERS

March 6, 1979

COMMUNIQUE

1. The Ministers of the Group of Twenty-Four on International Monetary Affairs held their eighteenth meeting in Washington, D.C., on March 6, 1979. Mr. David Ibarra-Muñoz, Secretary of Finance and Public Credit of Mexico, was in the chair, with Mr. O.O. Vincent, Governor of the Central Bank of Nigeria, as Vice-Chairman. The meeting was attended by Mr. Gamani Corea, UNCTAD, Mr. J. de Larosière, Managing Director, International Monetary Fund, Mr. Cyrus Sassanpour, OPEC, Mr. Ernest Stern, International Bank for Reconstruction and Development (World Bank).

2. The meeting was preceded by the twenty-seventh meeting of the Deputies of the Group of Twenty-Four, with Mr. Alfredo Phillips O., Mexico, as Chairman, and Mr. E.A. Ajayi, Nigeria, as Vice-Chairman.

3. The Ministers of the Group of Twenty-Four reviewed the international economic situation and expressed their concern over the persistence of low rates of growth and substantial underutilized capacity in a number of industrial countries in 1978. The prospects for 1979 appeared to be no better, and there existed the disquieting possibility of a further deterioration in world economic activity. They noted that, notwithstanding the sluggish rates of growth, no significant progress was made in the industrial countries with respect to inflation, and that their unemployment rates during 1978 were, on average, significantly higher than in the recession year of 1975.

4. The Ministers regarded the economic outlook as unfavorable for the developing countries, not only because of its adverse effect upon world trade, but also because it was likely to intensify the protectionist trends in the industrial countries. This could frustrate the efforts of the developing countries to improve their growth as well as their external payments performance.

5. The Ministers expressed dismay at the proliferation of trade restrictions in the developed countries. They urged them to adopt more liberal trade policies as a fundamental step towards an improved functioning of the international adjustment process. In this connection, they also expressed their dissatisfaction at the lack of progress in the implemen-

tation of the Tokyo Declaration regarding preferential treatment for developing countries, and noted that special review will be given to this issue during UNCTAD-5, and hoped that it would lead to effective trade liberalization in favor of the developing countries within the framework of the GATT.

6. The Ministers expressed serious concern at the substantial deficit of the current account of the non-oil developing countries in 1978, and the prospects for a further deterioration to US$38 billion in 1979. That undesirable trend, they considered, had been occasioned mainly by a substantial deterioration in the terms of trade of developing countries, which were expected to worsen in 1979; the slow growth of trade; and the intensification of protectionist measures in industrial countries during 1978. The Ministers regretted that the international fora had so far failed to deal adequately with these problems.

7. The Ministers emphasized that the policies adopted by the developing countries had contributed to the sustenance of economic activity in the industrial countries, through their expanded imports, associated with the development effort. They also noted the contribution made by the oil exporting developing countries to the adjustment process, as reflected by the marked decline in their external surplus from $33 billion in 1977 to $9 billion in 1978; despite this reduction in their surplus, they maintained their levels of assistance to other less developed countries. Ministers were of the opinion that the significant economic potential of the developing countries could play a major role in the adjustment process at higher levels of world trade and economic activity if a favorable climate is created for their exports and if greater flows of capital were available on suitable terms.

8. The Ministers noted with concern the decline in the net inflow of private long-term capital envisaged for 1979. The development process will suffer a setback if official long-term capital and aid to all developing countries do not increase sufficiently to offset such a decline. In this context, Ministers stressed the need for providing larger resources to the multilateral financial institutions, through a substantial increase in their capital. They expressed the hope that current negotiations for the replenishment of IDA VI will result in a substantial increase of IDA resources in real terms. They strongly supported the doubling of World Bank capital and stressed the need for at least maintaining the voting rights of developing countries as well as their representation on the Board. In this connection, they supported strongly the proposal for the creation of a medium-term facility for balance of payments support over a period of 5 to 10 years. They also took note of the decision of the Ministers of the Group of 77, adopted at its last meeting held in Arusha, Tanzania, regarding the establishment of a long-term facility for financing purchases of capital goods by developing countries that would also help to stimulate the capital goods producing sectors of industrialized countries, as well as regarding the link between SDR allocation and development assistance.

The two financing facilities would need to have provisions for interest subsidies for the poorest of the developing countries. They also agreed on the need to review the various financing facilities proposed, in the light of the existing mechanisms for balance of payments and development finance. They also urged donor countries to increase the flow of ODA to reach the United Nations target of 0.7 per cent of GNP.

9. The Ministers received with appreciation the document on the balance of payments adjustment process in the developing countries prepared at their request by UNDP/UNCTAD. They agreed with the fundamental conclusion of the study that, in determining the volume and conditionality governing balance of payments assistance, a clearer distinction needs to be made between the causal factors attributable to the domestic policies of the developing countries and the external elements beyond their control. In this regard, they expressed support for the view that an expansion of the flow of long-term capital through bilateral and multilateral channels should be regarded as an indispensable ingredient for improving the international environment for adjustment.

10. The Ministers noted the coming into effect of the Supplementary Financing Facility on February 23, 1979. They observed that the additional resources provided through this facility may play an important role in facilitating the adjustment process of developing countries. However, they expressed concern over the fact that the use of these resources would be subject to the harsh conditionality applicable to the higher credit tranches. They hoped that as a result of the recent review of conditionality carried out by Executive Directors, greater flexibility would be introduced in the use of Fund resources.

11. The Ministers welcomed the decisions recently taken by the Fund's Executive Board relating to further uses of SDRs and urged the adoption of measures to enhance the role of the SDR as an international reserve asset. They noted that the reconstitution obligation had been reduced from 30 to 15 per cent and stressed the need for its complete abrogation.

12. The Ministers also welcomed the recent decision for a new allocation of SDRs over the next three years.

13. The Ministers noted the progress of deliberations in the Fund's Executive Board for the establishment of a substitution account and were of the view that this proposal still required further study, under all its aspects. They agreed that participation of developing countries should be voluntary.

14. The Ministers reiterated the need for the prompt establishment of the Common Fund of the Integrated Program for Commodities, and for a reform of the IMF compensatory and buffer stock facilities.

15. The Ministers noted with satisfaction that the Ministers of Finance of the Group of 77 had agreed to meet in Belgrade before the Annual Meeting

of the IMF/IBRD, in order to discuss, inter alia, proposals for an effective reform of the international monetary system, and had requested the Group of 24 to undertake the preparatory work necessary to formulate the developing countries' position regarding the above-mentioned reform. It was decided that the Group of 24 will undertake the preparatory work.

INTERGOVERNMENTAL GROUP OF TWENTY-FOUR
ON INTERNATIONAL MONETARY AFFAIRS

EIGHTEENTH MEETING OF MINISTERS

March 6, 1979

LIST OF PARTICIPANTS

LATIN AMERICA

ARGENTINA

Adolfo Diz	Governor
Ricardo Arriazu	Deputy
J. Iarezza	Advisor
Dante Simone	Advisor

BRAZIL

Mario Henrique Simonsen	Minister
Luis Barbosa	Deputy
Eimar Avillez	Advisor
Paulo Cesar Lage Barbosa	Advisor
José Carlos Oliviera	Advisor

COLOMBIA

Virgilio Barco-Vargas	Acting Minister
Hernan Mejia J.	Deputy

GUATEMALA

Plinio A. Grazioso	Governor
Carlos H. Alpirez P.	Deputy
Mario Mejia	Advisor
Julio Noriega	Advisor

MEXICO

David Ibarra-Muñoz, Chairman	Minister
Gustavo Romero Kolbeck	Governor
Alfredo Phillips O.	Deputy
Miguel Acevedo	Advisor
Salvador Arriolo	Advisor
Pedro Galicia	Advisor
G. Ramirez-Hernandez	Advisor
Oscar Lewin	Advisor
Ignacio Madrazo	Advisor
Luis M. Orci	Advisor
Ricardo Penaloza	Advisor
Bernardo Sepulveda	Advisor
Francisco Suarez	Advisor

PERU

Manuel Moreyra Loredo	Governor
Drago Kisic	Deputy

TRINIDAD AND TOBAGO

Victor E. Bruce	Governor

VENEZUELA

Carlos Rafael Silva	Governor
Francisco Garcia Palacios	Deputy
Roosevelt Velasquez	Advisor

ASIA

INDIA

I. G. Patel	Governor
S. D. Deshmukh	Deputy
M. Narasimham	Deputy
K. L. Deshpande	Advisor
V. B. Kadam	Advisor
Y. V. Reddy	Advisor
V. K. S. Nair	Advisor

IRAN

J. Amuzegar	Acting Minister
Ahmad Karimi	Deputy

LEBANON

Farid Abboud	Acting Minister

PAKISTAN

A. G. N. Kazi	Governor
Ziauddin Ahmad	Deputy

PHILLIPINES

Cesar Virata	Minister
Benito Legarda	Deputy
Ernest Leung	Advisor

SRI LANKA

Ronnie de Mel	Minister
W. M. Tilakaratna	Deputy
Warnasena Rasaputram	Deputy

SYRIA

YUGOSLAVIA

Petar Kostic	Minister
Ksente Bogoev	Deputy
Miodrag Stojiljkovic	Deputy
Milica Borlja-Gluvacevic	Advisor
Toma Gudac	Advisor
Gordana Hofmann	Advisor
Gavra Popovic	Advisor
Milanovic Rodosav	Advisor

AFRICA

ALGERIA

S. Mostefai	Governor
Rachid Bouraoui	Deputy
Mohamed Terbeche	Advisor

EGYPT

F. K. Hussein	Deputy
Nadira Abd El Azim	Advisor
M. Samir Korayem	Advisor
Amr El Menchawi	Advisor

ETHIOPIA

Kebede Shoandagn	Acting Minister

GABON

Jean-Paul Leyimangoye	Acting Minister
E. Ondo Methogo	Deputy

GHANA

Kwaku Gyasi-Twum	Acting Minister
Manasseh Amoako-Atta	Deputy
Patrick Agboh	Advisor

IVORY COAST

Lamine Diabate	Acting Minister

NIGERIA

O. O. Vincent, Vice-Chairman	Governor
E. A. Ajayi	Deputy
B. I. Osomukuyo	Advisor
M. A. Uduebo	Advisor

ZAIRE

Bofossa W'amb'ea Nkoso	Governor
Buhendwa bwa Mushaba	Deputy

OBSERVERS

BENIN

Guy Pognon

BOLIVIA

Miguel Zalles

CONGO, PEOPLE'S REPUBLIC OF THE

Jean-Edouard Sathoud

COSTA RICA

Oscar Alvarez
Roberto Picardo

ECUADOR

Adrian Rivadeneira
Marcela de Cartegena

JORDAN

Husayn S. Kasim

LESOTHO

T. Thahane

MALAYSIA

Tan Sri Ismail bin Mohamed Ali
Datuk Sallehuddin bin Mohamed

IRAQ

Tariq Al-Haimus

MOROCCO

Abdellatif Ghissassi
Ahmed Bennani
Mohammed Aissaoui
Omar Kabaj
M'hamed Tazi

PARAGUAY

Oscar Efraín Estigarribia

SENEGAL

A. Ouattara

THAILAND

Chavalit Thanachanam

UGANDA

M. V. Gadgil
T. M. Mutagamba

URUGUAY

Carlos Costi

SPECIAL GUESTS

DEVELOPMENT COMMITTEE

Sir Richard King, Executive Secretary
M. M. Ahmad, Deputy Executive Secretary

INTERNATIONAL MONETARY FUND

J. de Larosière
J. Gold
Aldo Guetta
Donald Palmer
J. J. Polak
E. Sturc

OPEC

Cyrus Sassanpour

UN

Sidney Dell

UNCTAD

Gamani Corea
G. D. Arsenis
Roger Lawrence
Carapas Zenon

UNECLA

David Pollock

WORLD BANK

E. Stern
Peter R. Jacob
A. Karoasmanoglu

EXECUTIVE DIRECTORS IN THE IMF AND THEIR STAFFS

M. Yeganeh
M. Shadman

M. Finaish
K. Al-Eyd
M. Wasfy

F. Garcés
J. C. Gutiérrez
Luis Eduardo Escobar
José Fajgenbaum

E. Fine

A. Kafka
T. Ainsworth Harewood
German Suarez
J. R. Novaes de Almeida

B. Kharmawan
S. Siwatibau
T. K. Ahmad

F. G. Mogae
R. D. Kibuka
A. Mullei
C. Chipeta

J. Muns
A. Buira
A. Morales

S. Nana-Sinkam
Christian Bouchard

A. V. Romualdez
K. W. Kim

EXECUTIVE DIRECTORS IN THE WORLD BANK AND THEIR STAFFS

M. Belkhodja
A. Muttardy

Said El-Naggar
Ali A. Soliman
Basil Al-Bustany

Ernesto Franco-Holguin
Guillermo A. Constain

A. Madinga
Y. S. M. Abdulai
Janis Nyumelo

E. Mayobre
Miguel Fernandel
Carlos Leroux

M. Syeduz-Zaman

A. M. Kalfan

A. Sola
D. Blanco
K. Coates

Thein Swe

SECRETARIAT

R. S. Franklin
J. A. Kay

INTERGOVERNMENTAL GROUP OF TWENTY-FOUR

ON

INTERNATIONAL MONETARY AFFAIRS

TWENTY-SEVENTH MEETING OF DEPUTIES

International Monetary Fund
Washington, D.C.

March 4-5, 1979

RECORD OF PROCEEDINGS

CONTENTS

LIST OF TOPICS

FIRST SESSION

3:00 p.m., Sunday, March 4, 1979

Chairmen: Ziauddin Ahmad
Alfredo Phillips O.

1. OPENING REMARKS

Mr. Ziauddin Ahmad, Pakistan, Chairman, opening the meeting, remarked that the past year had witnessed a continuation of the worst stagflation that the world economy had experienced since World War II, due to a combination of strong inflationary pressures, together with the persistence of substantial under-utilized productive capacity in a large number of industrial countries and high levels of unemployment. For the non-oil developing countries, it had been a particularly difficult year. Developing countries had seen a renewed deterioration in their terms of trade, and faced greater difficulties in expanding their exports due to the increased protectionism in advanced countries; in consequence, their aggregate balance of payments deficit had increased to $31 billion in 1978 from $22 billion in 1977. The debt problem of a number of countries had also become more acute. The Group of Twenty-Four, in the two meetings it had held in 1978, had called attention to those trends.

It was satisfying that the advanced countries were increasingly recognizing the importance of making a coordinated effort, the Chairman continued, and there was thus some cause for hope that the economic situation might show improvement in the coming months. Satisfaction could also be taken in the agreements arrived at in the past year with respect to a new allocation of SDRs and the Seventh Review of Quotas, after a period of uncertainty that had continued well into the meetings of the Group in September 1978. Progress had also been made in improving the reserve characteristics of SDRs and in respect of additional uses for SDRs. It would be recalled that concern had been expressed at the last meeting of the Group of Twenty-Four about the delay in bringing the supplementary financing facility into operation, but the necessary resources had been assembled to make that facility effective.

Progress had also been made in studying the issue of the conditionality that attached to assistance from the Fund, the Chairman remarked. Conditionality had been a matter of concern to the Group of Twenty-Four for more than two years, but during the course of 1978, the Executive Board of the Fund had seized itself of the problem. It appeared that a conclusion on the revised guidelines for conditionality was at hand, although the impact in terms of practical implementation remained to be seen.

While those developments would no doubt help the developing countries to some extent, the Chairman added, further initiatives on the part of the Executive Board with a view to restructuring the world economy and international monetary relations would be required if the basic problems of developing countries were to be solved. He felt sure that the Group of Twenty-Four would continue to urge positive action in those fields.

In conclusion, the Chairman thanked his colleagues for their cooperation and the managements of the Fund and the World Bank for their support. He also expressed appreciation of the help provided by UNCTAD, tangible evidence of which was to be found in its report to the Group of Twenty-Four on the balance of payments adjustment process in developing countries, which was on the agenda. He then handed over the Chairmanship to Mr. Alfredo Phillips O., Mexico, and Mr. E. A. Ajayi, Nigeria, who became Vice-Chairman.

2. ADOPTION OF AGENDA

Mr. El-Naggar, Executive Director, IBRD, remarked that if the reference to the long-term financing facility under Item 2(A) of the provisional agenda was to the Mexican proposal, he would have difficulty including it under an item related to the business of the Interim Committee because it was a matter for the Development Committee.

The Chairman explained that the proposal in question had been considered in the context of the adjustment process both in the UNDP/UNCTAD report and by the Ministers of the Group of Seventy-Seven in Arusha. He suggested that the reference in Item 2 to matters on the agenda of the Interim Committee be deleted, and that Item 2 cover the proposal for a long-term financing facility, together with the report to the Group of Twenty-Four on the balance of payments adjustment process in developing countries, preceding the item on the world economic outlook and the working of the adjustment process, which would become Item 3.

The Deputy from Mexico supported the Chairman's proposals. He also proposed that the issue of the future role of the Development Committee be added to the agenda as Item 4.

The Deputies accepted the proposal by the Deputy from Mexico. The Deputy from Pakistan suggested that the proposal for a long-term financing facility be discussed under the item on matters related to the Group of Seventy-Seven.

The Chairman explained that the intention was to discuss under that item the broader issues concerning relations between the Group of Twenty-Four and the Group of Seventy-Seven, in preparation for the meeting of the Group of Seventy-Seven at the Ministerial level that had been convened prior to the 1979 Annual Meetings of the World Bank and IMF in Belgrade.

After further discussion, the Deputies approved the provisional agenda as amended.

3. MATTERS ON THE AGENDA OF THE INTERIM COMMITTEE

UNDP/UNCTAD Project INT/75/015 - The Balance of Payments Adjustment Process in Developing Countries
(Item 2 of the Agenda)

Mr. Dell made the following statement:

Mr. Chairman:

It is a great honour and pleasure for me to have this opportunity of addressing this distinguished gathering on the report that has been prepared. My colleagues and I have had only one objective--namley, to be of as much assistance as possible to the Group of Twenty-Four--and I hope that we have succeeded, at least to some extent, in this direction.

There is a widespread presumption that most balance of payments problems can be solved by balancing the budget, curbing the monetary supply and setting a realistic exchange rate. These measures are, without doubt, applicable to cases in which the main problem is excess pressure of domestic demand, though even there with some qualifications that would take the particular circumstances of individual cases into account. But in the course of the in-depth study before you, it was found that the instances of balance of payments difficulty in developing countries that occurred in recent years were clearly not primarily in the category of excess aggregate demand, even though elements of demand pressure may have been present in some cases.

Among the major factors in pressures on the balances of payments of developing countries in the 1970s were the following:

(a) Extraordinary price movements that were generated externally.

(b) The slackening of business activity and hence of import demand in the industrial countries.

(c) Protectionist restrictions imposed by or on the insistence of industrial countries on imports from developing countries.

(d) Structural factors tending to cause surpluses in the balances of payments of other countries.

(e) Structural factors operating on the balances of payments of the developing countries themselves.

None of these five categories of problems can be solved in any real sense by administering the traditional medicine of stabilization programmes. One can, of course, always cut down an economy to the point at which its imports will be brought into balance with its exports at a relatively low level. But that is not an acceptable solution for the world economy on the threshold of the third Development Decade.

It is a fundamental conclusion of the report before the Group of Twenty-Four that in determining the appropriate volume of balance of payments support and the conditions required for the provision of that support it is important to distinguish between those elements of a balance of payments deficit for which a developing country is itself responsible, and those elements that are due to factors beyond its control.

This is not a revolutionary idea for the Fund. At one time developing countries were required to cut back their levels of activity even where external imbalance was due to a decline in exports for reasons beyond their control. The introduction of the compensatory financing facility was a tacit recognition that it was improper to force standard adjustment policies on developing countries in circumstances for which they were not responsible. An extension of the same broad principle at the time of the rise in oil prices led to the introduction of the oil facility. Both of these facilities embodied a low degree of conditionality because it was accepted that the rigours of upper tranche conditionality were inapplicable in cases where problems had originated from abroad rather than from the policies or performance of the countries affected.

But the fundamental principle that underlies the compensatory financing and oil facilities has not yet been applied in a manner that would respond adequately to the five sets of circumstances that I detailed a moment ago.

Take the case of the new protectionism, for example. It is customary to distinguish between restrictions on imports for balance of payments reasons, over which the IMF has jurisdiction, and restrictions for commercial reasons or to avoid market disruption, which come within the purview of GATT. But we cannot ignore the balance of payments effects of protectionist measures. It is immaterial to an exporting country whether its exports fall because of trade restrictions or because of balance of payments restrictions in the importing country. Both types of restriction tend to disturb the balances of payments of the exporting countries. Moreover, if such disturbances are serious enough, either alone or in combination with other factors, to prompt recourse to the IMF, a country may find itself called upon to adjust within a relatively short period of time through a sharp curtailment of domestic expenditure. This is in striking contrast with the importing industrial country, which, if the Multi-Fibre Arrangement is any guide, has almost unlimited time at its disposal in which to effect the necessary adjustments of its weak or non-competitive industries.

Moreover the exporting country may be called upon to adjust its exchange rate downwards, even though the effectiveness of such adjustment is being frustrated by the direct controls applied against its exports.

The intimate relationship between trade and the balance of payments makes it impossible to treat problems in either sphere in complete isolation from the other. Some way needs to be found of treating these problems as a whole, and not in watertight compartments. Similar considerations apply to the segregation of short-term from long-term problems of economic management accompanied by the institutional separation of the sources of long-term capital and short-term balance of payments support.

Or again, it has been recognized that part of the surpluses in the system are due to structural factors of a long-term character. As noted in the report, the Federal Republic of Germany has advanced the idea that its own surplus is structural, and the German Government is therefore reluctant to undertake a rapid process of adjustment.

But if the international community accepts the idea that the German surplus is partly or wholly structural, and that adjustment of the surplus downwards will have to be programmed over an extended period, it cannot escape the consequences that this has for the counterpart deficit countries.

Here we come up against the problem that the counterpart deficits cannot be precisely identified or located. It is impossible to say how much of a given country's deficit should be regarded as the mirror image of a structural surplus of the type referred to by the Federal Republic of Germany.

But the fact that the problem of identification is a difficult one does not mean that it can simply be ignored, which is what is being done at the present time. Since the Federal Republic of Germany and other countries in a similar position are unable to eliminate their collective surplus, other countries that are in deficit are being required to adjust to an extent that goes far beyond the degree of their own responsibility for their deficit positions. The degree of retrenchment presently required of deficit countries may be several times as great as their own domestic situation or performance would warrant in the circumstances.

Of course the inevitable outcome of forcing excessive retrenchment on deficit countries while the surplus countries continue to maintain their surpluses is that the deficits are simply shifted from country to country. And the cumulative deflation thus brought about by the adjustment process is thereby superimposed on, and reinforces, the primary deflation resulting from business recession in the industrial countries.

If I had to select one point out of this whole report that is of greater importance than any other, it is that the diagnosis of balance of payments problems needs to be greatly improved and refined: and that the remedies should be carefully adapted to the problems instead of being based upon a standard recipe. The traditional formula is applicable to cases of excess demand, and may also be one of the ingredients in a situation in which excess demand, though not a predominant factor, is nevertheless present. But to the extent that deficits are due to, or are compounded by, structural surpluses in the system, or reflect a shifting of balance of payments pressures from other countries as a result of business recession or import restrictions, remedial measures should be required of the industrial countries concerned. Furthermore, if the application of such remedial measures extends over a long period, adjustment in the deficit countries should be programmed over similarly extended time periods, and appropriate finance should be provided accordingly. There is no reason why surplus countries should not stretch out their own adjustment process provided that they are prepared to finance their surpluses at long term and ensure sufficient recycling through the Fund and World Bank to the countries faced with the counterpart deficits.

Moreover the remedies should be selected in such a way as to reconcile the need for balance of payments adjustment in the short run with the basic requirements of development in the longer run, and should in no case subordinate the latter to the former. If a stabilization programme results in a significant decline in production and above all in investment, that should be regarded as a prima facie indication that the programme is failing in its purpose and needs basic revision.

So far I have concentrated on problems of deficit countries arising from factors beyond their control. But there are several categories of problems of domestic origin. Many of these are attributable to excess demand, but by no means all of them. Moreover even in cases where excess demand is present, the basic difficulty may be much more fundamental. It man consist of a lack of elasticity in the economy--for example a rigidity in the supply of food or other basic consumption goods, or an inability to shift resources readily in line with new market requirements. In such cases there is a need for measures to tackle the basic causes of disequilibrium and the long-run obstacles to growth along with the proximate phenomena of inflation and balance of payments pressure that accompany them.

An obvious example, as pointed out in the study, is the adjustment to higher fuel prices, involving a process of long-term industrial change requiring investment in alternative sources of energy, as well as in industrial technologies that economize on fuel. The oil facility of the Fund was designed to take some account of this problem, since it was intended to permit medium-term financing of oil deficits that would give some time for the structural adjustments to be made that would realize economies in the use of energy. But this was only one example of a whole series of cases in which essentially similar problems of long-term adjustment arise.

It is interesting to recall that during the hearings in the United States Congress on the establishment of the Bretton Woods institutions in March 1945, it was pointed out by the spokesman for the American Bankers Association that "some stabilization programmes will call for long-term loans." This consideration was one of those adduced by the American Bankers' Association as justification for merging the Bank and the Fund. I have no intention of suggesting that such a merger should now be considered, but certainly the idea that effective stabilization may require long-term facilities should not be allowed to be a casualty of institutional stratification. It is for this reason that we have proposed that consideration be given to the establishment of a new facility that bridges the gap between the short-term lending of the IMF and the long-term lending of the World Bank.

I do not attach any importance to the particular form in which this proposal is made in paragraph 35(vii) of the Summary and Recommendations of the report. I may say that an earlier draft of this proposal provided for a facility jointly operated by the Fund and Bank. It was only in the light of arguments put to us to the effect that joint administration of a facility of this kind would be cumbersome that we revised the proposal, but I do not feel strongly on this score. Moreover there are many other ways of achieving the same objective. Recommendation (vi), for example, suggests that the same objective could be achieved through continuation and substantial liberalization of the supplementary financing facility. It will be obvious, of course, that here one has in mind something more than marginal adjustments to the supplementary financing facility as it exists at the present time, particularly as regards conditionality.

In the course of informal discussions we have had on the proposal for a medium-term facility, some difference of opinion has emerged as to the relationship between the conditions required by the Fund for drawings by member countries and the level of resources available. One view put to us was that the conditions required by the Fund are independent of available resources. That being the case, it was considered unhelpful to propose the creation of a new medium-ter facility within the Fund. It was felt that the resources provided for such a facility would only add to the total volume of funds already lying idle in the IMF as a result of the disinclination of member countries to draw on the upper credit tranches except as a last resort. If additional resources were available it would be much better, on this view, to provide them in the form of long-term capital and to step up the volume of programme lending by the World Bank.

While recognizing the strong case that was thereby deployed against the idea of a medium-term facility within the Fund, it seemed to us that there were other considerations that ought to be taken into account.

In the first place it does not appear to be quite correct to say that the conditions laid down are completely independent of the resources available. If the potential balance of payments deficit of a country is very much larger than the resources that it is in a position to draw from the Fund, it stands to reason that the stabilization measures required of it by the Fund will be much more demanding than they would be if the potential deficit could be fully covered by Fund resources without further belt-tightening. Similarly, any proposal, such as that made in the present report, for stretching out the period of adjustment in cases where structural changes are required is bound to come up against the problem of resource inadequacy, especially having regard to the longer periods of repayment envisaged.

An additional factor is that while some developing countries have been able to benefit from access to private capital markets, borrowing from private banks is at best a poor substitute for adequate resources in the Fund, especially in view of the fact that there are great inequalities in the access of member countries to the private banking system and that the terms and conditions of private bank lending are inappropriate for the lowest-income countries. Consequently Fund resources form a much higher proportion of the total balance of payments financing available to the poorest countries, and it is of the highest importance that the volume of such financing should be adequate to the needs. It is equally important to avoid the danger to which the Executive Director for the Netherlands, Mr. H. O. Ruding, alluded in a recent article, namely that the poorer countries will suffer more from conditionality than other countries simply because they have to rely mainly on the Fund for balance of payments support. These are among the reasons for seeking an expansion of the resources of the Fund, accompanied by an easing of conditionality.

The alternative view, moreover, seems to imply that there is no hope for an international monetary system that would be more responsive to the needs and problems of developing countries. This is apt to be a self-fulfilling prophecy in the sense that if one gives up hope of reform, reform is not likely to come.

Despite the impressive weight of the arguments brought to bear against our proposal, therefore, we have maintained it for the reasons I have indicated. I should like to emphasize once again, however, that we attach far less importance to the particular proposals that we have made than to the objectives that underlie them. The analysis in the report has drawn attention to a number of key problems, all of which are set out in the summary at the beginning. We have indicated our own particular suggestions for dealing with these problems, but members of this group are certainly much more qualified than the staff of this project to decide on the means that should be adopted for dealing with the problems identified.

Finally perhaps you would allow me, Mr. Chairman, to take this opportunity of referring very briefly to the third and last phase of the UNDP/UNCTAD project which is designed to provide documentation and support to the Group of Twenty-Four. We have just begun a study of the international exchange rate system as it affects developing countries. We have engaged a number of distinguished analysts who will examine the experience of developing countries in dealing with problems resulting from the system of floating rates with a view to a general evaluation of that system as well as of alternative options. We shall keep in close touch with the Bureau of the Group of Twenty-Four as the study progresses, and we hope to be able to present a report on the study around the end of this year.

The Chairman expressed the continuing appreciation of the Group for the cooperation of UNCTAD in the preparation of studies that were so important for its work. He then suggested that it might be helpful to have an explanation of where the discussions in the Fund stood on the related matter of conditionality.

Mr. Kafka, Executive Director, IMF, observed that considerable progress had been made in developing the new guidelines for conditionality, replacing the earlier guidelines that had been adopted in 1968. First, it had been explicitly reaffirmed that there was a need, in formulating the conditions of a stand-by in the upper credit tranches, to pay due regard to the domestic, social and political objectives and circumstances of members. Second, it had been made much clearer that performance criteria should be essentially macroeconomic; only if a microeconomic criterion had a major macroeconomic impact would it be considered. For example, the Fund would not normally go into the question of how a country spent its budget. Third, increased emphasis had been placed on the procedures to ensure uniform and equitable treatment of all members. The Managing Director had been explicitly charged with responsibility in that connection. In his opinion, those provisions might have to be reinforced at some point in the future, perhaps through the creation of a position resembling that of the Director-General of the Office of Operations Evaluation in the World Bank, a functionary who was elected by and reported to the Executive Board. Fourth, a practice that had already been introduced in 1978 had been ratified; it called for the Executive Board to be informed in an appropriate manner of discussions with a member where the Fund found it necessary to exact prior conditions before a stand-by arrangement was proposed. Since politically sensitive matters were involved, which it might not be proper to debate in the Executive Board, informal meetings had been evolved to consider such matters.

Mr. Kharmawan, Executive Director, IMF, added that the long-standing concern of Fund Executive Directors from less developed countries with regard to the conditionality applied by the Fund to the use of its resources was in general the same concern that had been expressed in the UNCTAD report and repeated by Mr. Dell. That concern was with the basic approach of the Fund, whereby the causes of balance of payments imbalances were attributed to faulty demand policies. The Fund had always--for understandable reasons--considered the working of its members' economies more by the standards of a market-oriented economy. Yet the Fund had amongst its members countries that operated on different economic, social and political systems. Greater emphasis had been given in the new guidelines to the recognition in the Articles of Agreement that the political and social circumstances of members should be respected. After long discussion, recognition had also been given to the other causes of members' balance of payments problems, in the sense that those would not always be related to demand policies but would include other factors beyond the control of a country, such as supply factors and terms of trade effects. It would remain to be seen how the Fund would implement the new guidelines in shaping stabilization programs. The Executive Directors from the less developed countries should be alert to the way in which such programs were implemented. Another aspect of concern for some time was the impact of a stabilization program on rates of growth and the economic development of a country. He had sought to include in the new guidelines a provision to exclude a negative impact or one that would result in a zero growth rate, but it had been pointed out that some countries launched stabilization programs from a negative growth rate. The introduction in the new guidelines of a requirement that the economic priorities of a country be taken into consideration in drawing up stabilization programs went in the same direction and should also cover to a great extent the concerns expressed by Mr. Dell.

It might not be widely known, Mr. Kharmawan continued, but the Fund sometimes had to lay down preconditions for the use of its resources, in the form, say, of exchange rate measures. While as Mr. Kafka had mentioned it was sometimes necessary to call for the fulfillment of such preconditions, the Executive Board had taken the precaution to ensure that they could not be imposed without its knowledge; the Board could then discuss the matter with the management. Progress had also been made on another technical matter, one that was however of great importance, namely, the need to distinguish between the various types of review clauses. There could be no quarrel with the type of review or consultation that took place during the period of a stand-by arrangement and under which the staff visited member countries to discuss in general terms whether or not the policies being followed would lead to a fulfillment of the performance criteria. The difficulty arose when review clauses were converted into performance criteria; again, that could in some cases be necessary if the data were not available for considering progress in fulfilling performance criteria. The protection that the Executive Board had gained in that respect, as with preconditions, was that it would be informed by management about the subject of the review if such review was intended to lead to the introduction of new performance criteria.

In conclusion, Mr. Kharmawan stated, further progress would have to be made in exploring the possibilities for stabilization programs where the causes of balance of payments difficulties were manifestly beyond the control of a member and would require a longer period for adjustment. The question was whether or not to press for a new facility for financing medium-term adjustment, and where such a facility should be located. The problem of whether or not the Fund's Articles of Agreement would permit the creation of a medium-term facility under its auspices had not yet been discussed in the Executive Board and the views of the Deputies would be useful.

Mr. Buira, Executive Director, IMF, remarked that as Mr. Dell had mentioned, the traditional facilities of the Fund had for the most part been established under the belief--perhaps due to the experience of the 1950's--that the business cycle was of a 5 to 6 year duration so that the adjustment process would be half that length. Balance of payments financing for from 3-5 years would therefore enable countries to meet their financial needs over a business cycle with a downswing of 3 years and an upswing of 3 years. Unfortunately, the slow growth of the world economy over the past five years suggested that it was subject to a business cycle of longer duration. There was indeed historical evidence of longer cycles. For instance, the U.S. economy had been prosperous and depressed in alternate decades over the past century. The propensity of a number of economies to experience wide swings, with recession lasting for 3, 4, or even 5 years before an upswing took place, seemed to argue for balance of payments financing of a medium-term nature, especially for developing countries. Those longer cycles were perhaps also being further lengthened by a number of structural factors, including the low investment rates of the past few years, a slowdown in technological progress, a slower rate of productivity growth, the increase of protectionism--both with respect to trade and financing--higher rates of unemployment, and less mobility of the factors of production in general. If the industrial world was becoming mired in equilibrium at lower rates of growth and higher rates of unemployment, the adjustment process would become more difficult for all countries and particularly so for deficit developing countries. Therefore, serious consideration should be given to the UNDP/UNCTAD proposal for the provision of medium-term financing.

Mr. Sturc, Director, Exchange and Trade Relations Department, IMF, said that he had read the UNDP/UNCTAD report with interest. There were points in it with which he did not agree, only one of which he wished to mention. It was a misconception to believe that the Fund applied the same standards to all members. If the general impression had been that it did, then the fourth of the new guidelines on conditionality should make it clear that the Fund adjusted its standards to the needs of the member in order to best serve both the country and the international community.

The thrust of the approach underlying the revised guidelines on the use of the Fund's resources in the credit tranches had been explained by Mr. Kafka and Mr. Kharmawan, Mr. Sturc noted. It might however be useful to add with respect to the last two guidelines--to which he attached great importance from the point of view of the evolution of the Fund's policies--that the staff would analyze in depth experience with each stand-by arrangement and thereby maintain a constructive dialogue and cooperation between the Fund and the member. Second, categories of stand-by arrangements would be examined in depth periodically, and the strength and weaknesses of the various instruments analyzed, so as to prepare the ground for a further review by the Executive Directors to ensure that the Fund continued to make progress in evolving what was an important instrument of international cooperation.

It had been repeatedly stated that the Fund's resources had not been used in the past few years in the upper credit tranches because of so-called "harsh conditionality," or in order to safeguard a country's creditworthiness, Mr. Sturc added. But that too was a misunderstanding in the sense that such statements, while based on statistics on the actual use of the Fund's resources, failed to take into account the fact that many member countries entered into stand-by arrangements without necessarily drawing under them but were nevertheless thereby enabled to receive additional credit from other sources. It might be true, as noted in the UNDP/UNCTAD report, that between 1974 and 1976 net use of the Fund's resources had been confined to a few countries; but at the same time, 19 Fund members had entered into stand-by arrangements in the upper credit tranches, and three had entered into an extended arrangement. Of course, it was necessary to make faster progress in working together with the World Bank on increasing the number of arrangements under the Fund's extended Fund facility in order to stabilize and develop the economies of member countries.

Mr. Karaosmanoglu, World Bank, said that the problems mentioned in the UNDP/UNCTAD report had been analyzed from the vantage point of the World Bank in its World Development Report, issued during the 1978 Annual Meetings, a new version of which was under preparation. With respect to problems that were within or outside the control of member countries, it should be noted that it was difficult except in extreme cases to separate the two. The staff of the World Bank had under continuous review the matter of how to make more extensive and flexible use of program lending in that respect. The World Bank had also already expressed its views on protectionism, the adequacy of financial flows to developing countries, and the difficulties that might emerge if the conditions of lending, especially through private sources, continued to be as projected in the IBRD analysis. There was little that he could add to that analysis except to note that the projections for coming years did not provide a basis for expecting a very different outlook.

The Deputy from Zaire observed that the issue of greatest concern to him was how the Fund would implement the guideline calling for it to take into account the domestic social and political objectives of member countries in devising stabilization programs. In many developing countries, domestic budgetary problems were the most difficult to resolve, owing to the need to create employment, as well as finance investment, thus posing a choice between a stabilization program and a development program. If the intention was to give first priority to balance of payments adjustment, developing countries would need additional financing. If such financing was not readily available, the question was whether special financing facilities would be established for the purpose.

Mr. Kafka explained that the principal concern of the IMF was to help countries maintain a reasonably sound balance of payments position. For that purpose, it directed its attention to macroeconomic instruments. The Fund was not in a position to suggest to countries that their budget expenditures should be allocated differently. It had established various special financing facilities.

The Deputy from Zaire remarked that the very fact that the Fund paid more attention to deficit than to surplus countries suggested that it went beyond considering macroeconomic considerations.

The Deputy from Yugoslavia observed that the systematic analysis contained in the UNDP/UNCTAD project report bore out many of the ad hoc assessments that had been made by his authorities and by other delegations in the Group of Twenty-Four in the past. Already in 1973, his delegation had pointed out to the Committee of Twenty that the capacity of an economy to shift resources and to adjust was related to the level of development. Developing countries should therefore be protected from excessive adjustment burdens. The present system placed a disproportionately great burden of adjustment on developing countries. For instance, increasingly restrictive trade measures frustrated the efforts of developing countries to adjust.

The efficacy of the exchange rate instrument was eroded by the removal of an increasing number of products from the influence of the price mechanism and forces of competition, as a result of the introduction of direct controls. The severity and abruptness of the adjustment that many developing countries were required to make was in sharp contrast to the rate of adjustment in surplus countries.

A broader and more fundamental issue had to be covered by the Fund's revised guidelines for the use of its resources, the Deputy from Yugoslavia added. As noted in the UNDP/UNCTAD report on the balance of payments adjustment process in developing countries, insufficient recognition had been given to the need to alter Fund policies under which it was assumed that excessive demand pressures were the single most important feature of the balance of payments problems of developing countries. The Group of Twenty-Four should continue to press for revision not only of the conditions for balance of payments financing but for an increase in its amount. The magnitude of the IMF's role in the adjustment process, as far as developing countries was concerned, had been recognized as being somewhat limited by Mr. Witteveen, when he had called on developing countries to approach the Fund at earlier stages of balance of payments difficulty, because a major cause for their not doing so was the amount and the nature of resources presently available.

In conclusion, the Deputy from Yugoslavia stated, the relevant issues in the UNDP/UNCTAD report that went beyond the scope of the Fund's revised guidelines should be identified so that they could be reported to the Ministers. A valuable step would thereby be taken in carrying the valuable work that had been done further, through the Executive Board and the Interim Committee, in order to foster change in Fund policies.

The Deputy from Egypt commented that the vitally inter-related issues covered in the UNDP/UNCTAD report had indeed been of major concern to all developing countries for perhaps a decade. The Fund's policy on the conditions for the use of its resources was related to many of those issues, including the transfer of real resources, and he would await with interest the final text of the revised guidelines. His concern in particular was with the way in which those guidelines would be implemented since so much would depend on their interpretation. Moreover, as in the past, the principle of equal treatment of Fund members had had a greater effect on developing countries, which were in need of Fund assistance, whereas surplus countries were not.

Mr. El-Naggar considered that it was easy to see that the UNDP/UNCTAD report had not failed to address itself to the many problems that had been vexing developing countries over the past ten or fifteen years and in particular during the past five or six years. With respect to the basic analysis, he agreed in particular with the distinction made between external imbalance arising from domestic factors, such as demand management, and external imbalance arising from structural considerations, whether domestic or external, over which the country concerned had no or very little control.

The important question was how to make the best use of the UNDP/UNCTAD report. Its findings and basic recommendations with respect to improving the adjustment process were given on pages 15 to 20. Mr. Kafka and Mr. Kharmawan, and the staff of the Fund and the World Bank, had reported on the progress that had been made on the Fund side in dealing with some of the problems raised in the report. It might be useful to establish a small committee, on which Mr. Dell, the Executive Directors of the Fund and the Bank, and the IMF and the World Bank staff, could be represented, to draw up a short summary of the findings of the report, taking into account the progress that had been made by the Fund.

The Deputy from Egypt supported the proposal by Mr. El-Naggar.

The Deputy from Algeria joined in welcoming the first in-depth analysis that confirmed views voiced over the years on issues relating to the need for implementing new measures to deal with the adjustment process. While the UNDP/UNCTAD report led him to be optimistic about the future, he recalled that in the past the Group of Twenty-Four had made many recommendations that had never borne fruit. Reference had been made by Mr. Kharmawan to the possible legal constraints on the Fund with respect to further assistance to developing countries. In that connection, he inquired whether the measures suggested in the UNDP/UNCTAD report would not require an in-depth analysis of the legal provisions in the Articles of Agreement of the Fund. On that basis, he could support the suggestions by the Deputy from Yugoslavia and the proposal by Mr. El-Naggar.

The Deputy from the Philippines noted that some of the recommendations contained in the excellent UNDP/UNCTAD report did indeed go beyond what could be done within the present framework of the Articles of Agreement of the Fund, especially where they were directed at improving the general economic environment in which both the Fund and developing countries operated. The amendment of the Articles of Agreement of one financial organization would not meet those objectives. However, it would indeed be useful to know what could be done in the Fund's present framework and what might require further amendment of the Articles of Agreement.

The Deputy from Mexico noted that the basic purpose of the project undertaken by UNDP and UNCTAD, as described in the covering letter from the Project Director, was "to assist developing countries in enhancing their capacity in negotiations on international monetary issues by strengthening their technical preparedness and ability to participate and contribute to all phases of discussion and negotiation." It was within that context that the interesting proposal to set up a small committee or working group should be carried out. To that end, the terms of reference of the group should be carefully drawn up, for instance, with respect to its membership and duration.

The Chairman remarked that he had understood Mr. El-Naggar's proposal to be that a small group should devote itself exclusively to analyzing the UNDP/UNCTAD report in order to present its conclusions to the Group of Twenty-Four in a more precise way with a view to facilitating their examination.

Mr. El-Naggar confirmed that his idea had been to pinpoint the practical implications of the recommendations in the report in the form of a brief summary, which could be presented by the Group of Twenty-Four to its Ministers and perhaps to the Interim Committee or the Development Committee at a later stage. Such an important document could not be considered only in general terms. It was necessary to spell its implications in terms of how the present state of affairs could be improved, while on the other hand bringing out clearly what progress had already been made on the Fund side. In that connection, it could be made clear what action would be consistent with the present legal provisions in the Articles of Agreement of the Fund.

The Deputy from Pakistan supported the proposal by Mr. El-Naggar to constitute a small working group to consider the contents of the UNDP/UNCTAD report in greater depth. A number of new suggestions had been made that called for careful consideration in order to make the best of the report and avoid the tendency to generalize. It should not be forgotten that Mr. Dell himself had offered alternative recommendations to those mentioned in the final report, and the working group to be set up might wish to consider those as well. In that connection, it had been mentioned in paragraph (vi) of the recommendations that one approach would be to work toward the establishment of a new medium-term facility by putting the Fund's supplementary financing facility on a more permanent footing. It would also be useful to consider whether a new medium-term facility should be created or whether the general resources of the Fund should not be enlarged instead. It was recommended in paragraph (ix) of the recommendations that the ratio of Fund quotas to members' imports should regain the level of the 1950's, namely, 10 per cent. It should be borne in mind that if it was decided that the funds for setting up such a facility should be raised in the capital market, along the lines on which the World Bank was presently financed, the poorest countries of the Group of Twenty-Four would not stand to benefit as much as they would if steps were taken to increase Fund quotas, should the need arise as a result of implementing the revised guidelines on the use of the Fund's resources. In that connection, it was not clear to him that there was a relationship between conditionality and the amount of resources made available by the Fund for balance of payments assistance to member countries in the past. The question had been rather one of basic philosophy on the manner in which countries should deal with balance of payments difficulties. The tightening of performance criteria in the past had not taken place at a time when the Fund's financial position had been under pressure. However, as he had suggested, the revision of the guidelines, leading to a certain softening of conditionality, might present the Fund with a financing problem.

In addition, the Deputy from Pakistan commented, a medium-term facility would be useful to the generality of the Fund's members only if it had attached to it an interest subsidy account. The difficulties being experienced in establishing a subsidy account with respect to the supplementary financing facility raised serious questions as to whether it would be practical to recommend a new facility financed through the capital market.

Certainly, the adjustment process would be eased for developing countries if, as suggested in the UNDP/UNCTAD report, the World Bank expanded its program lending. He understood that program loans at present represented only about 2 per cent of the World Bank's total lending, whereas a much greater amount had been made available at an earlier stage. Perhaps the working group to be set up could also include that point in summarizing the recommendations of the report, possibly for incorporation in the communique.

The Chairman noted that, as had been observed, the UNDP/UNCTAD report deserved more than general discussion. Thus, he proposed that a small working group be set up to present detailed and substantive comments on the recommendations made in that report, in order to improve its understanding both by the Group of Twenty-Four and possibly the Interim and Development Committees, as well as to prepare the way for future discussions in the Group of Twenty-Four prior to the meeting of the Group of Seventy-Seven in Belgrade.

The Deputies of the Group of Twenty-Four adjourned their meeting at 6:15 p.m., until the following morning.

SECOND SESSION

10 a.m., Monday, March 5, 1979

Chairman: Alfredo Phillips O.

The Deputies continued from their previous meeting their discussion of matters on the agenda of the Interim Committee, beginning with the world economic outlook and the working of the adjustment process.

1. MATTERS ON THE AGENDA OF THE INTERIM COMMITTEE

(a) World Economic Outlook and the Working of the Adjustment Process (Item 2(A) of the Agenda)

The Chairman remarked that the world economic outlook was rather gloomy. The 3.5 per cent rate of growth in industrial countries in 1978 was about the same as in the previous several years but was less than the long-term trend rate. In addition, unemployment had continued to increase; according to Fund estimates, there were now more than 16 million unemployed persons in the industrial countries. The rate of growth in the United States had slowed down in 1978, and the rate in some other countries, notably Germany, had slightly increased. No important advances had been made in inflation in 1978, but the growth rates of the developed countries had begun to converge. Inflation in the larger industrial countries had accelerated significantly; in the United States the rate of inflation had risen from 6.5 per cent in 1975 to around 9 per cent in 1978.

The present trends would probably continue in 1979. The industrial countries were expected to continue recording fairly high rates of inflation and relatively low rates of increase in output.

World trade had suffered from the overall economic performance in the industrial countries, the Chairman noted, and the resultant burden had fallen primarily on the developing countries. While the developing countries as a whole had been able to increase their growth rate by around 5.5 per cent in 1978, certain individual countries had not faired nearly as well as others. The price trend in developing countries had improved, but not sufficiently. As to the external payments position of the developing countries, there had been a substantial increase in the deficit on current account, partly because of the effort developing countries had made to increase their economic growth rates to offset population growth and to meet the basic needs of the people. However, the main cause was the significant deterioration in the terms of trade of both oil and non-oil developing countries.

The World Economic Outlook papers, the Chairman remarked, raised a number of important issues and suggested that the industrial countries should improve the coordination of their economic policies. However, the present set of papers, unlike previous papers, did not contain specific proposals for meeting the needs of developing countries, and in discussing the world economic outlook the Deputies might wish to bear in mind their discussion at the previous meeting and the various conclusions and proposals contained in the declaration of the Group of 77 at its fourth ministerial meeting in Arusha, Tanzania in February 1979.

Mr. Kafka, Executive Director, IMF, said that Fund Executive Directors representing developing countries had expressed in the Executive Board the great importance they attached to the need both to halt the proliferation of protectionist measures in the industrial countries and to finance the external deficit of the developing countries, which the Fund had estimated would reach $38 billion in 1979. The deficit as defined by the Fund covered the balance on goods, services and private transfers; other institutions sometimes included public transfers. Still, the deficit had been growing steadily since 1977, and the Fund estimate for 1979 was larger than the previous greatest deficit in nominal terms, which had been recorded in 1975. The figures for imports in the developing countries had been increasing because of rising import costs and not because of rising volume. Furthermore, the burden of interest payments had also been growing and had become exceptionally high in 1978 because of the inflation in the industrial countries.

The Deputy from Yugoslavia observed that the World Economic Outlook papers did not give the problems of the developing countries the kind of detailed treatment that was given to the situation in the industrial world. The papers did contain a useful discussion of the possible effects on the developing countries of various policy options of the developed countries, but the discussion could have been carried further. For instance, what would have been the effect on the industrial countries if the developing countries' rates of growth had been 2 per cent or 3 per cent more than had actually been the case? Would the higher growth rates not have exerted a dynamic force on the world economy and helped the industrial countries to deal with their inflation? What kind of financing could be provided to ensure more rapid growth in the developing countries in the coming period? Such an approach would be in keeping with the Managing Director's stress on the interrelationship between all members of the international economy.

The Deputy from Mexico considered that both the long-term and short-term aspects of the world economic outlook should be looked at. The Fund papers dealt with the short-term aspects, and the Dell Report and the IBRD World Development Report covered the long-term. The Fund reports contained the optimistic conclusions that the rates of expansion of domestic demand in the industrial countries had begun to converge, and a trend toward increased exchange rate stability had emerged, and the imbalance in international payments among the various industrial countries had been reduced. The papers showed a serious concern about the considerable expansion of the current account deficits of the developing countries, and they briefly referred to the fact that financing for the deficits might be insufficient. In addition, they noted with concern that the growth rates of the developing countries in 1978 had been relatively low, their inflation rates had been high, and their terms of trade had deteriorated. Furthermore, the economies of the industrial countries were generally characterized by stagflation and considerable underutilized capacity. As a result, the growth of world trade had been relatively slow.

Both the Group of 24 and the Interim Committee should avoid holding merely academic discussions, the Deputy from Mexico said. Discussion should center on the policy measures that could be adopted to deal with difficult problems countries were likely to face in 1979. The Fund's recommendations for increasing the coordination of industrial countries with respect to their economic policies was of little importance to the developing countries, especially when the coordination involved low rates of capacity utilization. No recommendation had been made for coordinating policies of the countries of the North and South. An important way of achieving equilibrium and high levels of production in the industrial countries was to promote an increase in the transfer of real resources from the developed countries to the developing ones.

The Group of 24, the Deputy from Mexico went on, should take a strong stand against protectionism and in favor of preferential treatment for developing countries' exports. In addition, it should stress the need to increase the flow of official aid to the poorest countries--as they would certainly continue to encounter great difficulties--and lend its support to the establishment of a Common Fund, and stress the need to extend or broaden the medium-term and long-term financing facilities in the multilateral institutions. The IBRD alone could not provide sufficient financing, and new and imaginative approaches toward the financing problem should be sought. The proposal for a long-term financing facility was meant to provide more consistency than hitherto between the policies of industrial and developing countries on the recovery of the world economy. There was a clear need for independent studies like the Dell Report. The details of the proposal for a long-term financing facility had been presented and examined in other fora, and the technical aspects of it would have to be studied at a later stage.

The Deputy from India considered that the Fund papers showed that the World Economic Outlook was not promising. The economic performance of the industrial countries during the previous several years had been disappointing, and he wondered whether the growth rate in the important so-called "locomotive" countries would in fact be as high as the 3.75 per cent figure the staff had estimated for 1979. Stagflation generally predominated in the industrial economies, where there was considerable underulitization of productive resources, high rates of unemployment, and relatively low demand for the exports of developing countries. The effect of the effort to increase coordination of policies among the industrial countries on the current account deficits and growth prospects of the developing countries had not been taken into account in the Fund reports, and the Group of 24 should pay some attention to it. The improvement in the distribution of the overall current account imbalance among the industrial countries in 1978 was seen by many as one of the most satisfactory elements of the international adjustment process, but the overall surplus of the industrial countries had not fallen from the high figure of $26 billion, and the non-oil developing countries had no reason to feel that the improved distribution was favorable to them. The recent developments in the industrial world had been associated with an aggravation of the external disequilibrium of the non-oil developing countries, where the prospects for more favorable export and growth performance had not improved, external indebtedness was increasing, and the real purchasing power of exports had declined.

The lack of growth in world trade in the recent past, the Deputy from India remarked, had caused the industrial countries to adopt additional protectionist measures. He was worried that the trend toward protectionism in the developed countries would continue, thereby further damaging the export performance of developing countries. He wished it to be clearly understood that he was worried about the future trade and external payments position of the non-oil developing countries. Inadequate demand in the industrial countries, resulting from their failure to adopt sufficiently expansionary policies, had caused a 4.2 per cent deterioration in the terms of trade of developing countries in 1978; a further deterioration of 3.5 per cent was expected in 1979. During the previous several years there had been considerable erosion of the purchasing power and real income of developing countries, and the industrial countries had been the beneficiaries of the change in the terms of trade in the international economy.

The Fund reports, the Deputy from India noted, showed that in 1979 the developing countries were expected to transfer a relatively large amount of borrowed resources--$23 billion--to settle their current account deficits. It would be incorrect to conclude that the increase in the deficit of the developing countries was to be financed by a slowdown in reserve accumulation rather than by an increase in borrowing. He agreed with the Deputy from Mexico that there should be measures aimed at meeting the need of the non-oil developing countries to finance their current account deficits on a fairly long-term basis, and that the Group of 24 should stress the importance of Official Development Assistance. Such assistance had financed three quarters of the current account deficits of the developing countries in 1973, but was expected to finance only around half of the larger deficits in 1979. The figures showed that the pattern of external financing had changed to the detriment of developing countries, particularly the poorest ones, for which a straightforward increase in official development assistance would be more beneficial than a long-term financing facility. The Mexican proposal for such a facility was certainly interesting, but funding for it would be attained primarily in the commercial markets, and it was useful to assess the impact of the proposal on the transfer of resources to countries that found the market to be beyond their means.

The Group of 24, the Deputy from India considered, should pay attention to the likely implications of the European Monetary System for the developing countries. Would the emergence of the European Currency Unit have any effect on the role of the SDR?

In sum, the Deputy from India said, the need for additional financing by the non-oil developing countries should be seen in the light of both the expected increase in their current account deficits in 1979 and the deterioration in their terms of trade. Financing should be available on concessional terms, especially for developing countries with limited access to commercial markets. The continuing weakness in the commodity markets should be dealt with by establishing the Common Fund, strengthening the compensatory financing facility, and improving and extending STABEX-type facilities. The Group of 24 should take a strong stand against the growth of protectionism and in favor of the removal of barriers to the exports of developing countries. In addition, it should pay due attention to the need to create long-term balance of payments financing facilites with a significant built-in concessional element for the low-income countries.

The Deputy from the Philippines remarked that previous speakers had appropriately emphasized the considerable impact of protectionism on the developing economies, and he doubted whether the Group of 24 should pay attention merely to the usual forms of protectionist measures. Some countries had introduced restrictions on developing countries' exports that were in forms other than the usual protectionist measures. For instance, in some developed countries internal taxation on certain tropical products was very high. Such a measure was as effective a barrier to exports as tariffs, quotas and embargoes.

Mr. Al-Haimus, Observer, Iraq, noted that the discussion in the annotated agenda on output and inflation in the developing world covered only non-oil countries. It was useful to bear in mind that the output of the oil producing countries in relation to real GNP had fallen an annual average of 9 per cent during 1967-72 to 2.5 per cent in 1978; the figure was expected to rise to only 4.1 per cent in 1979. The figure in the annotated agenda for the increase in output of all developing countries would give outsiders an accurate picture of the actual situation if the oil exporters were included.

Mr. Kharmawan, Executive Director, IMF, commented that the oil-exporting countries had made a major contribution to the international adjustment process. Their external surplus had fallen frome $68 billion in 1974 to around $9 billion in 1978 and was expected to rise to no more than approximately $15 billion in 1979. On the other hand, despite the large current account deficit of the United States, the external surplus of the industrial countries as a whole had increased from nothing in 1977 to $24 billion in 1978 and 1979, while the external deficit of the non-oil developing countries had risen to $38 billion, the largest deficit in that group since 1974. The Fund staff apparently did not feel any sense of urgency about the rising and large deficit of the non-oil developing countries; in the staff view, the deficit was not very large in comparison to the figures for previous years, and the developing countries could finance it by borrowing and by using their reserves, which had recently somewhat increased. The Group of 24 might wish to underscore the importance of finding ways to improve the structure of the deficit, and not only to finance it. But, of course, there would always be a financing problem for developing countries; the most appropriate ways of providing reserves to them should be continuously examined. The staff had stressed the importance of current account balances.

A major cause of the large current account deficit of the non-oil developing countries was the slow growth in the developed world, Mr. Kharamwan continued. The growth rate of the world economy in 1978 was less than that of 1976. The external position of the non-oil developing countries had been harmed further by the continued worsening of their terms of trade in 1978 and by the protectionist policies of the industrial countries, and attention should be paid to ways of improving the terms of trade of non-oil developing countries and removing tariff and nontariff barriers. Attention should also be given to the need to improve the export revenues of developing countries. The buffer stock financing facility and the compensatory financing facility should be thoroughly examined with a view to increasing their contribution to improving the current account balances of developing countries, and the discussions in UNCTAD on the establishment of a commodity window should be closely followed.

Protectionism was one of the main problems facing the developing countries as a whole, Mr. Kharmawan said. The developing countries were in the process of undertaking a kind of second industrial revolution, the successful conclusion of which was endangered by the tariff and nontariff barriers that industrial countries had imposed. The Group of 24 might wish to recommend to the Interim Committee that the wealthy nations restructure their industrial sectors by ending their support for obsolete domestic interprises; the adjustment would of course be painful, but the effort should certainly be made. Stable export prices and export earnings, and sufficient markets for export products would help the developing countries to improve considerably their current account position.

Mr. Sturc, Director, Exchange and Trade Relations Department, IMF, explained that the staff attached great importance to the financing of the deficits of the developing countries through official development assistance, and it was dismayed by the substantial decline in the amount of such assistance in recent years. Furthermore, the staff fully agreed with speakers who felt that protectionism had a substantial adverse effect on the process of industrialization in developing countries. The Fund had recently published a special document up-dating the institution's information on protectionism. As previous speakers had noted, the protectionist measures were not confined to tariffs and other straightforward restrictions, and those other forms of protection would certainly continue to be taken into account. Finally, the Fund Executive Board was in the process of holding a comprehensive review of the compensatory financing facility.

Mr. Finaish, Executive Director, IMF, commented that previous speakers had noted that the current account surplus of the major oil exporting countries had fallen from a high of approximately \$68 billion in 1974 to around \$9 billion in 1978. The total surplus of those countries was about half of that of Japan and was close to that of Italy in 1978. The dramatic change in the external position of the oil exporting countries suggested that the classification of developing countries into oil and non-oil countries was no longer relevant. If size of the current account surplus was accepted as the criterion for country classification, it would be necessary to classify separately industries countries with large surpluses like Japan, Germany, and Italy.

Since 1974, Mr. Finaish remarked, oil exporting countries had been encouraged by several groups, including the Fund, to make generous contributions to the adjustment process by increasing their imports and external assistance. The oil exporters had in fact made substantial contributions to the adjustment process; among other things, they had markedly stepped up their domestic development programs. In many cases, it was no longer possible for oil exporting countries to continue the rapid pace of foreign and domestic investment they had maintained since 1974, and it was not in the international interest to encourage the rapid pace of spending without paying due regard to the need for sound development policies. Furthermore, it was probably no longer possible for oil exporting countries to continue production of oil at the high rates of the recent past; hence, the international community as a whole should give more serious thought than in the past to the need to conserve energy. Various possible ways of increasing cooperation among energy producers and consumers should be examined, and new sources of oil and other energy should be sought.

Mr. Buira, Executive Director, IMF, considered that the outlook for the world economy was perhaps somewhat less encouraging than the gloomy one reflected in the staff reports. Two elements of uncertainty that had been discussed in the Executive Board were not dealt with in detail in the staff reports. The first was the level of economic activity in the United States. The U.S. authorities and the Fund staff had projected that the economy of the United States would grow at an annual rate of 3.4 per cent in 1979, but most analysists in the private sector of the United States and in the OECD had forecast a substantially low rate, around 2.5 per cent, and the possibility of a recession toward the end of 1979 could not be ruled out.

Unfortunately, Mr. Buira continued, the growth rate of some of the other major industrial countries might also be relatively low; the staff had recently concluded that the rate of growth in Japan would probably not be much more than 5 per cent. If the rate of growth in the United States was only around 2.5 per cent, the rate for the industrial countries as a whole would probably be no more than 3.1 per cent. It was widely thought that the level of economic activity in the industrial countries as a whole would decelerate toward the end of 1979, and the deceleration could be substantial if there was a recession in the United States. If growth in the industrial world was on the low side, the growth in the exports of primary producers would probably be only around 2.5-3.0 per cent, and the import capacity supported by their exports would suffer further damage; the capacity would in any event probably be seriously undercut by the expected decline in the terms of trade of the developing countries. As a result, the developing countries would be forced to finance any further economic growth with debt and official development assistance flows. While a rate of growth of around 2.5 per cent might be acceptable for a high-income country with a low rate of population growth and acceptable standards of health, education, nutrition and housing, it represented a very bleak prospect for countries experiencing pressures of demography and poverty.

The second element of uncertainty was the overall demand for and supply of energy, Mr. Buira said. The recent decline in Iran's oil exports had caused a reduction in the world supply of oil and an increase in oil prices that could affect the price and growth performances of a number of countries.

Mr. Arsenis, Director, Development Policy, UNCTAD, remarked that UNCTAD's forecast for the world economy was similar to the Fund's. However, UNCTAD was apparently more concerned than the Fund about the prospects for growth in the developed countries in general, and for the United States in particular, where the possibility of a recession in late 1979 or early 1980, with serious adverse effects on developing countries, could not be ruled out. He agreed with previous speakers who felt that the protectionist pressures in developed countries was a serious matter; the matter had been discussed at length in UNCTAD and was bound to be one of the major issues during the coming meetings in Manila.

He was worried, Mr. Arsensis continued, by the tendency of some persons to look at the present containment of the deficits of developing countries with some satisfaction. He agreed with Mr. Kharmawan that an assessment of the external position of developing countries should be based on their basic balance rather than their current account balance. It was true that a current account deficit for developing countries as a whole of $38 billion was relatively moderate by historical standards, but if developing countries had increased their imports at rates that would have supported a reasonable rate of growth in those countries, the current account deficit would have been around $50 billion. The fact that the developing countries had not done so was due in part to their prudent decision not to overextend themselves in external financing and in part to the failure of official development assistance to increase in step with other types of external financing. The latter had in turn been caused by the failure of certain developed countries to expand their foreign assistance programs. The major surplus countries, including Germany, Japan and Switzerland, should increase their developmnt assistance to bring performance in line with other developed countries both to help the developing countries and to support the international adjustment process; in that context, surplus countries that could not adjust their current account could instead adjust their capital account by increasing their long-term concessional assistance to developing countries. Accordingly, the declaration of the Group of 77 issued in Arusha called on surplus industrial countries and the United States to double their official development assistance during the coming three years.

The Deputy from Zaire considered that the amortization of the external debt of developing countries was a major problem. In many countries whose debt burden was the equivalant of 40 per cent of national income, the authorities were faced with the difficult decision whether to allocate export earnings to amortizing debt in order to maintain their creditworthiness, or to maintaining supplies needed in the domestic markets.

Mr. Kharmawan said that he agreed with the Deputy from India that the effects on developing countries of the new European Monetary System should be carefully studied. The implementation of the new system had been delayed, and the Executive Board had been unable to review the system in detail, but the system was expected to begin operations soon, and developments under it should be watched carefully and discussed at the next meetings of the Group of 24 and the Interim Committee.

(b) Supplementary Financing Facility
(Item 2(B)(a) of the Agenda)

The Chairman noted that the supplementary financing facility, which had recently been implemented, was meant to a considerable extent to benefit the developing countries. However, many developing countries felt that the conditionality under the facility was excessive. Furthermore, developing countries felt that it would be expensive for them to use the facility, and that a subsidy account for low-income countries should be established.

Mr. Kharmawan remarked that one of the major questions concerning the new supplementary financing facility was the extent to which it would contribute to the problems facing developing countries. The facility could conceivably help developing countries meet their medium-term financing needs. The extent to which that happened would depend in large measure on the conditionality under the facility and the cost of using the facility. The Group of 24 might wish to take a stand in favor of establishing a subsidy account to help the poorest countries bear the cost of using the supplementary financing facility. As to the matter of conditionality, the Executive Board had discussed it at some length and had reached an agreement that was not fully satisfactory to the Executive Directors representing developing countries. Unfortunately, fairly strict conditions would be applied under the facility for the time being. The Group of 24 should keep the matter of conditionality under review with an aim to softening it.

The Deputy from Algeria considered that the conditionality under the supplementary financing facility should be judged in the light of the statement by the Group of 24 Ministers on conditionality, which was mentioned on page 7 of the annotated agenda.

The Deputy from Pakistan remarked that the industrial countries had felt that, because the external deficits of developing countries had apparently been declining, those countries could be expected to adjust to, and not merely finance, their deficits, and there should be conditions on purchases under the supplementary financing facility. However, the discussion on the World Economic Outlook had clearly shown that the deficit of the developing countries had increased from $22 billion in 1977 to $31 billion in 1978 and, in all likelihood, would reach $38 billion in 1979; the size of the deficit now was nearly the same as in the period when the oil facility had been devised and implemented. It was important to bear in mind that the problems facing non-oil developing countries had risen in part because the surpluses in certain industrial countries were structural in nature and could not be quickly reduced. The developing countries naturally found it difficult to remove their deficits that were the counterpart of the structural surpluses of the industrial countries, and their problems were further intensified by the rising trend of protectionism in the industrial countries.

For the reasons he had mentioned, the Deputy from Pakistan said, the features of the supplementary financing facility should be further reviewed. The Group of 24 had previously stated that it hoped that the immediate benefits of the supplementary financing facility would prove to non-oil developing countries but, as previous speakers had emphasized, much would depend on the way in which the facility was actually operated. Finally, as had been the case with the oil facility, the poorest developing countries would be able to benefit from the supplementary financing facility only if assistance under a subsidy account was available.

The Deputy from Mexico considered that the conditionality under the supplementary financing facility should be examined in the context of the Dell Report in general, and its recommendation for easing the conditions on financial assistance in particular.

Mr. Sturc explained that the Executive Board had adopted a decision on the supplementary financing facility under which the conditionality would be the same as that for the upper credit tranches. The Executive

Board had not yet established guidelines for the staff operations under the supplementary financing facility; agreement would have to be reached first on the guidelines for conditionality in the upper credit tranches.

Mr. Buira said that, while explicit guidelines for operation of the supplementary financing facility had not yet been worked out, the expectation was that upper credit tranche conditionality would be applied to drawings under the new facility. He fully agreed with the Deputy from Mexico that careful thought should be given to the question whether or not strict conditionality under the supplementary financing facility was consistent with the need to deal with the problems facing developing countries, as described in the Fund's World Economic Outlook. The decisions to operate the oil facility with fairly soft conditionality and to liberalize the compensatory financing facility to give members more financial resources and more time to repay them than in the past had contributed to the recovery of the world economy from the recession on 1974 and 1975. However, earlier purchases under the oil facility and the compensatory financing facility had begun to fall due and would do so to an increasing extent in the coming period. As a result, the Fund would cease to become a net supplier of finance to countries that had used the oil facility and the compensatory financing facility several years previously, and the repurchase commitments of those countries would become a burden at a time when they had to remain net capital importers to achieve their growth objectives and to maintain their contribution to international trade. The repurchase schedules for countries using the compensatory financing facility and the oil facility in 1974 and 1975 had been based on certain expectations about the length of the cycle in international economic activity; the period of repayment had been fixed on the basis of an expected economic cycle of five to six years' duration, like the one in the 1950s and 1960s. Unfortunately, the world economy seemed to have entered into a different kind of cycle of longer duration. That pattern was not unprecedented. Over the last century the United States' economy had been prosperous in the 1880s, the 1900s, the 1920s, and the 1960s, and depressed in the 1870s, the 1890s, the 1930s, the 1950s and perhaps the 1970s. However, the Fund seemed to have forgotten the propensity of the United States and other economies to have such wide swings, with recession continuing for three to four years before a final upswing.

The Chairman, summarizing the discussion on the supplementary financing facility, said that the Group of 24 Deputies could report to the Ministers that, while they were pleased that the facility had been implemented, the issues of conditionality and a possible subsidy account still had to be resolved.

The Deputies took note of the Chairman's summary.

(c) SDR Matters - Further Uses
(Item 2(B)(b)(i) of the Agenda)

The Chairman noted that a proposal had been made to reduce the reconstitution obligation from 30 per cent to 15 per cent of net allocations of SDRs. The annotated agenda suggested that the requirement should

should be kept under continuous study with a view to abrogating it eventually, thereby making the SDR a genuinely freel, usable asset. There was some feeling that, with a new period of SDR allocations having just begun, and given the gloomy outlook for the world economy, the time was ripe to take another look at the possibility of establishing a link between SDR allocations and development assistance.

Mr. Kafka, Executive Director, IMF, explained that the Executive Board had approved three additional uses of SDRs, namely, use by agreement between participants in the settlement of financial obligations, for making loans, and to secure a financial obligation. The additional uses would increase the utility of the SDR and were in keeping with the objective of gradually making the SDR the main reserve asset of the international monetary system. The use of SDRs to secure financial obligations involved some significant technical matters. A member could pledge SDRs, but that practice would create a difficulty that was not characteristic of the other new uses of SDRs: because the ownership of the SDR would remain with the debtor, the debtor might find itself in the dilemma of having to carry out its obligation to the creditor under the pledge if it could not pay its financial obligation in any other way, and of having to use its SDRs in accordance with the Articles, for instance, in payment of Fund charges. The Executive Board had noted that a member could find a way out of the dilemma; a debtor that had to use its SDRs to carry out its pledge could be assured by various techniques of being able to acquire the SDRs that it might need to make other obligatory uses of them. In that connection, voluntary transfers of SDRs could be made to the debtor, or transfers through the designation mechanism, or by the sale by the Fund of SDRs it held in its General Account to the debtor. Even if the General Account did not have a sufficient number of SDRs, or if the debtor could not acquire the SDRs through a voluntary transfer, the debtor could always be designated to acquire SDRs from a member that needed currency; in all likelihood there would always be at least a few members that would wish to receive currency in exchange for SDRs.

The dilemma resulting from the use of SDRs to secure financial obligations, Mr. Kafka continued, would not occur under the so-called transfer-retransfer mechanism, under which the debtor would transfer the ownership of its SDRS to the creditor under a retransfer agreement. Because ownership passed to the creditor, the debtor country would no longer have the SDRs in question and would therefore not be faced with the decision of how to use them in certain difficult circumstances. Even under the retransfer mechanism the debtor would not be relieved of its obligations to use SDRs where such use was prescribed under the Articles. In such cases, the debtor would have to acquire the SDRs through either voluntary transfer, or a purchase from the General Account, or designation. There was however a special problem with the retransfer mechanism: there was no reason why the interest on the SDRs involved should accrue to the creditor. Therefore, the mechanism provided for special arrangements between the creditor and the debtor under which the creditor had to pay to the debtor the interest on the SDRs that the creditor received from the debtor.

The Executive Board, Mr. Kafka went on, planned to study the possibility of other, more complicated uses of SDRs, such as swaps and forward transactions in SDRs. Swaps could serve the same purpose as a retransfer agreement. Finally, the Executive Board had carefully excluded the direct or indirect use of SDRs in donations; the Executive Directors had been worried that the possibility of donating SDRs might lead members to dump SDRs on grantees, something that would not enhance the prestige of the SDR.

The Chairman remarked that the Deputies appeared to favor further uses of SDRs, abrogation of the reconstitution obligation, and establishment of a link between SDR allocations and development assistance.

The Deputies took note of the Chairman's summary and concluded their discussion on further uses of SDRs.

(d) Review of the Question of a Substitution Account
(Item 2(B)(b)(ii) of the Agenda)

The Chairman noted that the question of a substitution account had been discussed in the Executive Board. The annotated agenda mentioned some, although certainly not all of the matters relating to the matter.

Mr. Kafka recalled that the suggestion for implementing a substitution account had first been made under the par value system and had been set aside when the system of generalized floating had begun. It had been hoped that the floating would remove any danger of a overhang of U.S. dollars because exchange rates would adjust as needed and dollars in private and public hands would at all times be held voluntarily. When it had become clear that the floating system was not working as had been expected, Mr. Witteveen had revived the idea of establishing a substitution account. The present Managing Director had suggested two options in addition to the option proposed by Mr. Witteveen. The options were listed as Schemes A through C in ICMS/Doc/79/2 (2/23/79), and Option C appeared to be the one favored by most Executive Directors.

The main objectives of implementing a substitution account, Mr. Kafka continued, were to help stabilize the exchange markets and enhance the role of the SDR. Of course, the main way to do so was to encourage the main trading countries to adopt appropriate and coordinated domestic policies, but other, complementary efforts could be made, such as intervention in the exchange markets, and absorption of unwanted dollars, the latter being one of the immediate purposes of a substitution account.

The proposals discussed in the Executive Board for establishing a substitution account, Mr. Kafka went on, covered only official holdings of U.S. dollars, even though private holdings had probably played a larger role in the periodic attempts in the past at shifting out of dollars and in the consequent exchange rate instability. The fact that the substitution account would be limited to official holdings was not in itself a fatal objection to the idea of substitution. If an account was open-ended, so that substitution could take place at any time, central banks could acquire private holdings and pass them on to the account if they wished to do so. Even if the account was not open-ended, it was safe to assume that central banks would be prepared to enter the markets to buy unwanted dollars to a greater extent if they had first been able to substitute unwanted dollars for a preferred asset issued by the account.

In all likelihood, Mr. Kakfa said, a substitution scheme would absorb only a relatively small amount of working balances of dollars, and the question naturally arose whether substitution would be helpful without additional measures to control adjustment and to discourage central banks from attempting changes in reserve composition. As to the first question--whether a substitution account would only encourage the United States to run larger deficits than otherwise--the chances that a substitution account would be workable were better now than at any time since 1973. Most governments had not welcomed the excessive exchange rate instability that had occurred in previous years and felt that the United States would not treat either its balance of payments or the exchange rate of the dollar with benign neglect. The answer was that absorption would probably contribute at least marginally to discouraging abrupt shifts in reserve composition, especially if the account was open-ended or substitution occurred periodically. Another important question with respect to substitution was whether an account would be effective without an increase in the control over the Eurodollar markets. The potential difficulty was that, even if the international adjustment process worked properly, addition dollars could be created in the Eurodollar markets. There was, however, an increasingly widespread feeling that the Eurodollar markets could not create dollars in the absence of a loose monetary policy in the United States; the Eurodollar markets were not in effect a money-creating machine.

The most difficult issues concerning a substitution account, Mr. Kafka said, had to do with the direct national interests of the United States and of the countries that would be called upon to present dollars for substitution. Dollars would be substituted for an asset that would undoubtedly be somewhat less liquid than the dollars used in substitution, and the main question was whether there would be adequate compensation for dollar transfers in the forms of an attractive interest rate and the relatively stable capital value of the SDRs or SDR-denominated assets received in substitution. The United States' authorities would have to decide how much it was worth to them to increase the stability of the dollar as a result of a substitution effort. They would also have to decide how much interest they were willing to pay, and how much capital risk they were prepared to run on the dollars presented to the substitution account.

Although there were as yet no clear answers to all the questions he had raised, Mr. Kafka commented, the question of a substitution account should certainly be kept under active consideration by the Executive

Board. The Fund should continue examining both the operational issues raised by substitution and the basic issues concerning international and national interests that he had mentioned to ensure that a substitution scheme would be as voluntary as possible, and sufficiently large to make the needed impact.

Mr. Kharmawan added that it was important to bear in mind the legal status of a substitution account like the one in Scheme C, whereby dollars would be exchanged for SDR-denominated deposits. An important but as yet unanswered question was who would be responsible to the depositors for their holdings in the substitution account.

The Deputy from Yugoslavia said that he was worried that, if a large amount of dollars was withdrawn from the markets in a substitution operation, there would be a corresponding decline in the amount of capital available in the markets, thereby making the conditions on which the remaining capital would be available more severe than the present conditions. Hence, in the short term, developing countries apparently had nothing to gain from a substitution scheme. In the long run, of course, developing countries would benefit from a substitution scheme's contribution to the stability of the international monetary system; therefore, he had no difficulty in accepting the proposal for further studying the question of a substitution account.

As he understood it, the Deputy from Yugoslavia continued, dollars placed in a substitution account administered by the Fund would be invested in long-term U.S. Government paper. However, it was not clear to him what would happen to the dollars after they had been returned to the Treasury of the United States. Would the dollars be cancelled out, or gradually re-injected into the monetary system of the United States and thereafter into the international monetary system? Would it be possible to channel dollars deposited in a substitution account to programs supporting the long-term development efforts of developing countries, especially as those members would suffer in the short run from the deteriorating terms in the world capital markets as a result of the decline in the amount of available dollars? Such an approach naturally involved a number of technical difficulties, but he wondered whether it was not worth examining in the context of the further study of the whole question of a substitution account.

Mr. Kafka said that the monetary effect of the channeling of dollars to the United States through a substitution scheme would depend on decisions taken by the Federal Reserve System. The possibility of using the substitution operation in part for development purposes had been raised when the original substitution proposal had been made. At that time, some thought had been given to the possibility of a substitution scheme under which an allocation of SDRs would be made to all members in proportion to quotas; thereafter, the major holders of reserve currencies would be expected to substitute an amount of currencies for SDRs in exact proportion to their SDR allocations, while other members, including the developing countries, would be expected to substitute only a small proportion of their holdings. That proposal had been set aside together with the original idea of a substitution account. However, the general objective of linking substitution and development assistance could perhaps be looked at again in the course of the further study of the whole question of substitution.

The Deputy from India commented that he welcomed the proposal for further study of a substitution account, since developing countries were naturally interested in exploring ways of helping to stabilize the world economy. The Fund staff had concluded in ICMS/Doc/79/2 that the differences between the short-term and long-term interest rates would in the long run cover at least a portion of the exchange risk involved in a substitution scheme. On the other hand, the staff had provided data showing that in the period 1973-77 the average excess of long over short yields had been around one and one half per centage points. The report discussed at some length the benefits that reserve currency countries gained from a substitution effort but merely mentioned that, if substitution was made primarily in dollars, the benefit would accrue to the entire international community. It would be useful to learn why the staff and Executive Directors felt that a substitution scheme would be of primary benefit to the international community as a whole. The Group of 24 should recommend that the question of substitution be examined in detail, and it should take a final position only when a complete scheme had been proposed, including a specific interest rate, a way of covering the exchange risk, and assignment of responsibility for redemption of balances held in a substitution account.

Mr. Mayobre, Executive Director, IBRD, recalled that on a previous occasion he had suggested that the funds placed in a substitution account could be used to guarantee issues of bonds by developing countries. The proposal had been discussed at length in the Development Committee. One of the obstacles to it was that developing countries that had access to capital markets had been worried that they would be asked to put up an extra guarantee. He had suggested that that difficulty could be overcome if the developing countries with access to capital markets stated that they would not make use of their guarantee entitlement under the scheme he had put forward. The basic problem of compensating the developing countries for the loss of liquidity as a result of the substitution effort still existed. While the existing substitution proposals might be useful for the world community as a whole, they would not have a positive or even a neutral effect on the developing countries in particular.

The Deputies completed their discussion of the question of a substitution account and agreed to meet again in the afternoon.

The Deputies adjourned at 12:35 p.m. and resumed at 3:00 p.m.

THIRD SESSION

3:00 p.m., Monday, March 5, 1979

Chairman: Alfredo Phillips O.

The Deputies continued their discussion from the morning session.

1. GROUP OF SEVENTY-SEVEN - IMPACT ON THE GROUP OF TWENTY-FOUR OF RESOLUTIONS ADOPTED IN ARUSHA, TANZANIA
(Item 3 of the Agenda)

The Deputies considered matters related to the Group of 77 and in particular the impact on the Group of 24 of the resolutions adopted in Arusha, Tanzania.

The Deputy from Yugoslavia reported that the Arusha meeting had been most constructive and no difficulty had been experienced in establishing common negotiating positions for the forthcoming UNCTAD meeting. Positions had been adopted on trade issues, commodities, transfers of technology, organizational matters, and, of course, on monetary and financial issues.

The members of the Group of 77 had demonstrated an eagerness to further their cooperation on monetary and financial issues, the Deputy from Yugoslavia mentioned. In particular, they called for the development of a strategy for bringing about fundamental reform of the international monetary system. They were agreed on the need for a mechanism to provide long-term financing for the externally induced deficits in the balance of payments of the developing countries. They noted their confidence in the Group of 24 and suggested that it be asked to prepare the work of the meeting of Ministers of Finance of the Group of 77 that would take place in Belgrade prior to the coming Annual Meeting of the Fund and the World Bank. They hoped, in particular, that the Group of 24 could intensify its studies of possible reforms of the international monetary system. In order to fill that mandate it might be necessary to meet once or twice more before the Belgrade meetings. The Group of 24 should try to establish a common position for developing countries with regard to international monetary reform.

On financial questions, the Group of 77 had concluded that a general real increase in Official Development Assistance (ODA) flows to developing countries was essential and should be made as soon as possible and not later than 1981. In particular, ODA flows to the less developed countries, most seriously affected countries, and the land-locked and island developing countries should be doubled. The group felt that the world would never escape from its present "stagflation" unless the interdependence of the developed and the developing countries was better recognized. The Group considered that if a massive transfer of resources, initially amounting to some US$35-50 billion, could be made from the developed to the developing countries, the economies of all countries involved would be considerably stimulated. The resources could be mobilized in the capital markets, but would need to be accompanied by an international guarantee covering their utilization and a fund to subsidize interest rates. The Group of 24 should give deeper consideration to all issues connected with the transfer of resources. On the financial side, the Group of 77 had agreed that it would be useful to set up an international debt commission.

In conclusion, the Deputy from Yugoslavia observed that the Ministers of the Group of 77 hoped to avoid confrontation with the representatives of the developed world. They hoped that through international cooperation and goodwill there would evolve an international monetary system and a set of international financial relations from which all countries, both developed and developing, could benefit. Should the Group of 24 wish to hold further meetings in connection with its mandate from the Group of 77, facilities could readily be made available in Belgrade.

The Deputy from Mexico remarked that the Group of 77 should play a stronger role in financial and monetary matters and could be helped to do so by the Group of 24. Close cooperation between the two groups would improve the negotiating position of the developing countries as a whole. The Group of 24 should turn its attention to the present "non-reform" of the international monetary system and work out short-term and medium-term strategies of change. The Group should not merely react to events but should act on them. It should participate in political and technical sessions of the Ministerial meetings of the Group of 77 in Belgrade; before those sessions the Group of 24 should perhaps meet on two or three occasions, particularly around the time of the UNCTAD gathering in May. In that way, the UNCTAD decisions taken at that gathering could be evaluated and some coordinated strategy for developing countries on monetary affairs could be established.

The Deputy from Algeria stressed the importance of good cooperation between the Group of 24 and the Group of 77 on financial and monetary matters. It was essential that the Group of 24 should meet again before the Group of 77 assembled in Belgrade, so that some evaluation could be made of the decisions taken by the UNCTAD meeting. In general he shared the views expressed by the Deputy from Yugoslavia.

The Deputy from Pakistan said he was happy to note that the Group of 77 had dealt so extensively with international monetary issues, but he wondered how familiar its members were with the work of the Group of 24. By calling on the Group of 24 to intensify its preparatory work on the fundamental reform of the international monetary system, the Group of 77 seemed to be unaware of what the Group of 24 had already accomplished in that context. The present failure to achieve reform in the system could not be attributed to any lack of intensive work on the part of the

Group of 24. The Committee of Twenty, which had been mandated to propose reforms of the international monetary system, had abandoned its work in the face of complex developments in the world economy. Since then it had been accepted that reform would have to be evolutionary and the Group of 24 had made efforts to win respect for the position of the developing countries in the continuing debate. The Group had been particularly influential in the drawing up of the terms of the Jamaica Accord. The Chairman should apprise the Group of 77 of the Group of 24's accomplishments in the field of international monetary reform and should transmit all relevant communiqués and annotated agendas.

The Group of 24 should decide what could be done to accelerate progress toward international monetary reform, the Deputy from Pakistan continued. Further meetings of the Group, particular at Deputies level, would be useful. With the help of UNCTAD and the Executive Directors of the Fund and the World Bank the Group should be able to suggest to the Group of 77 the direction in which further efforts should be channelled.

The Chairman commented that he would send information concerning the Group of 24's work to the Group of 77. In his opinion, the Group of 77 had asked the Group of 24 to intensify its work efforts, not because it failed to recognize the success that the Group of 24 had already achieved, but simply because it sensed the urgency of making progress in the reform of the international monetary system.

The Deputy from the Philippines remarked should the Group of 24 wish to hold a meeting around the time of the UNCTAD meeting in May, facilities could be made available for it in Manila. He favored holding a meeting just prior to the UNCTAD meeting, so that the Group of 24 could formulate a common position on monetary matters. The prospect of a closer coordination between the Group of 77 and the Group of 24 was most welcome.

The Deputy from Algeria said that he felt also that it would be useful if the Group of 24 could meet before UNCTAD as it had done before the third UNCTAD meeting in Caracas. A further meeting shortly following the UNCTAD deliberations would be valuable. The results of those deliberations could then be evaluated and preparations could be made for the coming Ministerial Meeting of the Group of 77.

The Deputy from Venezuela considered that the time was ripe for a fundamental review of the international monetary system and that the developing countries' contribution should be coordinated through the Group of 24. He supported closer links between the Group of 24 and the Group of 77. It would be useful for the Group of 24 to meet again in Manila around the time of the UNCTAD meeting.

The Chairman concluded that there was general agreement that closer links should be established between the Group of 24 and the Group of 77 and that in preparation for the coming meeting of the Group of 77, the Group of 24 should determine what strategy developing countries should follow in seeking a reform of the international monetary system. To make that determination, the Group of 24 would ask for the support of its Executive Directors in the Fund and in the World Bank, of UNCTAD, and of the technical staffs of those institutions. The possibility of holding a meeting of the Group of 24 in Manila in May had been raised and would have to be looked into. There had certainly been a consensus that the Group of 24 would have to meet on two more occasions before the Group of 77 met again in Belgrade in the autumn.

The Deputy from India inquired whether it would be advisable to schedule a meeting of the Group of 24 in May. First, Ministers found it difficult to spend too much time away from their home countries. Second, Ministers of Trade would generally be designated to attend the UNCTAD meetings and it could cause problems if both the Minister of Trade and the Minister of Finance had to be absent from the country for the same period. Third, while further collaboration was welcome, would the Group of 24 be in a position to take further real steps ahead in only two months time? Would two months be sufficient to undertake preparatory work on such complex issues as the Substitution Account and the proposals for medium-term balance of payments support.

The Chairman observed that most speakers had envisaged that any meeting of the Group of 24 in Manila would be at Deputy level and that the Ministers would not meet again until immediately before the Meeting of the Group of 77 in Belgrade.

The Deputy from Yugoslavia suggested that the Chairman and the Bureau be empowered to commission studies and to contact Executive Directors of the Fund and the World Bank, and the UNCTAD, with a view to preparing firm proposals in the time for the next meeting of the Group of 24.

The Deputies accepted the proposal by the Deputy from Yugoslavia.

2. FUTURE ROLE OF THE DEVELOPMENT COMMITTEE
(Item 4 of the Agenda)

The Deputies considered a paper outlining a number of proposals concerning the future role of the Development Committee (Annex I).

The Deputy from Mexico recalled that the Development Committee had not been created as a forum for discussions only, but as one in which Ministers could decide to take specific actions. The Group of 24 should study the proposals that had been made with regard to the Development Committee and should adopt an appropriate position before the next meeting of the Development Committee at which changes for the future would be decided.

Mr. Ahmad, Deputy Executive Secretary, Development Committee, remarked that the proposals to enhance the effectiveness of the Committee had been agreed by the Managing Director of the Fund, the President of the World Bank, and the Chairman of the Development Committee working together. The proposals had been transmitted for approval to the members of the Committee on January 23, 1979; of the 13 responses since received, 12 had been affirmative. One member had requested, in view of the importance of the proposals, that they be discussed at the next meeting of the Development Committee.

Mr. El-Naggar, Executive Director, IBRD, recalled that the Development Committee had been set up in 1974 to consider all matters related to the transfer of resources to developing countries. All would probably agree that the results achieved by the Committee had been disappointing. However, the poor results could not in any way be attributed to the work of the Executive Secretariat, and the fact that it was proposed to dissolve the Secretariat did not reflect any adverse judgment of the work that it had accomplised. What it did reflect was the view of many members that some change was necessary to enhance the Committee's effectiveness. Many assumed that the Committee's past lack of success had been due to a lack of political will on the part of donor countries. That assumption might well be correct, but it should not be used to justify inaction in seeking reforms. Ways of stimulating the necessary political will should be found. The proposals under discussion should be seen as a means of improving the effectiveness of the Committee and not of weakening it. By involving the Executive Boards of the Fund and the World Bank more closely in its work, the Development Committee was likely to become more effective. The proposals should at least be put to the test until 1980.

Some critics had argued that by making the Fund and the World Bank responsible for the functioning of the Committee, the independence of the Committee had been sacrificed, Mr. El-Naggar noted. In his view, the Development Committee had never enjoyed full independence and would lose nothing by the proposals. The Committee would continue to have the same broad mandate and would not be limited to subjects within the jurisdiction of the Fund and the World Bank.

He doubted whether there was any need for the Group of 24 to reopen discussions about the Development Committee, Mr. El-Naggar stated. The proposals had been discussed by the Executive Boards of the Fund and the World Bank and had been approved by a solid majority of Executive Directors including most of those representing developing countries. Already a majority of Development Committee members had signified their assent to the proposals. If the Group of 24 should decide against accepting the proposals, it would create much confusion. Such a decision would be unproductive and divisive. Time should be allowed for the proposals to demonstrate their worth.

The Deputy from India said that he shared the views of Mr. El-Naggar. He acknowledged that the Development Committee had been greatly handicapped by the lack of political will, a problem that no amount of procedural reform would resolve. However, as Mr. El-Naggar had said, all efforts should be made to improve other aspects of the functioning of the Committee. The present situation was untenable and clearly some improvements had to be made. In his view, the proposals provided a good basis for effective procedural reform and the results of their application should be observed closely over the coming two years.

The fact that the functioning of the Development Committee would become the direct responsibility of the Fund and the World Bank was certainly welcome, the Deputy from India continued. The Development Committee would be able to draw more easily on the manpower and resources of the two institutions. The fact that both Executive Boards would meet as Committees of the Whole in discussing Development Committee work represented a welcome and major departure from previous practice. The proposals had already been accepted by so many countries that it would seem inappropriate at the present stage for the Group of 24 to call them into question.

The Deputy from Venezuela stated that he could not accept the proposals. They went beyond the objective of improving the working of the Committee and would, in fact, change its nature.

Mr. Holguin-Franco, Executive Director, IBRD, remarked that two of the members in his constituency had reservations about the proposals. They felt that the changes were not simply of a procedural nature but involved questions of substance, which ought to be discussed by the Committee. Before reaching definite decisions, a frank exchange of views between members of the Committee would be desirable.

Mr. Mayobre, Executive Director, IBRD, argued that since the proposals went beyond mere administrative changes and beyond the objective of improving the effectiveness of the Development Committee, the members of his constituency favored discussing them with other Committee members. There seemed to be a broad consensus that the Committee's problems had been due to a lack of political will. Admittedly, the proposals could contribute to the creation of a better political will, but instead of focusing on the simple existence of political will, representatives of developing countries should examine the content of that will. In particular, the content and meaning of future Development Committee papers should be closely scrutinized. If Ministers lost their independence to propose concrete measures to help in the transfer of resources to the developing countries, the proposals would have had a detrimental effect.

The Development Committee's work should not be limited to subjects within the jurisdiction of the Fund and the World Bank, Mr. Mayobre continued; there could well be ways of transferring resources that did not fall within that jurisdiction, and which could usefully be pursued by the Development Committee. Moreover, the Development Committee should be able to have a right of regard over the functions of the Fund and the World Bank.

It had been stated, Mr. Mayobre noted, that the proposals would not require amendments to the Resolution creating the Committee (Resolution 29-9). How could that statement be reconciled with Proposal 3(iii) which changed the role of the Secretary by making him an assistant to the Chairman of the Development Committee, the Managing Director of the Fund and the President of the World Bank rather than an agent reporting directly to the Development Committee as had been envisaged in the Resolution? If an amendment to the Resolution was required, it should most certainly be discussed first by the Committee.

Mr. Kafka, Executive Director, IMF stated that he supported the views expressed by Mr. Holguin-Franco. He had several reservations about the proposals.

Mr. Kharmawan, Executive Director, IMF, remarked that none of the members of his constituency were members of the Group of 24. However, they supported the proposals and shared the views expressed by Mr. El-Naggar and the Deputy from India.

Mr. Madinga, Executive Director, IBRD, considered that little would be accomplished by discussing whether the proposal exceeded the mandate given to the Managing Director of the Fund, the President of the World Bank, and the Chairman of the Development Committee. His constituency had already accepted the proposals, and he saw no point in waiting to discuss them again at a future meeting. They should be allowed to go into effect on April 1 as the Chairman had suggested, otherwise, the Development Committee would enter into a state of "limbo" until October. The proposed changes should be given a chance to work. Further changes could always be made, if necessary, on a subsequent occasion.

Mr. Buira, Alternate Executive Director, IMF, noted the apparent agreement that the developing countries' failure to achieve satisfactory results was related to the lack of political will on the part of the industrial countries. It seemed illogical, therefore, to agree to organizational changes that weakened rather than strengthened the Committee's independence. Admittedly, the Ministers would retain their independence of action; but that would not be the case with the secretariat, which would lose its direct access to governments. In his view, the secretariat should remain independent; it should have its own staff; it should be able to carry out studies without the supervision of the Fund or the World Bank; it should be able to call meetings of senior officials or organize task forces and working groups; and it should be able to deal independently with problems of its own choosing or with those referred to it by governments.

Under the proposals, the work of organizing the Development Committee's program would fall predominantly on the Managing Director of the Fund and the President of the World Bank, because the Chairman of the Development Committee was a Minister of Finance who would be occupied with his national duties far distant from Washington, Mr. Buira commented. In practical terms, since most Development Committee questions fell within the province of the World

Bank, the organization of the Development Committee would probably be left to senior officials of that organization. He did not think that that would be a desirable outcome.

The proposals would mean the ending of the Development Committee's role as an "umbrella forum" able to deal with all aspects of the transfer of resources, Mr. Buira continued. It was hardly likely, for example, that the regional development banks would wish to discuss particular problems with the Development Committee, if it was seen as an appendage to the World Bank. They would not wish to appear to be submitting themselves to supervision or jurisdiction of the Executive Boards or the officials of the World Bank or the Fund. He would be interested to have a legal opinion both on whether the proposals exceeded the terms of reference given to the Managing Director of the Fund and the President of the World Bank, and on the question concerning the secretariat raised by Mr. Mayobre. He wondered how many of the twelve members that had replied affirmatively to the proposals were representatives of developing countries. It could well be that most of those twelve positive replies had come from developed countries, some of which might think it in their interest to have a rather less active and more manageable Development Committee.

Mr. Nicoletopoulos, Associate General Counsel, IMF, explained that the proposals were not seen as requiring an amendment to Fund Resolution No. 29-9. The Executive Secretariat would remain "responsible to the Committee for carrying out the work directed by the Committee as prescribed in that Resolution." It would not be inconsistent with the terms of that Resolution for the Committee to ask the Executive Secretariat to assist the Managing Director of the Fund and the President of the World Bank, who, together with the Chairman of the Committee, are charged with coordinating the work of the Committee and the work of the Executive Board and to make arrangements to carry out technical work requested by the Committee and to provide the necessary administrative support.

Mr. Mayobre asked whether the Executive Secretariat would still be able to maintain direct links with member countries and make suggestions for work to be carried out by the Fund and by the World Bank.

Mr. Nicoletopoulos replied that according to Resolution No. 29-9, the responsibilities and working methods of the Executive Secretariat were decided by the Development Committee. The proposals would not change the Resolution.

The Deputy from Mexico expressed disappointment at the lack of response from other Deputies concerning the proposals affecting the Development Committee. The Group of 24 could not serve a useful purpose if its discussions were limited to issues on which there was a priori agreement. What discussion had taken place on the Development Committee had been useful and he noted the widespread agreement that the Committee's lack of success had been due to a lack of political will. He also noted the appreciation that had been expressed for the work of the Executive Secretariat and of the two Chairmen who had been confronted with almost impossible tasks. The subject was delicate, but he was convinced that it should be taken up further in conjunction with the Group of 77. If the Group of 77 had been critical of the lack of progress in reforming the international monetary system, it was likely to be even more critical of the lack of progress made by the Development Committee in the area of the transfer of real resources.

The Deputy from the Philippines remarked that the Group of 24 was certainly united in believing that the Development Committee should function more effectively. It also seemed to be united in attributing the Committee's lack of success to the lack of political will on the part of the donor countries. Those countries that had accepted the proposals had not done so lightly, but only after examination of conscience and profound thought. To improve the effectiveness of the Development Committee would either have required the setting up of a much larger Secretariat or using the existing structures of the Fund and the IBRD more widely. Funding for the first alternative did not seem to be available; hence the second had been chosen as the best means of helping the Development Committee. In view of the present situation, maintaining the status quo was not an available option; the proposal set out the most viable and realistic way of achieving the changes that were unanimously desired.

The Deputy from Sri Lanka commented that the proposals would improve the effectiveness of the Development Committee's work, and he supported them. He was particularly impressed by the fact that for the first time the work of the Development Committee would become the responsibility of the Executive Boards of the Fund and the World Bank.

The Chairman, summarizing the discussion, said that the consensus was that while the Development Committee had not been able to reach its objectives successfully, the blame should not be placed on the Secretariat which had worked with determination, but on the lack of political will exercised by some of the Committee's members. The Deputies also agreed that the Development Committee should play an important role in the future; there were, however, some differences of opinion on procedural and organizational matters.

3. PLACE AND DATE OF NEXT MEETING
(Item 5 of the Agenda)

The Chairman noted that the place and date of the next meeting would be decided in consultation with members of the Bureau and in the light of the report to be received concerning UNCTAD V. It could well be necessary to hold a meeting before the UNCTAD deliberations in May; if not, a meeting would certainly be needed shortly thereafter.

4. REPORT TO MINISTER

The Chairman asked the Deputies from Algeria, Brazil, Ghana, Pakistan, Venezuela and Yugoslavia to serve as members of a Committee to draft the report to Ministers (Annex II).

The Deputies concluded their twenty-seventh meeting at 6:00 p.m.

FUTURE ROLE OF THE DEVELOPMENT COMMITTEE

1. Fund Board of Governors Resolution No. 33-10, established that the Development Committee should continue functioning with its present broad mandate until 1980, when the Board of Governors should again review the work of the Development Committee and take such action as would be deemed appropriate.

2. Furthermore, the same resolution stated that "the Chairman of the Development Committee, the President of the World Bank and the Managing Director of the Fund will consult together on ways to improve the effectiveness of the work of the Committee and they will report to the Committee at its next meeting."

3. The Chairman of the Development Committee, taking into consideration the discussions of the Executive Boards of the World Bank and the IMF, and the recommendations of the President of the World Bank and the Managing Director of the Fund, emerging from them, has conveyed to the members of the Committee a number of proposals to achieve their mandate:

(i) The Development Committee would be continued as a Joint Bank/Fund Committee with its present broad mandate to consider all matters relating to the transfer of real resources.

(ii) The Development Committee's main function would be that of a broad discussion forum, including its use as a "reserve forum," for the discussion of issues relating to the operations of the institutions when circumstances warrant it.

(iii) The Chairman of the Development Committee, the Managing Director of the Fund, and the President of the Bank would be jointly responsible for organizing the work of the Development Committee, with a view to more effective performance.

(iv) The Boards of the Bank and the Fund would be used as preparatory bodies for the work of the Development Committee including its agenda and work program, as well as reviewing and sharpening issues in papers prepared for Committee consideration.

(v) The independence of the Development Committee would be reflected in its ability to present ideas freely. The work of the Committee would not be bound by a narrow definition of the responsibilities of the Bank and the Fund.

(vi) To assure that proposals and views expressed by Executive Directors are fully reflected in the papers, agenda and work program, when they meet on Development Committee matters, they will do so as Committees of the Whole of the Executive Boards.

(vii) Senior officials would not be part of the institutional framework. However, ministerial deputies could meet on an ad hoc basis, when appropriate to consider special issues. Since they would be deputies to Ministers, the decision to convene them would be one for the Ministers.

(viii) The Secretariat would be reduced to a senior official who would serve as Executive Secretary. He would assist the Chairman, Managing Director and President in ensuring the effectiveness of the Development Committee's work. The Secretariat services required by the Development Committee would be provided by Bank/Fund staff.

(ix) The Working Groups would be abolished. Task Forces--with a specific limited task and duration--might be used for certain issues with approval of the Development Committee.

(x) Studies and papers for the Committee would normally be prepared by regular Fund/Bank staff, but consultants or staff of other agencies may be asked by the Committee to contribute work under certain circumstances.

4. Some developing countries were in agreement with the proposals presented by the President of the IBRD and the Managing Director of the IMF.

5. Other developing countries, however, believed that the proposals presented went beyond the terms of references given by the members of the Development Committee; and that they went beyond changes of a purely administrative nature and implied substantive changes in the functioning of the Committee. It may be useful for the Group of 24 to consider the procedural and substantive issues in advance of the Development Committee meeting to present their views.

INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

EIGHTEENTH MEETING OF MINISTERS

March 6, 1979

REPORT TO MINISTERS

1. The Deputies of the Group of Twenty-Four reviewed the international economic situation and expressed their concern over the persistence of low rates of growth and substantial underutilized capacity in a number of industrial countries in 1978. The prospects for 1979 appeared to be no better, and there existed the disquieting possibility of a further deterioration in world economic activity. They noted that, notwithstanding the sluggish rates of growth, no significant progress was made in the industrial countries with respect to inflation, and that their unemployment rates during 1978 were, on average, significantly higher than in the recession year of 1975.

2. The Deputies regarded the economic outlook as unfavorable for the developing countries, not only because of its adverse effect upon world trade, but also because it was likely to intensify the protectionist trends in the industrial countries. This could frustrate the efforts of the developing countries to improve their growth performance and to overcome their external payments problems.

3. The Deputies expressed dismay at the proliferation of trade restrictions in the developed countries. They urged them to adopt more liberal trade policies as a fundamental step towards an improved functioning of the international adjustment process. In this connection, they also expressed their dissatisfaction at the lack of progress in the implementation of the Tokyo Declaration regarding preferential treatment for developing countries. They noted that special attention will be given to this issue during UNCTAD-5, and hoped that it would lead to effective trade liberalization in favor of the developing countries within the framework of the GATT.

4. The Deputies expressed serious concern at the substantial deficit of the current account of the non-oil developing countries in 1978, and the prospects for a further deterioration, to US$38 billion in 1979. That undesirable trend, they considered, had been occasioned by, inter alia: the slow growth of trade; a substantial deterioration in the terms of trade of non-oil developing countries, which were expected to worsen

in 1979; and by the intensification of protectionist measures in industrial countries during 1978. The Deputies regretted that the international fora had so far failed to deal adequately with these problems.

5. The Deputies emphasized that the policies adopted by the developing countries had contributed to the sustenance of economic activity in the industrial countries, through their expanded imports, associated with the development effort. They also noted the contribution made by the oil exporting developing countries to the adjustment process, as reflected by the marked decline in their external surplus from $33 billion in 1977 to $9.0 billion in 1978; despite this reduction in their surplus, they maintained their levels of assistance to other less developed countries. Deputies were of the opinion that the significant economic potential of the developing countries could play a major role in the adjustment process at higher levels of world trade and economic activity, if greater flows of capital were available on suitable terms.

6. The Deputies noted with concern the decline in the net inflow of private long-term capital envisaged for 1979. The development process will suffer a setback if official long-term capital and aid to all developing countries do not increase sufficiently to offset such a decline, In this context, Deputies stressed the need for providing larger resources to the multilateral financial institutions, through a substantial increase in their capital. They also urged donor countries to increase the flow of ODA to reach the United Nations target of 0.7 per cent of the GNP. It was recommended further that their representation in the World Bank be at least maintained.

7. The Deputies received with appreciation the document on the balance of payments adjustment process in the developing countries prepared at their request by UNDP/UNCTAD. They agreed with the fundamental conclusion of the study that, in determining the volume and conditionality governing balance of payments assistance, a clearer distinction needs to be made between the causal factors attributable to the domestic policies of the developing countries and the external elements beyond their control. In this regard, they expressed support for the view that an expansion of the flow of long-term capital through bilateral and multilateral channels should be regarded as an indispensable ingredient for improving the international environment for adjustment. In this connection they supported the proposal for a long-term facility for financing purchases of capital goods by developing countries that would also help to stimulate the capital goods producing sectors of industrialized countries. They also supported strongly the proposal for the creation of a medium-term facility to be managed by the Fund for balance of payments support over periods of 5 to 10 years. Both these facilities would need to have provision for interest subsidy for the poorest of the developing countries.

8. The Deputies noted the coming into effect of the Supplementary Financing Facility on February 23, 1979. They observed that the additional resources provided through this facility may play an important role in facilitating the adjustment process of developing countries. However, they expressed concern over the fact that the use of these resources would be subject to the harsh conditionality applicable to the higher credit tranches. They hoped that as a result of the recent review of conditionality carried out by Executive Directors, greater flexibility would be introduced in the use of Fund resources.

9. The Deputies welcomed the decisions recently taken by the Fund's Executive Board relating to further uses of SDRs and urged the adoption of measures to enhance the role of the SDR as an international reserve asset. They noted that the reconstitution obligation had been reduced from 30 to 15 per cent and stressed the need for its complete abrogation.

10. The Deputies also welcomed the recent decision for a new allocation of SDRs over the next three years. They felt that the time was ripe for an agreement on the question of a link between SDR allocation and development assistance.

11. The Deputies noted the progress of deliberations in the Fund's Executive Board for the establishment of a substitution account and were of the view that this proposal still required further study including the possible use of such an account to promote the development process. They agreed that participation of developing countries should be voluntary.

12. The Deputies reiterated the need for the prompt establishment of the Common Fund of the Integrated Program for Commodities, and for a reform of the Fund compensatory and buffer stock facilities.

13. The Deputies noted with satisfaction that the Ministers of Finance of the Group of 77 will meet in Belgrade before the Annual Meeting of the IMF/IBRD, in order to discuss proposals for an effective reform of the international monetary system. In this context, it was decided that the Group of 24 would undertake the preparatory work necessary to formulate the developing countries' position regarding the above-mentioned reform.

INTERGOVERNMENTAL GROUP OF TWENTY-FOUR
ON INTERNATIONAL MONETARY AFFAIRS

TWENTY-SEVENTH MEETING OF DEPUTIES

March 4 and 5, 1979

LIST OF PARTICIPANTS

LATIN AMERICA

ARGENTINA

Ricardo Arriazu	Deputy
J. Iarezza	Advisor
Dante Simone	Advisor

BRAZIL

Luis Barbosa	Deputy
Carlos Alberto Amorim Jr.	Advisor
Eimar Avillez	Advisor
Paulo Cesar Lage Barbosa	Advisor
José Carlos Oliviera	Advisor

COLOMBIA

Hernan Mejia J.	Deputy

GUATEMALA

Carlos H. Alpirez P.	Deputy
Mario Mejia	Advisor
Julio Noriega	Advisor

MEXICO

Alfredo Phillips O., Chairman	Deputy
Miguel Acevedo	Advisor
Salvador Arriolo	Advisor
Pedro Galicia	Advisor
G. Ramirez-Hernandez	Advisor
Luis M. Orci	Advisor
Ricardo Penaloza	Advisor
Bernardo Sepulveda	Advisor
Francisco Suarez	Advisor

PERU

Drago Kisic	Deputy

TRINIDAD AND TOBAGO

Victor E. Bruce	Deputy

VENEZUELA

Francisco Garcia Palacios	Deputy
Roosevelt Velasquez	Advisor

ASIA

INDIA

S. D. Deshmukh	Deputy
M. Narasimham	Deputy
K. L. Deshpande	Advisor
V. B. Kadam	Advisor
Y. V. Reddy	Advisor
V. K. S. Nair	Advisor

IRAN

Ahmad Karimi	Deputy

LEBANON

Farid Abboud	Deputy

PAKISTAN

Ziauddin Ahmad, Retiring Chairman	Deputy

PHILIPPINES

Benito Legarda	Deputy
Ernest Leung	Advisor

SRI LANKA

W. M. Tilakaratna	Deputy
Warnasena Rasaputram	Deputy

SYRIA

YUGOSLAVIA

Ksente Bogoev	Deputy
Miodrag Stojiljkovic	Deputy
Milica Borlja-Gluvacevic	Advisor
Toma Gudac	Advisor
Gordana Hofmann	Advisor
Gavra Popovic	Advisor
Milanovic Rodosav	Advisor

AFRICA

ALGERIA

S. Mostefai	Deputy
Rachid Bouraoui	Deputyr
Mohamed Terbeche	Advisor

EGYPT

F. K. Hussein	Deputy
Nadira Abd El Azim	Advisor
M. Samir Korayem	Advisor
Amr El Menchawi	Advisor

ETHIOPIA

Kebede Shoandagn	Deputy

GABON

Jean-Paul Leyimangoye	Deputy
E. Ondo Methogo	Advisor

GHANA

Manasseh Amoako-Atta	Deputy
Patrick Agboh	Advisor

IVORY COAST

Lamine Diabate	Deputy

NIGERIA

E. A. Ajayi, Vice-Chairman	Deputy
B. I. Osomukuyo	Advisor
M. A. Uduebo	Advisor

ZAIRE

Buhendwa bwa Mushaba — Deputy

OBSERVERS

BENIN

Guy Pognon

BOLIVIA

Miguel Zalles

COSTA RICA

Oscar Alvarez
Roberto Picardo

ECUADOR

Adrian Rivadeneira
Marcela de Cartegena

JORDAN

Husayn S. Kasim

LESOTHO

T. Thahane

MALAYSIA

Tan Sri Ismail bin Mohamed Ali
Datuk Sallehuddin bin Mohamed

IRAQ

Tariq Al-Haimus

MOROCCO

Mohammed Aissaoui
M'hamed Tazi
Ahmed Bennani

PARAGUAY

Oscar Efraín Estigarribia

SENEGAL

A. Ouattara

THAILAND

Chavalit Thanachanam

UGANDA

M. V. Gadgil
T. M. Mutagamba

URUGUAY

Carlos Costi

SPECIAL GUESTS

DEVELOPMENT COMMITTEE

M. M. Ahmad, Deputy Executive Secretary

INTERNATIONAL MONETARY FUND

Aldo Guetta
Z. Hodjera
G. Nicoletopoulos
Donald Palmer
A. S. Shaalan
E. Sturc

OPEC

Cyrus Sassanpour

UN

Sidney Dell

UNCTAD

G. D. Arsenis
Roger Lawrence
Carapas Zenon

UNECLA

David Pollock

WORLD BANK

Peter R. Jacob
A. Karoasmanoglu
E. Stern

EXECUTIVE DIRECTORS IN THE IMF AND THEIR STAFFS

M. Yeganeh
M. Shadman

M. Finaish
K. Al-Eyd
M. Wasfy

J. C. Gutiérrez

E. Fine

A. Kafka
T. Ainsworth Harewood
German Suarez
J. R. Novaes de Almeida

B. Kharmawan
S. Siwatibau
T. K. Ahmad

F. G. Mogae
R. D. Kibuka
A. Mullei
C. Chipeta

J. Muns
A. Buira
A. Morales

S. Nana-Sinkam

A. V. Romualdez
K. W. Kim

EXECUTIVE DIRECTORS IN THE WORLD BANK AND THEIR STAFFS

M. Belkhodja
A. Muttardy

Said El-Naggar
Ali A. Soliman
Basil Al-Bustany

Ernesto Franco-Holguin
Guillermo A. Constain

A. Madinga
Y. S. M. Abdulai
Janis Nyumelo

E. Mayobre
Miguel Fernandel
Carlos Leroux

M. Syeduz-Zaman

A. M. Kalfan

A. Sola
D. Blanco
K. Coates

Thein Swe

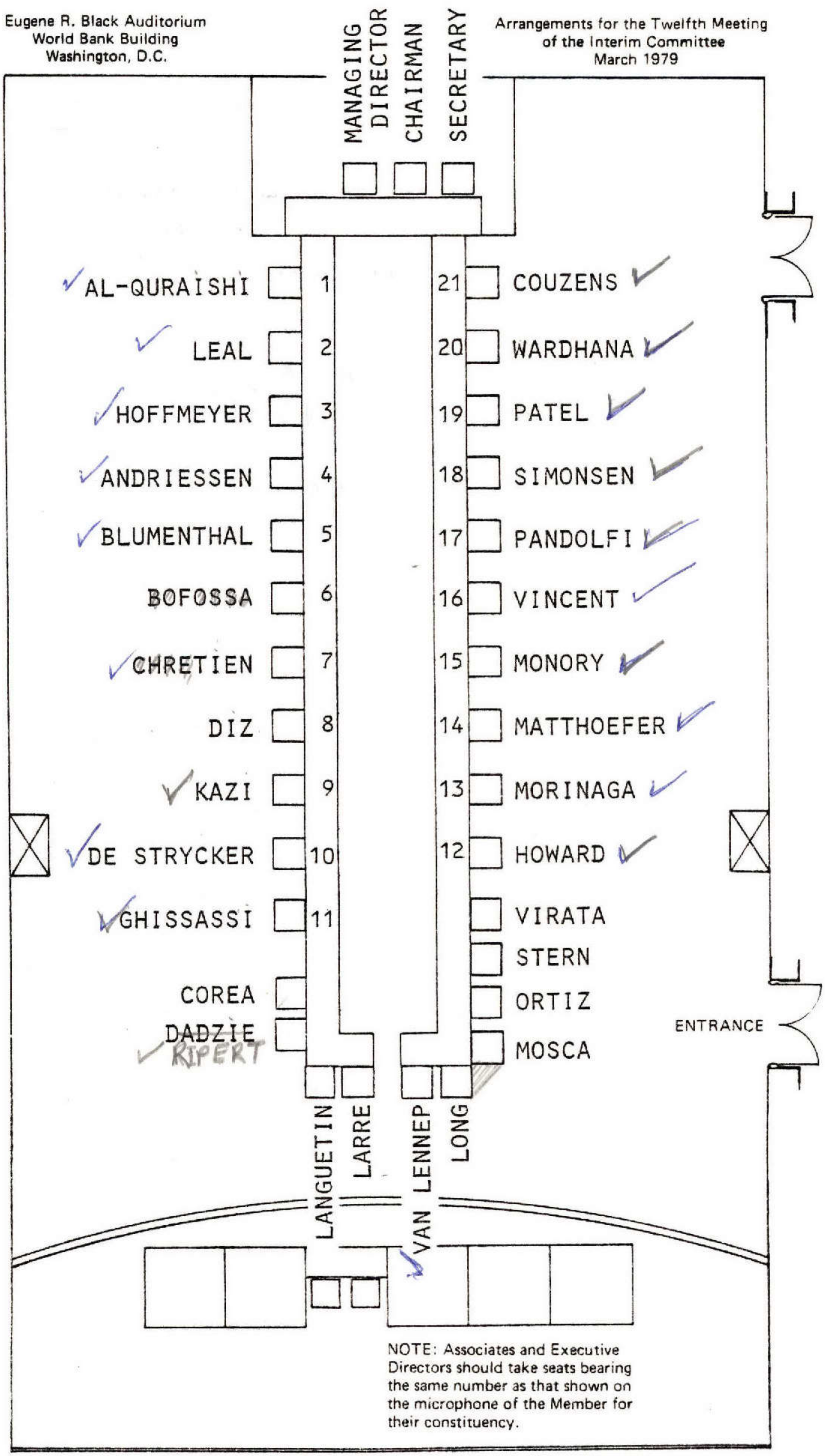
SECRETARIAT

M. Blackwell
K. Friedman
J. A. Kay
B. J. Owen

3:30

Eugene R. Black Auditorium
World Bank Building
Washington, D.C.

Arrangements for the Twelfth Meeting
of the Interim Committee
March 1979



UK - Parliamentary - Undersecretary
Stockholm - Undersec...
in foreign ministry
Head of Econ Assistance.
Holland - Foreign Min
through ED.
Germany - Mollwroth's replacement.

ECLA - offered but didn't go
Iglesias.

African Commission.

INTERNATIONAL MONETARY FUND

INFORMATION FOR PARTICIPANTS

TWELFTH MEETING OF THE INTERIM COMMITTEE
OF THE BOARD OF GOVERNORS ON
THE INTERNATIONAL MONETARY SYSTEM

MARCH 7, 1979

WASHINGTON, D.C.

Site

The Twelfth Meeting of the Interim Committee of the Board of Governors of the International Monetary Fund on the International Monetary System will be convened in the Eugene R. Black Auditorium in the World Bank building, Eleventh Floor, 1818 H Street, N.W., Washington, D.C. at 10:00 a.m. on Wednesday, March 7, 1979, for a period of one or one and one half days. The Meeting will be preceded by ancillary meetings, beginning on Sunday afternoon, March 4, 1979.

A diagram of the meeting room indicating the seating arrangements will be available at the opening session.

Communications Regarding Attendance

Cable communications with respect to attendance at the Interim Committee meeting should be addressed to THE SECRETARY, INTERFUND, WASHINGTONDC (U.S.A.).

Travel to and from Washington

It is expected that participants will make their own travel arrangements to and from the meeting. If assistance is required, the Chief of the Fund's Transportation Section, Mr. Joseph Harrington, should be so informed as early as practicable (cable address: INTERFUND, WASHINGTONDC). While participants are in Washington the Fund's Transportation Office, Fund Room 1-120, will assist with return reservations, visas, and other requirements.

Participants are advised to obtain necessary entry visas to the United States before departure from their home countries in order to avoid unnecessary delays en route.

Health Requirements

Each person coming to the United States from or through areas infected with cholera, smallpox, or yellow fever is required by the United States authorities to have a valid certificate of vaccination against these diseases.

Hotel Accommodation

Hotel accommodation to meet expected requirements has been reserved by the Secretariat at various hotels close to the meeting site. The meeting will be convened during a high occupancy period in Washington and the hotels have advised that reservations must be received at the latest by Saturday, February 17, 1979. Participants are urged to make their requirements known as soon as possible to Mr. James Humphries, cable address: INTERFUND, WASHINGTONDC. Available rooms will be assigned on a first-come, first-served basis. Occupancy of hotel rooms can be guaranteed only for the exact dates reserved. Participants will be responsible for all charges including charges for changes in the days reserved.

Registration

All persons participating in the meeting should register as soon as practicable to receive identification badges and documentation. The Registration Desk will be located in the Second Floor Interior Court of the International Monetary Fund, 700 19th Street, N.W., beginning on Sunday, March 4 from 2:00 p.m.-6:00 p.m. On Monday, March 5 and Tuesday, March 6, it will be open at the same location from 8:30 a.m. until 6:00 p.m. On Wednesday, March 7, it will open outside the Eugene R. Black Auditorium on the 11th floor of 1818 H Street at 8:30 a.m. Identification badges should be worn at all times; Security Officers may require that they be shown.

Washington addresses of participants may be obtained at the Registration Desk. Participants are requested to supply the Registration Desk with their Washington addresses for this purpose.

Simultaneous Interpretation

Statements made in English, French, or Spanish at sessions of the Committee will be simultaneously interpreted into the other two languages. It will facilitate the conduct of the meeting if a participant who has written out a statement will make the text available to the interpreters in advance.

Documentation and Translation

Working documents will be made available in English, French, and Spanish at the Documents Desk, located near the Registration Desk. Statements made by participants during the meeting will not appear as documents, but will be reflected in the minutes of the meeting. Policy memoranda submitted by participants for circulation but which they do not intend to read into the record will be issued as documents and will be translated, to the extent that time and staffing permit.

Telephone Service

There will be a limited number of telephones available at the Eugene R. Black Auditorium from which calls may be made. It is hoped, however, that participants will find it convenient to make most of their calls through Executive Directors' offices before and after the meetings and during the lunch break.

Other Meeting Rooms

In addition to the Eugene R. Black Auditorium, a limited number of conference rooms will be available at the Fund headquarters for meetings of subgroups related to the meetings. Reservations may be made through the Registration Desk.

Medical Facilities

The Joint Bank/Fund Health Room is located in the Bank building, Room A-123, 1818 H Street, N.W., where a doctor and nurses will be on duty from 9:00 a.m. to 5:30 p.m., Monday through Friday. If medical attention is required outside the above mentioned hours, the Bank/Fund medical advisors, Drs. Talpers, Sadin, and Wilkinson, may be reached in an emergency by telephoning 872-1973. In addition, most hotels have good medical advisors on call who may be reached through the individual hotel's operator. Participants who have medicines requiring refrigeration may use the facilities of the Health Room for this purpose.

Luncheon Facilities

Lunch will be furnished to the participants on the meeting days in the Executive Dining Rooms of the Fund.

Social Function

An informal reception, given by the Chairman of the Interim Committee, is planned for the evening of Tuesday, March 6, 1979.

Washington, D.C.
January 26, 1979

March 6, 1979

INTERIM COMMITTEE

ANTICIPATED ATTENDANCE - March 7, 1979

Chairman: Denis Healey

Managing Director: J. de Larosière

1. Member (or Alternate)

Abdul Aziz Al-Quraishi
Governor of the Saudi Arabian Monetary Agency
(Alternate for Mohammed Abal-Khail, Minister of Finance and National Economy of Saudi Arabia)

Associates

Abdul Aziz Al Dukheil
Deputy Minister for Financial Affairs, Ministry of Finance and National Economy

Abdullah Alkuwaiz
Saudi Arabia's Representative to Board of Arab Monetary Fund

Hossein G. Askari
Assistant to Executive Director (Fund)

Mohamed Omer Chapra
Advisor, Saudi Arabian Monetary Agency

Yusuf A. Nimatallah
Alternate Executive Director (Fund)

Executive Director

Mahsoun B. Jalal

Member (or Alternate)

2. José Luis Leal
Secretary of State for Coordination and Programming, Ministry of Economy, (Alternate for Fernando Abril Martorell, Vicepresident of the Government and Minister of Economy of Spain)

Alfredo Phillips O.
Deputy Director, Banco de México, S.A.

Roberto Picado
Director, Economic Research Department, Central Bank of Costa Rica

Luis Angel Rojo
Director General of Studies, Bank of Spain

Gustavo Romero Kolbeck
Director General, Banco de México, S.A.

Bernardo Supulveda
Director General of International Affairs, Secretary of Finance and Public Credit (Mexico)

Carlos Rafael Silva
President, Central Bank of Venezuela

Francisco Suárez
Manager, International Economic Affairs, Banco de México, S.A.

Juan Toribio
Director General of Financial Policy, Ministry of Economy (Spain)

Roosevelt Velázquez
Advisor to the President, Central Bank of Venezuela

Executive Director

Joaquín Muns

Associates (Seven of the following)

Augustiñ Alcocer
General Secretary, Bank of Spain

Carlos Alpírez
Manager, Bank of Guatemala

Oscar Alvarez
Executive Secretary, Central American Monetary Council (Costa Rica)

José Ramón Alvarez Rendueles
Governor, Bank of Spain

Guillermo Bueso
President, Central Bank of Honduras

Ariel Buira
Alternate Executive Director (Fund)

Francisco García Palacios
Advisor to the President, Central Bank of Venezuela

Plinio A. Grazioso
President, Bank of Guatemala

David Ibarra-Muñoz
Secretary of Finance and Public Credit (Mexico)

Oscar Levin
Private Secretary to the Secretary of Finance and Public Credit (Mexico)

Eduardo Mayobre
Executive Director (IBRD)

Mario Mejía
Director, Exchange Department and International Financial Institutions Department, Bank of Guatemala

Alain L. Morales
Assistant to Executive Director (Fund)

Julio Noriega
Chief, International Financial Organization Section, Bank of Guatemala

Member (or Alternate)

3. Erik Hoffmeyer
   Governor of the
   Danmarks Nationalbank
   (Alternate for Anders Andersen,
   Minister for Economic Affairs
   and Minister for Inland Revenue
   of Denmark)

Associates (Seven of the following)

Gísli Blöndal
Alternate Executive Director (Fund)

Frede Hollensen
Director,
Danmarks Nationalbank

Kaarlo Jännäri
Head of Office,
Bank of Finland

Carl-Göran Lemne
Head of the International Department,
Sveriges Riksbank

Bertil Lund
Director,
Ministry for Economic Affairs (Sweden)

Jóhannes Nordal
Governor and Chairman,
Board of Governors,
Central Bank of Iceland

Carl-Henrik Nordlander
Governor,
Sveriges Riksbank

Hermod Skånland
Deputy Governor,
Norges Bank

Niels Ussing
Deputy Director,
Ministry for Economic Affairs (Denmark)

Pentti Uusivirta
Member of the Board of Management,
Bank of Finland

Executive Director

Matti Vanhala

Member (or Alternate)

4. **F. H. J. J. Andriessen**
   Minister of Finance
   of The Netherlands

Associates (Seven of the following)

H. G. Akhniotis
Manager,
Economic Research Department,
Central Bank of Cyprus

Ksente Bogoev
Governor,
National Bank of Yugoslavia

D. H. Boot
Deputy Director,
De Nederlandsche Bank N.V.

Tom de Vries
Alternate Executive Director (Fund)

Nicolae Eremia
Director,
Ministry of Finance (Romania)

B. F. Baron van Ittersum
Director,
Foreign Financial Relations Department,
Ministry of Finance (Netherlands)

Peter Kostic
Minister of Finance (Yugoslavia)

Gavra Popovic
Assistant Federal Secretary
for Finance (Yugoslavia)

Eytan Raff
Economic Counselor,
Embassy of Israel
Washington, D.C.

Ilie Simon
Ministry of Foreign Affairs (Romania)

A. H. E. M. Wellink
Treasurer-General,
Ministry of Finance (Netherlands)

J. Zijlstra
President,
De Nederlandsche Bank N.V.

Executive Director

H. O. Ruding

Member (or Alternate)

5. W. Michael Blumenthal
Secretary of the Treasury
of the United States

George H. Willis
Deputy to the Assistant Secretary
for International Monetary Affairs,
Treasury Department

Executive Director

Sam Y. Cross

Associates (Seven of the following)

C. Fred Bergsten
Assistant Secretary of the
Treasury for International Affairs

Richard N. Cooper
Under Secretary of State
for Economic Affairs

Robert C. Fauver
Senior Economist,
Office of Assistant Secretary
for International Affairs,
Treasury Department

Nancy P. Jacklin
Attorney-Advisor,
Office of the General Counsel,
Treasury Department

Thomas Leddy
Special Assistant to the
Under Secretary,
Treasury Department

G. William Miller
Chairman,
Board of Governors,
Federal Reserve System

Barry S. Newman
Senior Economist,
Office of Assistant Secretary
for International Affairs,
Treasury Department

Anthony M. Solomon
Under Secretary of the
Treasury for Monetary Affairs

Edwin M. Truman
Director,
Division of International Finance,
Federal Reserve System

Henry C. Wallich
Member,
Board of Governors,
Federal Reserve System

F. Lisle Widman
Deputy Assistant Secretary for
International Monetary Affairs,
Treasury Department

Member (or Alternate)

6. Bofossa W'amb'ea Nkoso
Governor of the
Banque du Zaïre

M. R. Tacouri
Chief Manager,
Bank of Mauritius

Tete Tevi-Benissan
Minister of Finance
and Economy
(Togo)

Executive Director

Samuel Nana-Sinkam

Associates (Seven of the following)

Buhendwa bwa Mushaba
Director of Research,
Banque du Zaïre

Lamine Diabate
National Director,
Banque Centrale des Etats
de l'Afrique de l'Ouest, Abidjan
(Ivory Coast)

Charles Kabore
Vice-Governor,
Banque Centrale des Etats
de l'Afrique de l'Ouest, Dakar
(Senegal)

Jean-Paul Leyimangoye
National Director,
Banque des Etats de l'Afrique

Mamadou Abdoulaye Mbacke
Director General of the Treasury,
Ministry of Finance and
Economic Affairs (Senegal)

Ady Khaly Niang
National Director,
Banque Centrale des Etats
de l'Afrique de l'Ouest, Dakar
(Senegal)

Emmanuel Ondo Methogo
Director General of Economy,
Ministry of Economy and
Finance (Gabon)

Alassane Ouattara
Director of Research,
Banque Centrale des Etats
de l'Afrique de l'Ouest, Dakar
(Senegal)

Guy Pognon
National Director,
Banque Centrale des Etats
de l'Afrique l'Ouest, Cotonou
(Benin)

Jean-Edouard Sathoud
Vice-Governor,
Banque des Etats de l'Afrique
Centrale, Younde
(Congo)

Member (or Alternate)

7. Jean Chrêtien
Minister of Finance
of Canada

Tómas F. O'Cafaigh
Secretary,
Department of Finance (Ireland)

George Reynolds
Manager,
International Relations Department,
Central Bank of Ireland

Lauriston F. Wilson, Jr.
Permanent Secretary (Finance),
Ministry of Finance, Trade,
and Industry (Grenada)

Executive Director

Bernard J. Drabble

Associates (Seven of the following)

Courtney N. Blackman
Governor,
Central Bank of Barbados

Gerald K. Bouey
Governor,
Bank of Canada

George Colley
Deputy Prime Minister and
Minister for Finance (Ireland)

Timothy B. Donaldson
Governor,
The Central Bank of the Bahamas

Richard Fletcher
Minister of State, Planning and
Projects,
Ministry of Finance and Planning
(Jamaica)

Arthur D. Hanna
Deputy Prime Minister and
Minister of Finance (Bahamas)

William C. Hood
Deputy Minister,
Department of Finance (Canada)

George F. Hosten
Minister of Finance, Trade
and Industry (Grenada)

Robert K. Joyce
Assistant Deputy Minister,
Department of Finance (Canada)

Alain Jubinville
Deputy Governor,
Bank of Canada

Michael G. Kelly
Director,
International Finance Division,
Department of Finance (Canada)

Donal Lynch
Alternate Executive Director (Fund)

Member (or Alternate)

8. Adolfo Cesar Diz
President of the Banco
de la República Argentina

Miguel Zalles
Economic Counselor,
Embassy of Bolivia
Washington, D.C.

Executive Director

Francisco Garcés

Associates (Seven of the following)

Ricardo H. Arriazu
Adviser,
Office of the President,
Banco Central de la República Argentina

Alvaro Bardón
President,
Banco Central de Chile

Mrs. Marcela de Cartagena
Director,
Department of International
Financial Organizations,
Banco Central de Ecuador

Carlos Corti
Technical Assistant,
Inter-American Development Bank
(Uruguay)

Hernán Felipe Errazuriz
Legal Counselor,
Banco Central de Chile

Oscar Efraín Estigarribia
Superintendente de Bancos,
Banco Central del Paraguay

Julio C. Gutiérrez
Alternate Executive Director (Fund)

Juan Carlos Mendez
Director of Budget,
Ministry of Finance (Chile)

Miguel Pereira
Financial Representative in Europe,
Ministry of Finance and Economy
(Uruguay)

Adrian Rivadeneira
Monetary Research Department,
Banco Central de Ecuador

Dante Simone
Financial Representative of
Argentina for Europe (Geneva)

Sergio Undurraga
President,
Corporación de Fomento de la
Produccion (CORFO), New York
(Chile)

Member (or Alternate)

9. A. G. N. Kazi
Governor,
State Bank of Pakistan
(Alternate for Fawzi El-Kaissi,
Minister of Finance of Iraq)

Associates

Farid Abboud
Second Secretary,
Embassy of Lebanon
Washington, D.C.

Ziauddin Ahmad
Deputy Governor,
State Bank of Pakistan

Kadhim A. Al-Eyd
Alternate Executive Director (Fund)

Tarik Al-Haimus
Adviser,
Central Bank of Iraq

M. Ashraf Janjua
Assistant to Executive Director (Fund)

Husayn S. Kasim
Deputy Governor,
Central Bank of Jordan

Executive Director

Mohamed Finaish

Member (or Alternate)	Associates (Seven of the following)
10. Cecil de Strycker Governor of the National Bank of Belgium (Alternate for Gaston Geens, Minister of Finance of Belgium)	Ismail Hakki Aydinoglu Governor, Central Bank of Turkey
	Tunç Bilget Deputy Director General of the Treasury (Turkey)
	Ömer Esener Assistant to Executive Director (IBRD)
	Vural Güçsavaş Undersecretary of Finance, Ministry of Finance (Turkey)
	Jean Guill Assistant to Executive Director (Fund)
	Georges Janson Director, Banque Nationale de Belgique
	Emiel Kestens Director General of the Treasury, Ministry of Finance (Belgium)
	Stephan Koren President and Chairman of the Board, Austrian National Bank
	Ch. Maskens Attaché, Cabinet of the Minister of Finance (Belgium)
Erwin Schmidbauer Economic Adviser, Austrian National Bank	Alptekin Müderrisoglu Financial Counselor, Embassy of Turkey, Washington, D.C.
Heinrich G. Schneider Alternate Executive Director (Fund)	Walter Neudoerfer Director General, Federal Ministry of Finance (Austria)
Jan Vanormelingen Adviser (Treasury), Ministry of Finance (Belgium)	Jean-Jacques Rey Counselor, Banque Nationale de Belgique
Executive Director Jacques de Groote	Philipp Rieger Manager, Austrian National Bank

Member (or Alternate)	Associates (Seven of the following)
11. Abdellatif Ghissassi Minister of Finance of Morocco	Patrick K. Agboh Principal Economics Officer, Ministry of Finance (Ghana)
	Mohamed Aissaoui Inspector of Finance, Treasury Division, Ministry of Finance (Morocco)
	E. Akuete Minister, Embassy of Ghana Washington, D.C.
	Moncef Belkhodja Executive Director (IBRD)
	Ahmed Bennani Vice-Governor, Banque du Maroc
	Rachid Bouraoui Director, Banque Centrale d'Algérie
	Mohammed Hakim Governor, Da Afghanistan Bank
	Omar Kabbaj Director, Office of the Minister of Finance, Ministry of Finance (Morocco)
	Ahmad Karimi Assistant to Executive Director (Fund)
	Seghir Mostefai Governor, Banque Centrale d'Algérie
Mohammed Yeganeh Alternate Executive Director (Fund)	Mohammad Shadman Assistant to Executive Director (Fund)
	M'Hamed Tazi Director of the Treasury, Banque du Maroc
Executive Director Jahangir Amuzegar	Mohammed Terbeche Banque Centrale d'Algérie

Member (or Alternate)	Associates (Seven of the following)
12. John Howard Treasurer, Australia	Eun Shik Chuh Assistant Governor, Bank of Korea
	J. H. Cosgrove Assistant Secretary, Australian Treasury
	John A. Fraser Assistant to Executive Director (Fund)
	John R. Hewson Economic Consultant to the Treasurer, Australian Treasury
	G. R. Hodgkinson Senior Private Secretary to the Treasurer (Australia)
	Kyung Woo Kim Assistant to Executive Director (Fund)
	Kyu Sung Lee Director General, Bureau of International Finance, Ministry of Finance (Korea)
	Benito Legarda, Jr. Deputy Governor, Central Bank of the Philippines
	Ernest Leung Special Assistant to the Minister of Finance (Philippines)
	Antonio V. Romualdez Assistant to Executive Director (Fund)
	D. N. Sanders Deputy Governor, Reserve Bank of Australia
	Hoon Shim Chief, International Cooperation Division, Bank of Korea
	Byong Hyun Shin Governor, Bank of Korea
Cesar E. A. Virata Minister of Finance (Philippines)	D. A. Smyth Economic Counselor, Embassy of New Zealand Washington, D.C.
Executive Director R. J. Whitelaw	J. O. Stone Secretary to the Treasury (Australia)

Member (or Alternate)

13. Teiichiro Morinaga
Governor of the
Bank of Japan
(Alternate for Ippei Kaneko,
Minister of Finance of Japan)

Kozo Yamamoto
Deputy Director,
International Organizations Division,
International Finance Bureau,
Ministry of Finance

Executive Director

Masanao Matsunaga

Associates (Seven of the following)

Toyoo Gyohten
Assistant Vice Minister of
Finance for International Affairs,
Ministry of Finance

Masaru Hayami
Executive Director,
Bank of Japan

Koichi Kakimizu
Deputy Director-General,
International Finance Bureau,
Ministry of Finance

Toshihiro Kiribuchi
Director,
International Organizations Division,
International Finance Bureau,
Ministry of Finance

Motoo Kusakabe
Assistant to Executive Director (Fund)

Rei Masunaga
Alternate Executive Director (Fund)

Shijuro Ogata
Adviser to the Governor,
Bank of Japan

Tomomitsu Ohba
Deputy Director-General,
International Finance Bureau,
Ministry of Finance

Toshio Ohsu
Special Assistant to the
Vice Minister of Finance for
International Affairs,
Ministry of Finance

Takehior Sagami
Vice Minister of Finance
for International Affairs,
Ministry of Finance

Kumiharu Shigehara
Associate Adviser,
Foreign Department and Coordination
and Planning Department,
Bank of Japan

Member (or Alternate)

14. Hans Matthoefer
Minister of Finance
of Germany

Associates (Seven of the following)

Otmar Emminger
Governor,
Deutsche Bundesbank

Werner Flandorffer
Division Chief,
Ministry of Economic Affairs

Manfred Lahnstein
Under Secretary,
Ministry of Finance

Gerhard Laske
Alternate Executive Director (Fund)

Rolf Moehler
Division Chief,
Ministry of Foreign Affairs

Karl Otto Poehl
Deputy Governor,
Deutsche Bundesbank

Wolfgang Rieke
Department Head,
Deutsche Bundesbank

Gerd Saupe
Senior Economist,
Ministry of Finance

Mrs. Ursula Schaefer
Assistant Division Chief,
Ministry for Economic Cooperation

Alwin Steinke
Division Chief,
Ministry of Finance

Hans-Herbert Weber
Assistant Secretary,
Ministry of Finance

Executive Director

Eckard Pieske

Member (or Alternate)

15. René Monory
Minister of Economy
of France

Associates

Henri Baquiast
Deputy Director of Multilateral
Affairs of the Treasury,
Ministry of Economy

Didier Floquet
Assistant Director of International
Affairs of the Treasury,
Ministry of Economy

Jean-Yves Haberer
Director of the Treasury,
Ministry of Economy

Jean-Christian Metz
Deputy Chief of Multilateral
Affairs of the Treasury,
Ministry of Economy

René-Paul Rigaud
Technical Adviser to the
Minister of Economy

Denis Samuel-Lajeunesse
Alternate Executive Director (Fund)

Marcel Théron
Deputy Governor,
Banque de France

Executive Director

Paul Mentré de Loye

Member (or Alternate)

16. O. O. Vincent
Governor of the
Central Bank of Nigeria
(Alternate for J. J. Oluleye,
Federal Commissioner for
Finance of Nigeria)

Associates (Seven of the following)

Ahmed A. Abdallah
Deputy Governor,
Central Bank of Kenya

E. A. Ajayi
Principal Economist,
Research Department,
Bank of Nigeria

Chinyamata Chipeta
Assistant to Executive Director (Fund)

M. V. Gadgil
Director of Development Finance
Department,
Bank of Uganda

Charles A. Greene
Governor,
National Bank of Liberia

Robin D. Kibuka
Assistant to Executive Director (Fund)

Semyano Kiingi
Alternate Executive Director (Fund)

Andrew K. Mullei
Advisor to Executive Director (Fund)

T. M. Mutagamba
Chief Accountant,
Bank of Uganda

B. I. Omomukuyo
Adviser,
Central Bank of Nigeria

T. Thahane
Ambassador of Lesotho
Washington, D.C.

M. A. Uduebo
Deputy Director of Research,
Central Bank of Nigeria

Executive Director

Festus G. Mogae

Member (or Alternate)

17. Filippo Maria Pandolfi
Minister of the Treasury of Italy

Executive Director

Lamberto Dini

Associates (Seven of the following)

Vittorio Barattieri
Chief of Cabinet and Director General,
Ministry of Foreign Trade (Italy)

Carlo Ciampi
Director General,
Banca d'Italia

Costa P. Caranicas
Economic Minister,
Embassy of Greece
Washington, D.C.

Roberto Cirocco
Deputy Chief of Cabinet,
Ministry of the Treasury (Italy)

Giovanni Magnifico
Economic Adviser,
Banca d'Italia

Luigi Marini
Representative in the United States,
Italian Exchange Office

Stefano Micossi
Assistant to Executive Director (Fund)

Silvano Palumbo
Counselor to the Minister,
Ministry of the Treasury (Italy)

Giuseppe Pasqua
Senior Director,
Ministry of the Treasury (Italy)

Felice Ruggiero
Director General,
Ministry of the Treasury (Italy)

Fabrizio Saccomanni
Division Chief,
Research Department,
Banco d'Italia

Savino Spinosi
Senior Director,
Ministry of the Treasury (Italy)

Augusto Zodda
Director of Division,
Ministry of the Treasury (Italy)

Member (or Alternate)

18. Mario Henrique Simonsen
Minister of Finance
of Brazil

Manuel Moreyra Lloredo
President,
Banco Central de Reserve del Peru

Jose Roberto Novaes de Almeida
Assistant to Executive Director
(Fund)

Jose Carlos Oliveira
Advisor to the Minister
of Finance (Brazil)

Paulo H. Pereira Lira
President,
Banco Central do Brasil

Ary dos Santos Pinto
Chief,
International Adviser,
Ministry of Finance (Brazil)

Rafael Gama Quijano
General Manager,
Banco de la República (Colombia)

Jose Madeira Serrano
Director of the External Area
(Designate),
Banco Central do Brasil

Germán Suárez
Assistant to Executive Director
(Fund)

Executive Director

Alexandre Kafka

Associates (Seven of the following)

Edward M. Agostini
Alternate Executive Director (IBRD)

Antonio André
President and General Manager,
Banque Nationale de la
Rēpublique d'Haiti

Pedro Paulo P. Assumpçao
Chief,
Division of Financial Policy,
Ministry of Foreign Affairs (Brazil)

Eimar Avillez
Assistant to Executive Director (Fund)

Luiz Barbosa
Adviser to the Director of the
External Area,
Banco Central do Brasil

Virgilio Barco-Vargas
Ambassador of Colombia,
Washington, D.C.

Eligio Bisone
Assistant,
Banco Central de la República
Dominicana

Ferñao Bracher
Director of the External Area,
Banco Central do Brasil

Victor E. Bruce
Governor,
Central Bank of Trinidad and Tobago

Gustavo Gonzalez
Minister of Planning and
Economic Policy (Panama)

T. Ainsworth Harewood
Alternate Executive Director (Fund)

Roel F. Karamat
Ambassador Extraordinary and
Penipotentiary of Suriname
Washington, D.C.

Drago Kisic
Adviser to the President,
Banco Central de Reserva del Peru

Hernán Mejia
Director of International Economics,
Banco de la República (Colombia)

Member (or Alternate)

19. I. G. Patel
Governor of the
Reserve Bank of India
(Alternate for Charan Singh,
Deputy Prime Minister and
Minister of Finance of India)

Associates (Seven of the following)

V. B. Kadam
Adviser and Officer in Charge,
Economic Department,
Reserve Bank of India

Ronnie de Mel
Minister of Finance and Planning
(Sri Lanka)

R. L. Misra
Economic Minister,
Embassy of India,
Washington, D.C.

V. K. S. Nair
Assistant to Executive Director (Fund)

M. Narasimham
Executive Director (IBRD)

Abidur Rahman
Economic Minister,
Embassy of Bangladesh
Washington, D.C.

Warnasena Rasaputram
Alternate Executive Director (Fund)

Y. V. Reddy
Assistant to Executive Director (IBRD)

M. Syeduz-Zaman
Alternate Executive Director (IBRD)

W. M. Tilakaratna
Secretary,
Ministry of Finance and Planning
(Sri Lanka)

Executive Director

S. D. Deshmukh

Member (or Alternate)	Associates (Seven of the following)
20. Ali Wardhana Minister of Finance of Indonesia	Miss T. Khatijah Ahmad Assistant to Executive Director (Fund)
	Cu Dinh Ba Counselor, Vietnamese Permanent Mission to the United Nations (New York)
	Tan Sri Ismail bin Mohamed Ali Governor, Central Bank of Malaysia
	I. R. Panday Chief Economic Advisor, Nepal Rastra Bank
	Mrs. Suvimol Ramakomud Economic and Financial Counselor, Embassy of Thailand Washington, D.C.
	Datuk Sallehuddin bin Mohamed Deputy Secretary-General, The Federal Treasury (Malaysia)
	Savenaca Siwatibau Alternate Executive Director (Fund)
	Arifin Siregar Executive Director, Bank Indonesia
	Mrs. Tan Geok Lin Manager, Economic Department, The Monetary Authority of Singapore
	Chavalit Thanachanan Assistant Governor, Bank of Thailand
	Executive Director
	Byanti Kharmawan

Member (or Alternate)

21. K. E. Couzens
Second Permanent Secretary of H. M. Treasury (Alternate for Sir Douglas Wass, Permanent Secretary of H. M. Treasury of the United Kingdom)

Associates (Seven of the following)

C. J. Bailey
Assistant to Executive Director (Fund)

A. M. W. Battishill
Principal Private Secretary to the Chancellor of the Exchequer

J. Beverly
Private Secretary to the Governor, Bank of England

P. G. Davies
Press Secretary, H. M. Treasury

Mrs. M. E. Hedley-Miller
Under Secretary, H. M. Treasury

Pendarell Kent
Alternate Executive Director (Fund)

J. A. Kirbyshire
Chief Adviser, Bank of England

C. W. McMahon
Executive Director, Bank of England

Barry Hope Potter
Assistant to Executive Director (Fund)

Gordon Richardson
Governor, Bank of England

Executive Director

William S. Ryrie

Gamani Corea, Secretary General, UNCTAD
G. D. Arsenis, Director of Money, Finance and Development Division, UNCTAD

Kenneth S. Dadzie, Director-General for Development and International Economic Co-operation, UN
Jean Ripert, Under-Secretary-General for International, Economic and Social Affairs, UN

Pierre Languetin, General Manager, National Bank of Switzerland
P. Hadorn, Economist, National Bank of Switzerland

René Larre, General Manager, BIS
Alexandre Lamfalussy, Economic Adviser and Head of the Monetary and Economic Department, BIS

Emile van Lennep, Secretary-General, OECD
Stephen N. Marris, Economic Adviser to the Secretary-General, OECD

Olivier Long, Director General, GATT
Gardner Patterson, Deputy Director General, Trade Policy, GATT

Ugo Mosca, Director General for Economic and Financial Affairs, CEC
Frederic Boyer de la Giroday, Director, Monetary Matters, CEC

René G. Ortiz, Secretary General, OPEC
Cyrus Sassanpour, International Money and Finance Analyst, OPEC

Ernest Stern, Vice President, Operational Staff, IBRD
Attila Karaosmanoglu, Director, Development Policy, IBRD

Cesar E. A. Virata, Chairman, Development Committee
Sir Richard King, Executive Secretary, Development Committee

William B. Dale, Deputy Managing Director, IMF
Joseph Gold, the General Counsel, IMF
J. J. Polak, the Economic Counsellor, IMF
Walter O. Habermeier, Treasurer, IMF
A. S. Shaalan, Director, Middle Eastern Department, IMF
Ernest Sturc, Director, Exchange and Trade Relations Department, IMF
L. A. Whittome, Director, European Department, IMF
Charles F. Schwartz, Director of Adjustment Studies, IMF
G. P. Nicoletopoulos, Associate General Counsel, IMF
Aldo Guetta, Director, Office in Europe, IMF
John H. Young, Deputy Director, Research Department, IMF

Leo Van Houtven, Secretary

White

OFFICE MEMORANDUM

TO: Files

DATE: March 5, 1979

FROM: A. Karaosmanoglu, Dir., Dev. Policy AK

SUBJECT: G-24 Deputies Meeting, March 4, 3:00 p.m.

1. Adoption of the Agenda took one hour. El-Naggar objected to the inclusion of the Mexican Proposal under item 2 (Matters on the Agenda of the Interim Committee). Finally, it was agreed (I think!) to have it under the Arusha item.

2. The Mexican delegation proposed to include "Future role of the Development Committee" as item 4. With some Latin support and no objections it was accepted.

3. At the beginning of the discussions, Dell reported on the conclusions of his study. The Chairman invited comments from the IMF and Bank representatives, in addition to the ED's. I told them that Mr. Dell had sent us a draft of the report on which we had commented. I also added that the same problems, as seen from our vantage point, were analyzed and presented in the WDR and that it was too soon to have a different assessment of the situation.

4. Dell's report received very strong support by the country representatives. El-Naggar suggested formation of a committee to draw up recommendations on the basis of the report to be discussed by the G-24. It was also suggested that the Bank and Fund staff be represented on this committee. Final proposal on this will be formulated in the Deputies meeting on March 5.

cc: Mr. Stern
Mr. Jacob

AKaraosmanoglu:mb

Record Removal Notice

The World Bank Group
Archives
& Records Management

File Title	Barcode No.
Development Committee - G-24 Meeting - March 1979 - Volume 01	30021271

Document Date	Document Type
3/1/1979	Memorandum

Correspondents / Participants
To: Members of the Interim Committee
From: The Secretary

Subject / Title
Report of the Executive Board to the Interim Committee on Wider Use of SDRs ICMS/Doc/79/4

Exception(s)
Information Provided by Member Countries or Third Parties in Confidence

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Bertha F. Wilson	September 12, 2023

PRESS RELEASE NO. 79/

FOR IMMEDIATE RELEASE
March , 1979

Press Communiqué of the Interim Committee of the
Board of Governors of the International Monetary Fund

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its twelfth meeting in Washington, D.C. on March 7, 1979, under the chairmanship of Mr. Denis Healey, Chancellor of the Exchequer of the United Kingdom. Mr. J. de Larosière, Managing Director of the International Monetary Fund, participated in the meeting. The Committee welcomed Mr. Abdul Aziz Al-Quraishi, Governor of the Saudi Arabian Monetary Agency, Alternate for Mr. Mohammed Abal-Khail, Minister of Finance and National Economy of Saudi Arabia, on the occasion of the addition of a Saudi Arabian member to the Interim Committee.

The following observers attended during the Commmittee's discussions: Mr. Gamani Corea, Secretary-General, UNCTAD; Mr. Jean Ripert, Under-Secretary-General for International, Economic and Social Affairs, UN; Mr. Pierre Languetin, General Manager, National Bank of Switzerland; Mr. René Larre, General Manager, BIS; Mr. Emile van Lennep, Secretary-General, OECD; Mr. Olivier Long, Director General, GATT; Mr. Ugo Mosca, Director General for Economic and Financial Affairs, CEC; Mr. René G. Ortiz, Secretary General, OPEC; Mr. Ernest Stern, Vice President, Operational Staff, IBRD; and Mr. Cesar E. A. Virata, Chairman, Development Committee.

2. The Committee discussed the world economic outlook and the working of the international adjustment process.

The Committee found that the international economic picture remains unsatisfactory in some important respects, but looked forward to an improved payments situation among the industrial countries in 1979.

The Committee noted that although in some industrial countries growth of output had picked up, in most of them it continued at rates that were inadequate to reduce the prevailing high levels of unemployment and to stimulate stronger investment. Indeed, medium-term prospects for economic growth in the industrial countries were somewhat less favorable than they appeared at the time of the Committee's previous meeting last September, mainly because of the accumulating evidence of the need for a period of economic stabilization in the United States in order to combat inflation. In this environment, the volume of world trade was expanding at a slow pace and pressures for protectionist trade measures were spreading. It is hoped that the impending conclusion of the Multilateral Trade Negotiations in Geneva will help to arrest the trend toward protectionism.

The Committee was particularly concerned that rates of price increase remained much too high in many of the industrial countries. In some of them, particularly in Europe, inflationary tendencies would seem to require that wage settlements be brought under better control. Indeed, the problem of inflation appeared to have become even more difficult over the past several months. This situation required stronger efforts to combat the persistent strength of price and cost pressures, since further progress in reducing inflation was an essential precondition for the resumption of vigorous economic growth.

A source of special concern to the Committee was the fact that many nonindustrial, or primary producing, countries continue to suffer from subnormal growth rates and high inflation rates. Although some of the primary producing countries have taken successful adjustment action, the general picture for that group, in the Committee's view, is far from satisfactory. Potentially disquieting, the Committee noted, has been the renewed rise, after a marked reduction from 1975 to 1977, in the combined balance of payments deficit on current account of the non-oil developing countries, entailing the risk that more countries might experience strained positions if this combined deficit shows the considerable increase expected for 1979.

The Committee called attention to the prospect of a better distribution of current account balances among the major industrial countries in 1979 than in 1978--an improvement that would result from the effects of past exchange rate changes and of welcome shifts in growth rates of domestic demand, especially in the United States, the Federal Republic of Germany, and Japan. Realization and maintenance of this improvement, the Committee emphasized, would depend on the pursuit of appropriate national economic policies. The Committee believed that reduced payments imbalances would facilitate the attainment of greater exchange market stability and it noted the improvement achieved in this respect over recent months, following the important policy measures announced by the U.S. authorities on November 1, 1978.

The Committee expressed concern about the potentially unfavorable impact on many member countries of the recent emergence of uncertainties relating to the supply and price of oil. This further complicated an already difficult situation in several of the major industrial countries.

The Committee believed that the current situation called for maximum efforts on the part of member countries to follow appropriate policies to deal with problems of economic growth, inflation, and the balance of payments, as well as energy, within the framework of a coordinated strategy. The strategy envisaged was one geared to the existing diversity of economic positions among countries, to be implemented by economic measures tailored to their particular circumstances.

The Committee considered it especially important that economic policies of the industrial countries be addressed to the economic well-being of the developing countries. Apart from the major contribution on this score that could be made through successful implementation of a coordinated medium-term strategy for growth and balance of payments adjustment, the Committee urged the industrial countries to make every effort to improve market access for the exports of developing countries and to expand the flow of official development assistance.

3. The Committee emphasized the importance of a high degree of international economic cooperation and, with this objective in mind, stressed the necessity of active surveillance by the Fund over the exchange rate and related policies of members as a means of strengthening the adjustment process.

4. The Committee welcomed the recent entry into effect of the Supplementary Financing Facility, which will enhance the Fund's ability to assist members facing serious payments imbalances that are large in relation to their quotas.

5. The Committee also welcomed the decisions taken by the Executive Board under which SDRs can be used for making loans, settling obligations directly, and in providing security in the form of pledges and transfers subject to retransfer, and endorsed the intention of the Executive Board to pursue and complete, as soon as possible, its work on other types of operations involving uses of SDRs, in particular the use of SDRs in swaps, forward operations in SDRs, and donations of SDRs. The Committee also endorsed the intention of the Executive Board to consider increasing the number of official institutions that might, as other holders, be authorized to acquire, hold, and use SDRs.

6. The Committee considered a report by the Executive Board on an Account, to be administered by the Fund, that would accept deposits of foreign exchange from members of the Fund on a voluntary basis in exchange for an equivalent amount of SDR-denominated claims. The establishment of such an Account would constitute a further step toward making the SDR the principal reserve asset in the international monetary system. There was broad support in the Committee for active consideration in the Executive Board of such an Account, and the Executive Board has been asked to present its conclusions to the next meeting of the Committee.

7. The Committee agreed to hold its next meeting in Belgrade, Yugoslavia, on Monday, October 1, 1979, on the occasion of the next Annual Meeting of the Board of Governors.

INTERNATIONAL MONETARY FUND

TO :

FROM:

Interim Committee

S. Arabia

- OPEC continually criticized on oil prices
- Relevant economic + technical factors

Economic

- Relevant price should take both short and long term demand and supply considerations.

- Shortages can be avoided if oil price is allowed to increase gradually with or without OPEC -

- Monopolistic price policies of oil compan resulted -

- Sharp increase in prices in 70's.

- Exploration in more difficult areas delayed.

- S. A acted responsibly increasing production
- Real price of oil declined even after recent price increases

INTERNATIONAL MONETARY FUND (1)

TO :

FROM:

June 6, 1979
10 20

G.24

Chairman (Pakistan) -

Chairman (Mexico).

Phillips (Chairman of deputies) - things that are not included in the report to ministers.

Brazil -

2nd para. last sentence

India -

Terms of trade is the most important.

(Para 4)

"mainly by a substantial deterioration in the terms of trade of non oil developing countries." [oil and non oil]

INTERNATIONAL MONETARY FUND

2

TO :

FROM:

Viriata - Para 3.
3rd/4th sentence - explanation from UNCTAD necessary

Corea -

Ghana:
last sentence para 6.
"It was also strongly urged that their representation in the World Bank be at least maintained"

Brazil
Supports. It was ~~recommended~~ also strongly urged that developing country representation.

El Naggar
Last sentence Para 5. Last phrase.

INTERNATIONAL MONETARY FUND

(3)

TO :

FROM:

Deputies were ...... higher levels

of economic activity if a favorable climate is created for their exports and for the transfer of resources".

Para 6 after the sentence
"In this context ....". They express

the hope that current neg. on the replenishment of IDA VI will result in a substantial increase in IDA

resources in real terms. They ~~also~~ strongly ~~I~~ support the doubling of ~~the~~ capital of World Bank as well as the maintenance of ~~voting~~ rights ~~of the World Bank and their representatives~~ of developing countries and their representation on the Board.

INTERNATIONAL MONETARY FUND (4)

TO :

FROM:

India —
agree — with proposed change
in para 6.
Para 5 — wants to retain — "higher levels"

Kharmawan —
should retain in 6 the word "at least"

Corea —
— problems similar in seriousness
re those of 1930's
~~inconsistencies~~
1 — impact of recent developments
on — capital formation
— employment & real wages
~~inconsistencies~~
2 — Problems of currency instability

INTERNATIONAL MONETARY FUND (5)

TO :

FROM:

Financial stability becomes difficult

3 - Assymetrical developments in the fluctuations in commodity prices & prices of manuf.

Priority needed to the implementation of integrated program of comm.

Discussions on common fund

Next meet in Geneva

4 - Surplus & deficit country differences in expected adjustments

5 - Burden of adjustment

- Absence of adequate finance

- Need to Reverse the trends in concessional funds.

6 - Int. comm. stabilization, restrictive trade measures in ind. countries when expecting prompt adjustment in developing countries

INTERNATIONAL MONETARY FUND (6)

TO :

FROM:

Inconsistencies generate conflicts in the system -

Report suggests ways to deal with these inconsistencies.

- Remarkable evolution in IMF philosophy from lenient to the present regime
- Recommendations of the Report.

- Manila meeting (UNCTAD 5).

Agenda - includes "new framework for international co-operation".

Para 7.

India Start at 11th line - change order of sentences

- In this connection they supported strongly for the creation of a medium term

They also supported further examination the proposal for a long term facility.

Phillips -

INTERNATIONAL MONETARY FUND

7

TO :

FROM:

Pakistan - Support the formulation "further examination ..."

Iran -

Amuzegar. - Agrees with Indian proposal on long term.

medium term. proposal has not yet been studied (to be managed by the Fund") to be taken out.

Mexico

A package bringing together long term and medium term suggestions

XX Viota - supports Indian suggestion. A consolidated study of all proposals. Hoping to present before the annual meeting ~~of the A~~ to go through the Board and ready by June - July.

INTERNATIONAL MONETARY FUND

(8)

TO :

FROM:

El Waggar –

Proposals –
- mexican
- medium term.
- Subsidy
- common fund
- German Proposal.

- ~~They~~ overlap with each other.
same kind of priority establishment
will be useful.

harriman
~~Hess~~ will add the need to see inter
relationships – 1.

Postponed discussion
Para 7

Para 8

Para 9

Para 10

Colombia – Propose
Para 10 second sentence to be deleted.

Iran – Cross ref. between 10 & 7 is necessary.

INTERNATIONAL MONETARY FUND

9

TO :

FROM:

India - wants to retain the second sentence.

Chairman
In the light of the study on the interrelationships between several proposals

Pakistan
Either change the beginning of the sentence or leave it as it is.

Khamanawan - wonders whether the time is ripe.

Ammregak.
Time is ripe for a serious look -

Brazil
Split 10 put first sentence to 9 second to 11.

Nigeria

INTERNATIONAL MONETARY FUND

10

TO :

FROM:

Venezuela

Add second sentence to para 13 -
as "including ...... effective reform".

Algeria:
Don't see why is the time ripe.
it was ripe a long time ago.

Para 12.

India - Ref. to European monetary
system would be useful.

Para 13
Indian proposal accepted

G77 - Sept. 29 (ministers)
G24 - Sept. 28 -
G24 - Deputies - Sept. 26-27.

Record Removal Notice

File Title	Barcode No.
Development Committee - G-24 Meeting - March 1979 - Volume 01	30021271

Document Date	Document Type
2/23/1979	Memorandum

Correspondents / Participants
To: Members of the Executive Board
From: The Secretary

Subject / Title
Report of the Executive Board to the Interim Committee on a Substitution Account SM/79/56, Revision 3

Exception(s)
Information Provided by Member Countries or Third Parties in Confidence

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Bertha F. Wilson	September 12, 2023

Record Removal Notice

File Title		Barcode No.
Development Committee - G-24 Meeting - March 1979 - Volume 01		30021271
Document Date	**Document Type**	
2/22/1979	Memorandum	

Correspondents / Participants
To: Members of the Executive Board
From: The Secretary

Subject / Title
Report of the Executive Board to the Interim Committee on a Substitution Account SM/79/56, Revision 2

Exception(s)
Information Provided by Member Countries or Third Parties in Confidence

Additional Comments

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Withdrawn by	Date
Bertha F. Wilson	September 12, 2023

Record Removal Notice

File Title		Barcode No.
Development Committee - G-24 Meeting - March 1979 - Volume 01		30021271
Document Date 2/6/1979	**Document Type** Agenda	

Correspondents / Participants

Subject / Title
International Monetary Fund, Interim Committee of the Board of Governors on the International Monetary System, Provisional Agenda ICMS/ Doc/79/1

Exception(s)
Information Provided by Member Countries or Third Parties in Confidence

Additional Comments

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Withdrawn by	Date
Bertha F. Wilson	September 12, 2023

Record Removal Notice

File Title	Barcode No.
Development Committee - G-24 Meeting - March 1979 - Volume 01	30021271

Document Date	Document Type
2/23/1979	Memorandum

Correspondents / Participants
To: Members of the Interim Committee
From: The Secretary

Subject / Title
Report of the Executive Board to the Interim Committee on a Substitutions Account ICMS/Doc/79/2

Exception(s)
Information Provided by Member Countries or Third Parties in Confidence

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Bertha F. Wilson	September 12, 2023

INTERGOVERNMENTAL GROUP OF TWENTY-FOUR
ON INTERNATIONAL MONETARY AFFAIRS

EIGHTEENTH MEETING OF MINISTERS

March 6, 1979

REPORT TO MINISTERS

1. The Deputies of the Group of Twenty-Four reviewed the international economic situation and expressed their concern over the persistence of low rates of growth and substantial underutilized capacity in a number of industrial countries in 1978. The prospects for 1979 appeared to be no better, and there existed the disquieting possibility of a further deterioration in world economic activity. They noted that, notwithstanding the sluggish rates of growth, no significant progress was made in the industrial countries with respect to inflation, and that their unemployment rates during 1978 were, on average, significantly higher than in the recession year of 1975.

2. The Deputies regarded the economic outlook as unfavorable for the developing countries, not only because of its adverse effect upon world trade, but also because it was likely to intensify the protectionist trends in the industrial countries. This could frustrate the efforts of the developing countries to improve their growth performance and to overcome their external payments problems.

3. The Deputies expressed dismay at the proliferation of trade restrictions in the developed countries. They urged them to adopt more liberal trade policies as a fundamental step towards an improved functioning of the international adjustment process. In this connection, they also expressed their dissatisfaction at the lack of progress in the implementation of the Tokyo Declaration regarding preferential treatment for developing countries. They noted that special attention will be given to this issue during UNCTAD-5, and hoped that it would lead to effective trade liberalization in favor of the developing countries within the framework of the GATT.

4. The Deputies expressed serious concern at the substantial deficit of the current account of the non-oil developing countries in 1978, and the prospects for a further deterioration, to US$38 billion in 1979. That undesirable trend, they considered, had been occasioned by, inter alia: the slow growth of trade; a substantial deterioration in the terms of trade of non-oil developing countries, which were expected to worsen

in 1979; and by the intensification of protectionist measures in industrial countries during 1978. The Deputies regretted that the international fora had so far failed to deal adequately with these problems.

5. The Deputies emphasized that the policies adopted by the developing countries had contributed to the sustenance of economic activity in the industrial countries, through their expanded imports, associated with the development effort. They also noted the contribution made by the oil exporting developing countries to the adjustment process, as reflected by the marked decline in their external surplus from $33 billion in 1977 to $9.0 billion in 1978; despite this reduction in their surplus, they maintained their levels of assistance to other less developed countries. Deputies were of the opinion that the significant economic potential of the developing countries could play a major role in the adjustment process at higher levels of world trade and economic activity, if greater flows of capital were available on suitable terms.

6. The Deputies noted with concern the decline in the net inflow of private long-term capital envisaged for 1979. The development process will suffer a setback if official long-term capital and aid to all developing countries do not increase sufficiently to offset such a decline, In this context, Deputies stressed the need for providing larger resources to the multilateral financial institutions, through a substantial increase in their capital. They also urged donor countries to increase the flow of ODA to reach the United Nations target of 0.7 per cent of the GNP. It was recommended further that their representation in the World Bank be at least maintained.

7. The Deputies received with appreciation the document on the balance of payments adjustment process in the developing countries prepared at their request by UNDP/UNCTAD. They agreed with the fundamental conclusion of the study that, in determining the volume and conditionality governing balance of payments assistance, a clearer distinction needs to be made between the causal factors attributable to the domestic policies of the developing countries and the external elements beyond their control. In this regard, they expressed support for the view that an expansion of the flow of long-term capital through bilateral and multilateral channels should be regarded as an indispensable ingredient for improving the international environment for adjustment. In this connection they supported the proposal for a long-term facility for financing purchases of capital goods by developing countries that would also help to stimulate the capital goods producing sectors of industrialized countries. They also supported strongly the proposal for the creation of a medium-term facility to be managed by the Fund for balance of payments support over periods of 5 to 10 years. Both these facilities would need to have provision for interest subsidy for the poorest of the developing countries.

8. The Deputies noted the coming into effect of the Supplementary Financing Facility on February 23, 1979. They observed that the additional resources provided through this facility may play an important role in facilitating the adjustment process of developing countries. However, they expressed concern over the fact that the use of these resources would be subject to the harsh conditionality applicable to the higher credit tranches. They hoped that as a result of the recent review of conditionality carried out by Executive Directors, greater flexibility would be introduced in the use of Fund resources.

9. The Deputies welcomed the decisions recently taken by the Fund's Executive Board relating to further uses of SDRs and urged the adoption of measures to enhance the role of the SDR as an international reserve asset. They noted that the reconstitution obligation had been reduced from 30 to 15 per cent and stressed the need for its complete abrogation.

10. The Deputies also welcomed the recent decision for a new allocation of SDRs over the next three years. They felt that the time was ripe for an agreement on the question of a link between SDR allocation and development assistance.

11. The Deputies noted the progress of deliberations in the Fund's Executive Board for the establishment of a substitution account and were of the view that this proposal still required further study including the possible use of such an account to promote the development process. They agreed that participation of developing countries should be voluntary.

12. The Deputies reiterated the need for the prompt establishment of the Common Fund of the Integrated Program for Commodities, and for a reform of the ~~Fund~~ IMF compensatory and buffer stock facilities.

13. The Deputies noted with satisfaction that the Ministers of Finance of the Group of 77 will meet in Belgrade before the Annual Meeting of the IMF/IBRD, in order to discuss proposals for an effective reform of the international monetary system. In this context, it was decided that the Group of 24 would undertake the preparatory work necessary to formulate the developing countries' position regarding the above-mentioned reform.

I - Need + sign. problem.
adequate supplies to support
their investment programs.

II - unable to find a mechanism
to provide the resources.

III - Need we accept - Resources
Are there -
Any indication of resource
availability

(Net lending at market terms from \$25 b. in 1975
to \$78 billion in 1985)

March/4/1979
3rd p.m.

INTERNATIONAL MONETARY FUND

1

TO :

FROM:

Agenda

El Naggar - if proposal under 2A refers to the Mexican Proposal - will have difficulty in discussing here.

Chairman -

Pakistan - Should be discussed under Agenda (3). as it relates to Arusha -

Chairman - propose to change the title of the item II -

~~Agree~~

Mexico

- Should be considered whenever it is on the agenda.

- Also the future role of the Dev Comm. should be included on the Agenda

INTERNATIONAL MONETARY FUND

2

TO :

FROM:

Guatemala - include the future role of the Dev. Comm. on the Agenda

El Naggar: should be taken off the Agenda -

Yugoslavia - should discuss Mex. proposal

Venezuela - wants to discuss Mex. Prop.

Algeria not refer to the particular proposal - it is in the UNCTAD document that the group will nevertheless be discussing

Nigeria
Agrees with Algeria - Doesn't see why a particular recommendation should be singled out

INTERNATIONAL MONETARY FUND

3

TO :

FROM:

Belchadja – should be discussed – Agree with Pakistani proposal.

Chairman. –
will place – Future Role of Dev. Committee as item 4.

Mexico
Title of item 2 should change
" world Economic outlook and working of the adjustment process.

E.D. Fund – support the mexican ~~proposal~~ position –

Algeria –
Stage of discussions of this item in other fora.

Peru support mexicans position.

INTERNATIONAL MONETARY FUND

(4)

TO :

FROM:

Trinidad Tobago - Those who do not want it discussed may not participate in its discussion. Put it as item 3.

Pakistan - should not be a separate Agenda item - should be discussed rather under UNCTAD Project or under Australia -

Pakistan ~~proposal accepted.~~

Sidney Dell -

- Inequities in the access to private market sources -

- Begun a study on international exchange system and its effects on the developing countries - Will present a study at the end of this year.

INTERNATIONAL MONETARY FUND (5)

TO :

FROM:

El Naggar - mainly statement circulated.
Chairman - invite IMF EDs to report on discussions concerning conditionality
Nepiccl - Broader discussion of the report is necessary.

Kaffer -

Kumaran - ED's from LDCs have for a long time expressed concern over the conditionality
- Factors beyond the control of the countries -
- Review clauses.

ED-IMF - Length of the business cycle seem to have entered into a different type of cycle -

INTERNATIONAL MONETARY FUND

6

TO :

FROM:

Sturc -

Fund model / recepie -
There is none
Instruction not to follow
a standard recepie.

ammitted points.

- Evaluation of each stand-by
arrangement -

- A.K.

Zaire - did not have the oppertunity
to read.

-

Yugoslavia -

Egypt Husein

El Naggar - How to make best use of this
report

INTERNATIONAL MONETARY FUND

(7)

TO :

FROM: - A committee - to draw up a recommendation -
IMF - IBRD ED's + Staff + Del.

Algeria -
Many recommendations of G 24 in the past were never accepted -

Phillippines -

How many of the recommendations could be carried out within present articles of agreement. Some of the recommendations could not be acted upon by the Fund. 1 - 8 - 9 - 12 - 14

Chairman - will propose the members of the group tomorrow morning -

INTERNATIONAL MONETARY FUND

8

TO :

FROM:

Mexico - Nature of the group should be clearly identified.

would it be a continuing group - qualification of members -

Chairman - Would be exclusively charged to study this document.

El Naggar - to crustallize Hee

conclusions -

Pakistan -

choosing between alternatives.

- Medium term facility in the Fund

- Supplementary facility in permanent footing

-

INTERNATIONAL MONETARY FUND

9

March 5 -
11 40 a.m.

TO :

FROM:

Supplementary Financing Facility

Kharmawan -

Algeria -

Pakistan - B of. Payments deficits of LDC's increasing to levels that will require special action -
urgent need for the establishment of a subsidy account to enable poor countries use it.

Stone -
ED-IMF - Conditionality would be that of the upper credit tranches -

Chairman - pleased that implemented
- unresolved issues - Conditionality
- subsidy account.

INTERNATIONAL MONETARY FUND

10

TO :

FROM:

Further uses of SDR

Kafka.

Review of the substitution account

Kafka.

Khanmanan.

Yugoslavia - unanswered questions

India

2 45

Arusha Implications 3 10 p.m

Yugoslavia/Popovic - Report on the Arusha meeting

- B. of Payments support finan for the externally induced deficits of the countries similar to the UNCTAD study conclusions

INTERNATIONAL MONETARY FUND

(11)

TO :

FROM: ~~official~~

- ODA
- Massive transfer of resources.

interdependence to be manifested in a more obvious way.

- $35-50 billion is necessary to mobilize.

- International guarantee
- subsidization of resources

- Establishment of a Debt Commission to be used by interested countries.

Mexico.

- Good time to consider non-reform aspects of mexican proposal.
- 2 or 3 meetings of G-24 before the UNCTAD meeting — to prepare for the Belgrade meeting.

INTERNATIONAL MONETARY FUND

(12)

TO :
FROM:

- Participation of UNCTAD in the studies.

Algeria -
- want to stress the importance of close cooperation between G77 + G24 -
- Support the Yugoslav proposal

Pakistan -
- Lack of communication between 77 + 24 -
- What can be done to improve communication
- What could be done to accelerate the process in the direction wanted

Chairman.

Philippines - possibility of meetings in Manilla -

INTERNATIONAL MONETARY FUND

13

TO :

FROM: Algeria - there could be a meeting before the Manilla meeting.

Venezuela -

Chairman. consensus on Yugoslav proposal.

- close link between 77 - 24 to be established

- All communiques to be sent to the Chairman of 77

- necessary steps to prepare Belgrade meeting

- make proposals for the strategy to be followed.

- To ask for the support of ED in the Bank + Fund + Staffs

- A G-24 meeting either before or ~~during~~ the Manilla meeting

INTERNATIONAL MONETARY FUND

(K)

TO :

FROM:

- after the UNCTAD meeting
2 meetings of Deputies
of 24 to complete work
for their consideration
prior to the Belgrade meeting

India

What will be progress in three
months to discuss in May.

Yugoslavia - Bureau should make necessary
preparations -

Future Role of the Development Committee -

Mexico (Suarez)
- invite the rep. of the Dev. Committee
to report on the present status of the
proposal.
- Dev. Comm. should be a decision
body not just a forum for discussion.

INTERNATIONAL MONETARY FUND

15

TO :

FROM: Ahmad

Correct the impression given in Para 3 - It was formulated by the three of them not only two -

El Naggar -

- E D's will sit as members of the committee of the whole where every member will have one vote if vote is needed.

- No purpose will be served with a discussion at this point.

India

Supports El Naggar -

Venezuela - Proposals go beyond terms of reference - affect the nature of the committee

cannot support -

INTERNATIONAL MONETARY FUND

16

TO :

FROM: ED - Colombia
Ernesto ~~Holguin~~ France: - At least some of his constituency have reservations - changes are not procedural.

Mayobre
- independence in proposing concrete actions on transfer of resources is important
Tor alsanne:
- supervision of the Fund/Bank.
Virata says:
- proposal will not require change in the mandate - but change in resolution is necessary.

Kafka - Agrees with France -

Kharmawan - Non of the countries represented are formally member of the 24 - Complied with the proposal sent by Virata -

INTERNATIONAL MONETARY FUND

(17)

TO : Agrees with India & Egypt.

FROM: Abdulai (Nigeria) — Agrees with Egypt & India.

ED. Fund (Venezuela?) — Independence should be strengthened rather than weakened.
Min. Fin. will be away therefore the org. is left to fine regulations asp. the Bank.
- who are the thirteen members replied - if majority are Developed countries it makes sense

Fund - Legal Adv.
Nikolopoulos.

Mexico — with suggested mechanism cannot be critical enough.
(Examples - Monetary Reform
Transfer of Resources)

INTERNATIONAL MONETARY FUND

(18)

TO :

FROM: Phillippines - Everybody wants committee function effectively.
alternatives - present proposal - much larger secretariat
no funds were available for larger sec.

Sri Lanka - changes will lead to improvement,

Chairman - Consensus on the efficiency
- secretariat worked hard and well.
- did not work for lack of political will on part of some members of the committee
- will not be mentioned in the press commun will inform ministers

INTERNATIONAL MONETARY FUND

(19)

TO :

FROM:

Next meeting - will be decided in consultation with the members of the Bureau -

Drafting committee

Pakistan
Yug.
Algeria
Ghana
Brazil
Venezuela

- Working Party on UNCTAD studies -

open ended

El Naggar
Kafka
Dell
Argentina
Sri Lanka
Algeria

Brief paper setting cons.
meet next few days
present conclusion as ~~soon~~ soon as possible

INTERGOVERNMENTAL GROUP OF TWENTY-FOUR
ON INTERNATIONAL MONETARY AFFAIRS

TWENTY-SEVENTH MEETING OF DEPUTIES
and
EIGHTEENTH MEETING OF MINISTERS

3:00 p.m. Sunday, March 4 - 10:00 a.m. and 3:00 p.m. Monday, March 5
10:00 a.m. and 3:00 p.m. Tuesday, March 6, 1979

PROVISIONAL AGENDA

1. Adoption of the Agenda.

2. Matters on the Agenda of the Interim Committee:

   (A) World Economic Outlook and the Working of the Adjustment Process.

   UNDP/UNCTAD Project INT/75/015. "The Balance of Payments Adjustment Process in Developing Countries: Report to the Group of Twenty-Four".

   Proposal for a Long-Term Financing Facility.

   (B) International Monetary Questions:

   (a) The Supplementary Financing Facility.

   (b) SDR Matters:

   (i) Further Uses.

   (ii) Review of the Question of a Substitution Account.

3. Matters related to G-77 and in particular, the Impact of the Resolutions Adopted in Arusha, Tanzania on the G-24.

4. Other Business.

5. Place and Date of Next Meeting.

6. Press Communiqué.

2. MATTERS ON THE AGENDA OF THE INTERIM COMMITTEE

(A) World Economic Outlook and Working of the Adjustment Process

I. Economic setting - Problems of stagflation in industrialized countries

This agenda item is discussed in Fund paper ID/79/1 "World Economic Outlook.- General Survey", prepared by the Fund Staff using ID/79/2 and ID/79/3 as background material. Also relevant for the discussion of this topic is SM/79/44 "Trade Actions in Industrial Countries". At the request of G-24, UNCTAD has submitted to G-24 a study entitled "Balance of Payments Adjustment Process in Developing Countries" which makes an important contribution to the view of developing countries on this Agenda item.

The world economy has been unable to recover from the severe recession of 1974-75, showing a slow and uneven pace of production in industrial countries, accompanied by a high rate of inflation.

Overall growth rates in the industrial countries have been described as "sluggish" by the Fund. The growth of industrial countries in 1978 remained at the low level of 3 3/4 per cent observed during 1977, and no further progress is expected for 1979. One of the main factors accounting for the slow and uneven pace of recovery is a substantial underutilization of resources in the six largest industrial countries other than the United States. With the notable exception of the United States, unemployment rates in the industrial countries during 1978 were, on average, significantly higher than in the recession year 1975.

With respect to inflation in the industrial countries, no further progress was made during 1978. Measured by GNP deflators, the rate of increase in prices reached 7.0 per cent in 1978 representing a slight deterioration from to 6.9 per cent in 1977.

The non-oil developing countries as a group were able to maintain a growth rate of 5.2 per cent during 1978. This rate of growth is significantly below the average rate (6.8 per cent) maintained for a number of years before the recession year 1975. Moreover, this average conceals a significant deterioration in the growth rates of certain groups of countries.

The rate of increase of consumer prices in the group of non-oil developing countries was notably reduced from 30.3 per cent in 1977 to 25.3 per cent in 1978, but this figure is still too high compared to the 10.1 per cent annual average for the period 1967-72. Here again, there are important differences between the various groups of countries.

II. The International Adjustment Process and Protectionism

Some progress was achieved during the year from the point of view of the functioning of the overall adjustment process amongst industrialized countries, in spite of their inadequate growth and performance in tackling inflation. This is because a convergence of the rates of expansion of real domestic demand in the major industrialized countries has recently been taking place, leading to an improvement in the distribution of current account balances amongst industrial countries. The reduction in payment imbalances has, in turn, resulted in a tendency towards greater stability in the exchange markets.

This improvement in the payments pattern among the industrialized countries has not benefited the developing countries. The current account deficit of non-oil developing countries increased sharply, amounting to $31 billion in 1978, compared to $22 billion in 1977. The deterioration in the external payments situation of the non-oil developing countries was due to their efforts to maintain an adequate rate of growth and the consequential impact on imports, as well as to a deterioration in the terms of trade. This latter factor also affected the major oil exporting developing countries. The decline in the surplus of the major oil exporters from $33 billion in 1977 to only $9.0 billion in 1978 was accounted for entirely by a turnaround in the position of the industrial countries, whose balance on current account shifted from a deficit of $0.7 billion in 1977 to a surplus of $26.0 billion in 1978.

The G-24 may wish to emphasize that the developing countries continued to make a noteworthy contribution to the adjustment process in 1978 by again expanding substantially their volume of imports. The prospects for 1979 are far from good, particularly for the non-oil developing countries. The growth rate of industrial countries will remain at about the same low level as in the past two years. The volume of world trade is not expected to grow more rapidly, and the balance on current account of the non-oil developing countries is likely to deteriorate further, raising the deficit from $31 billion in 1978 to $38 billion in 1979. Furthermore, these developments will probably be accompanied by a continued deterioration of the terms of trade of all developing countries throughout 1979.

The financing of a higher current account deficit by non-oil developing countries will be a painful task, particularly as a decline in the net inflow of private long-term capital is envisaged. Such a decline would have to be offset by larger inflows of official long-term capital and aid, but neither have increased sufficiently during the recent past. According to the Fund (ID/79/1) "it seems likely that the 1979 increase in the current account deficit will involve a relatively smaller element of net acquisition of real resources than did the 1978 increase and a relatively larger element of debt service charges and deterioration in the terms of trade". G-24 may wish to stress the need for adequate volumes of long-term capital resources from the World Bank and other development financial institutions, as well as from donor countries through Official Development Assistance (ODA).

One way for the developing countries to achieve an improvement in their balance of payments is through an expansion in their exports. This can only be attained by a better access to the markets of developed countries. Nevertheless, the prospects for this to happen would seem particularly weak in the light of current trends in world trade. The real growth of world trade in 1978 was about the same as in 1977 (5 per cent), but the average annual growth from 1973 to 1978 was only 4 1/4 per cent, less than half of the average rate for the decade ended in 1972. Moreover, the trade situation has further deteriorated since the Fund issued Document SM/78/91 entitled "The Rise in Protectionism" at the beginning of 1978. This study reached the important conclusion that "the trade actions adopted by industrialized countries have affected sectors in which many developing and primary producing countries have an actual or potential comparative advantage and where the proliferation of restrictions can seriously jeopardize the scope of export expansion and economic growth". Now, one year later, Fund Document SM/79/44 entitled "Trade Actions in Industrial Countries in 1978" states that: "in some sectors--notably steel but also probably textiles--the possibility of more restrictive trade policies that had emerged during 1976-77 was realized and the retreat from liberal trade became more clearly visible; in many other sectors--such as footwear and consumer electronics--previously introduced restrictions continued to apply". The study does not foresee any change in the near future. Furthermore, it also concludes that "if current short-term projections for relatively sluggish growth in certain industrial countries are realized, pressures for protection may intensify". It is also worth noting that the Fund seems to be optimistic about the world economic outlook and feels that the international adjustment process is working. While this may be true for the industrialized world, the adjustment needed in the developing countries will be impossible to achieve as long as protectionist measures continue to be applied by the industrial countries. Finally, but not less important, is the fact that some trade restrictions on certain basic industrial inputs--particularly steel--have an inflationary impact by raising production costs.

G-24 may wish to reiterate its serious concern about the proliferation of trade restrictions in the developed countries, urging them to adopt more liberal trade policies as a fundamental step for the satisfactory functioning of the international adjustment process and as a means of abating the high rate of inflation prevailing throughout the world.

In this connection, the G-24 may wish to express its dissatisfaction at the lack of progress in the implementation of the Tokyo Declaration regarding special and preferential treatment of developing countries within the broad framework of the multilateral trade negotiations.

III. Impact of World Economic Conditions and the Adjustment Process in the Developing Countries: Some Conclusions and Recommendations.

UNDP/UNCTAD has prepared a document on the balance of payments adjustment process in the developing countries and submitted it to G-24. As the letter of transmittal states, its purpose is "to assist developing countries in enhancing their capacity in negotiations on international monetary issues" and "to assess the character of international monetary cooperation required to enable them to adjust their external accounts without detriment to their long-term development".

The principal findings and recommendations of this study can be summarized as follows:

1. During the present decade, especially from 1974-75, the non-oil developing countries have experienced large deficits in their balances on current account. These deficits reflect both imbalances of domestic origin and external elements for which the deficit countries were either not responsible, or were not wholly responsible.

2. Changes in foreign trade prices during the period 1973-76 appear as the primary factor accounting for the deterioration in the trade balances of developing countries, suggesting that demand pressures arising within the domestic economies were of secondary importance.

3. In addition to the sharp deterioration in the terms of trade for most non-oil developing countries, the balance of payments of this group of countries received the impact of the 1974-75 recession in the industrial countries and the slackness of the recovery thereafter. This created an obstacle to the growth of exports from developing countries.

4. Also contributing to the rapid deterioration of the balance on current account of this group of countries was the rise in protectionism that completely frustrated the efforts of the deficit countries to adjust. Moreover, while great emphasis was placed, especially by the IMF, on exchange rate policies as a means of correcting external imbalances, protectionist measures continually eroded the efficacy of these policies by preventing the price mechanism from functioning.

5. According to the study, to the extent that deficits are mainly a counterpart of structural surpluses elsewhere in the system or a consequence of major external price movements, "adjustment should take place over extended time periods".

6. Official flows of finance, bilateral and multilateral, were not augmented as fast as the current account deficits increased. Thus, a large proportion of external financing had to be provided through private capital markets, to which the more advanced developed countries had access but where many of the low income countries were unable to find appropriate terms for borrowing.

7. Countries with access to private capital markets were able to sustain adequate rates of growth for a while--but once the debt service burden reached unsustainable proportions there was no way of avoiding reductions in economic activity and welfare. The study disclosed that

"the economic dislocation and political and social tensions generated by shifts of such magnitudes raise serious questions as to the compatibility of the short-run measures of adjustment to which countries felt compelled to resort with their long-run development objectives as well as with the objectives of the international community under the International Development Strategy".

8. The contribution made by the Fund is a limited one, due mainly to the harsh conditionality attached to the use of most of its facilities. The conditions required for drawings in the upper credit tranches seem to have been too demanding in relation to the amount of resources available. This appears to have undermined the Fund's effectiveness, thus justifying an easing of conditions.

9. The study recognizes the need for symmetry in the adjustment process as a means for reducing the severity of the adjustment required in many developing countries.

10. The study concludes that a need for longer-term facilities seems to be warranted, since most of the adjustments would have required structural changes that the short time horizon of the Fund's operations was not adequate to support. In this connection, attention should be given to a long-term facility for financing purchases of capital goods by developing countries. This facility could help to promote high levels of activity in the industrial countries, and thus the international adjustment process, by expanding the external demand for their capital goods.

11. This document proposes that there is a case for long-term financing by the Fund for balance of payments support over periods of 5 to 10 years. This mechanism would help to make less demanding the adjustment of the balance of payments of developing countries by lengthening the period of adjustment. This facility would be managed by the Fund and would be provided to member countries with large payments imbalances in relation to their quotas, which were originated by external elements outside the control of the deficit countries. It would also be taken into account whether or not the adjustment involves the correction of structural elements that would require a longer period of adjustment.

12. The G-24 may wish to support some of the conclusions of the UNDP/UNCTAD study. It is to be noted that the G-77 at their IV Ministerial Meeting held in Arusha, Tanzania, gave their support to some of these ideas.

<u>Proposal for a Long-Term Financing Facility</u>

1. During the G-24 meeting held in April 1978, the Mexican Delegation presented a proposal for a long-term facility for financing purchases of capital goods by developing countries. At that meeting, the Group agreed that this proposal should be submitted to the Development Committee for appropriate study and consideration. Subsequently the Senior Officials of that Committee requested that the Executive Secretariat should examine the proposal in close consultation with the World Bank.

2. The facility contemplated the creation of a $15 billion fund, to be managed by the World Bank. It would issue 15 year term debt instruments to the lenders, denominated in SDRs. Alternative sources of funds for the facility would be direct loans or guarantees provided by governments or the tapping of funds from the international capital markets, including resources from institutional investors where developing countries have had very limited access. It is intended that this facility will not compete with flows of official development assistance or with capital replenishment of the IBRD, but would rather serve to complement them with additional available funds, as the Special Facilities of the IMF complement the regular quota increases.

It was intended that the facility should provide an adequate stimulus to the capital goods producing sectors of industrialized countries; the necessary long-term resources for developing countries, both for development investment and to improve their debt profile; an additional outlet for the savings of surplus countries and as a means to introduce a better structure in the assets and liabilities of the financial markets.

3. In December 1978, the World Bank submitted a document evaluating the Mexican Proposal. This document observes that this proposal is one of the recent initiatives that explore ways of augmenting the flow of financial resources to developing countries. The OECD, Sweden, Norway, Greece and Germany are among others that have presented broad initiatives on this subject with a number of common elements. The document reaches the conclusion that the Mexican proposal avoids difficulties associated with the creation of new international agencies and with the mobilization of additional budgetary resources. It points out that such a scheme would require acceptable guarantees for its operation and remarks that augmenting the flow of capital over the medium and long term would raise problems akin to those confronted in connection with the general capital increase of the World Bank, i.e. the need for parliamentary action by contributing countries, and might conflict with contributions to the international financial institutions. It adds that if the intention is to rely on private lending, further measures by governments might be required.

4. During the IV Ministerial Meeting of the Group of 77, which took place in Arusha, Tanzania, the Ministers of the Group of 77 agreed: "that the proposal for the establishment in the World Bank of a long-term facility to finance purchases of capital goods by developing countries should be considered as quickly as possible with a view to taking a positive decision at the earliest possible date". What would be the view of the G-24 regarding the role the proposal can play in the adjustment process.

2. (B) (a) The Supplementary Financing Facility

The Supplementary Financing Facility (SFF) came into effect on February 23, 1979. The SFF was created to provide supplementary financing to all members of the Fund facing serious payments imbalances that are large in relation to their quotas. Since drawings under the SFF are made pari passu with drawings under either the regular credit tranches or the Extended Fund Facility, the use of resources under the SFF is subject to the same conditionality as that applied to the use of these other facilities of the Fund.

The additional resources provided through this facility will certainly play an important role in facilitating the adjustment process of the developing countries. Since a large deterioration of the balance on current account of non-oil developing countries is expected for 1979, this facility may help to alleviate the lack of an adequate flow of the funds that would be needed by countries deciding to adjust their external imbalances.

It should be recalled that Ministers of the G-24 had stated in the communiqué issued at the conclusion of their meeting in September 1977, that this facility should be operated in a manner which substantially benefits the developing countries.

In addition, G-24 Ministers stressed that conditionality for the use of this facility should be eased, since the conditions that have been applied to drawings under the Extended Fund Facility and the upper credit tranches have proven to be too harsh. Moreover, G-24 Ministers have previously insisted that the Supplementary Financing Facility should be operated in a flexible manner, keeping in mind the difficulties of member countries.

Also at their meeting in September 1977, G-24 Ministers stressed that means should be found to provide relief to low income countries of part of the cost borrowing under the Supplementary Financing Facility. This view was reiterated during the meeting in April 27, 1978 in Mexico, when Ministers called for a study of the possibility of creating a Subsidy Account designed to alleviate the charges that would be payable by least developed countries. In view of the fact that the Supplementary Financing Facility has now become operational, Ministers may like to urge immediate action in the matter.

2. (B) (b) (i). Further Uses of SDRs

The Second Amendment of the Articles of Agreement of the Fund introduced more flexibility in relation to the uses of SDRs. Since the entry into force of this Amendment, the Executive Board of the Fund has been discussing the possibility of widening the scope for using SDRs in new operations and transactions.

The Executive Board of the Fund has recently adopted the decision to allow the use of SDRs in settling financial obligations among participants, and in SDR loans.

Other operations in SDRs such as pledges and transfers of SDRs as securities are now being discussed in the Fund and are likely to be approved in the future.

The G-24 may wish to support new operations in SDRs as a means to enhance the attractiveness of this asset, contributing in this manner to the objective of making the SDR the principal reserve asset.

The reconstitution obligation was reduced from 30 per cent to 15 per cent of allocations. This was the result of pressures mainly from developing countries. The G-24 may wish to reaffirm its suggestion for the total abrogation of that obligation, thus making the SDR a real freely usable asset.

The G-24 may wish to bring up the question of the establishment of a link between SDR allocation and development assistance. It is felt that agreement in principle on the question of the link at this time, when the industrial world is characterized by substantial underutilization of capacity, would help improve the working of the adjustment process.

2. (B) (b) (ii). Review of the Question of a Substitution Account

In its communiqué of September 1978, the Interim Committee noted that the Executive Board intended to keep under review the question of a substitution account. Progress has been made in the Executive Board in this regard and three options have been presented for the establishment of a substitution account. These three options are in brief:

A. SDR-denominated claims issued by the United States. Depositors in the account would receive SDR denominated U.S. claims in exchange for their dollars. In a certain way, this would represent a consolidation of the U.S. external debt, similar to the issues of claims denominated in DM and Swiss francs.

B. Allocation of SDRs by the Fund. Any participant lacking the necessary dollars could obtain them for SDRs from countries with large dollar holdings. The United States could use its SDR allocation to buy dollars from those countries that were prepared to absorb additional SDRs. Dollars deposited in the account could be kept in the form of non-transferable long-term claims denominated in U.S. dollars.

C. SDR-denominated claims issued through an account administered by the Fund. Members would be able to replace any amounts of dollars for SDRs. The account would then invest the dollars in long-term obligations of the United States, and issue SDR-denominated claims against these holdings.

Further progress was made in the Executive Board when these options were discussed and Directors were of the view that further consideration should focus on option C, although they did not rule out options A and B.

The pending issues regarding the substitution account include:

(a) the order of magnitude of the account;

(b) whether there should be a single deposit or deposits at regular intervals;

(c) whether deposits should be accepted in more than one currency by the account;

(d) the liquidity of the account, and its duration.

(e) the rate of return of the SDR-denominated assets;

(f) would a substitution account be open to private dollars holdings?

(g) is the success of a substitution account dependent on the establishment of increased control of international liquidity creation?

The G-24 may wish to consider this matter taking into account the need of developing countries for flexibility in the management and composition of their reserve assets. Consideration should be given to whether the exchange of foreign exchange for SDRs should be voluntary or obligatory for developing countries. Support for the substitution account would depend on the answer to the above questions.

3. MATTERS RELATED TO THE GROUP OF 24 IN CONNECTION WITH THE GROUP OF 77 AND IN PARTICULAR WITH RESPECT TO THE RESOLUTIONS ADOPTED IN ARUSHA, TANZANIA

1. The Group of 24 was established at the Second Ministerial Meeting of the Group of 77 held in Lima, Peru, in November 1971, as an inter-governmental group to perform the following functions:

(a) keep under review the course of the international monetary situation;

(b) evaluate events in the monetary field, as well as any decisions which might be taken by a single country or group of countries within the framework of the International Monetary Fund, relating to the interests of the developing countries;

(c) recommend to the governments of the Group of 77 coordinated positions for use in various forums, and to consider any other action that might be necessary, including the convening of a world monetary conference within the framework of the United Nations.

2. The Group of 24 obtained its original mandate from the G-77, but no formal relationship was established at the time of the Group's inception.

3. The Yugoslav Delegation presented an important document offering several possibilities for a reorganization of the G-24. This document was discussed by the G-24 during a meeting convened in April 1977. The document stressed "the need to establish a definite relationship between the two bodies which could be considered in relation to the need, from time to time, to have the mandate of the G-24 renewed and to ensure that periodical reports are submitted to the parent body on the manner in which the mandate is being carried on." The document continued: "The creation of a machinery for recourse to the parent body will help to establish the authority of the group more formally thereby enhancing its influence among developing countries."

On the other hand, the document recognizes that "it is possible to argue, as seems to have happened at the Caracas meeting of the Group in April 1972, that, though a creature of the G-77, the G-24 is an independent body of monetary officials with no institutional ties to either the G-77 or UNCTAD".

It was concluded at the April 1977 meeting that the organization and working procedures of the G-24 had worked generally satifactorily. Nevertheless certain adaptations were decided upon. As regards the relationships with the Group of 77 it was decided that "the Group should also maintain close contract with the Group of 77" without stating how that close contact should be carried out.

4. The Ministers of the Group of 77 met in Arusha, Tanzania, from February 5 to 16, 1979, and adopted important decisions that relate procedurally and in substance to the Group of 24. The most relevant decisions are as follows:

> "6. The Group of 77 emphasizes that a genuine and fundamental reform of the international monetary system is necessary and that such a reform should be consistent with the trade and development requirements of the developing countries.
>
> 7. The Ministers of the Group of 77:
>
> (i) Call on the Group of 24 to intensify its work in accordance with its mandate and to do preparatory work on the fundamental reform of the international monetary system, and invite the Chairman of its Deputies to convey reports of all its meetings to the Chairmen of the Group of 77 in Geneva and New York; further call on the above-mentioned Groups to collaborate with each other on these matters and make arrangements for continuing cooperation. The Ministers of the

Group of 77 are of the view that member Governments of the Group of 77 should avail themselves of the occasion of the Bank/Fund meeting in Belgrade in 1979 to convene a meeting of the Group of 77 at the level of Ministers of Finance or Economy and in this connection request the Government of Yugoslavia to make appropriate arrangements for such a meeting in consultation with the Chairman of the Group of 24.

(ii) Recommend that UNCTAD V establish an ad hoc intergovernmental high level group of experts within UNCTAD to examine fundamental issues concerning the evolution of an international monetary system that is consistent with the long-term trade and development requirements of the developing countries;

(iii) Call for examination of the possibility of holding an international conference on monetary reform at an appropriate time.

17. The Ministers recommend that:

(vi) <u>Monetary cooperation</u>

(b) Recommends that the Group of 77 meets immediately before the opening of the 1979 Annual Meeting of the IMF and the IBRD in Belgrade in order to coordinate its position for that meeting".

4. It is desirable that G-24 should address itself to the specific actions to be taken in this context and to decide upon appropriate arrangements for the meetings in Belgrade.

INTERGOVERNMENTAL GROUP OF TWENTY-FOUR
ON INTERNATIONAL MONETARY AFFAIRS

STATEMENT BY MR. S. DELL

ON THE

BALANCE OF PAYMENTS ADJUSTMENT PROCESS

IN THE DEVELOPING COUNTRIES

(Item 2(A) of the Agenda)

Mr. Chairman:

It is a great honour and pleasure for me to have this opportunity of addressing this distinguished gathering on the report that has been prepared. My colleagues and I have had only one objective--namely, to be of as much assistance as possible to the Group of Twenty-Four--and I hope that we have succeeded, at least to some extent, in this direction.

There is a widespread presumption that most balance of payments problems can be solved by balancing the budget, curbing the money supply and setting a realistic exchange rate. These measures are, without doubt, applicable to cases in which the main problem is excess pressure of domestic demand, though even there with some qualifications that would take the particular circumstances of individual cases into account. But in the course of the in-depth study before you, it was found that the instances of balance of payments difficulty in developing countries that occurred in recent years were clearly not primarily in the category of excess aggregate demand, even though elements of demand pressure may have been present in some cases.

Among the major factors in pressures on the balances of payments of developing countries in the 1970s were the following:

(a) Extraordinary price movements that were generated externally.

(b) The slackening of business activity and hence of import demand in the industrial countries.

(c) Protectionist restrictions imposed by or on the insistence of industrial countries on imports from developing countries.

(d) Structural factors tending to cause surpluses in the balances of payments of other countries.

(e) Structural factors operating on the balances of payments of the developing countries themselves.

None of these five categories of problem can be solved in any real sense by administering the traditional medicine of stabilization programmes. One can, of course, always cut down an economy to the point at which its imports will be brought into balance with its exports at a relatively low level. But that is not an acceptable solution for the world economy on the threshold of the third Development Decade.

It is a fundamental conclusion of the report before the Group of Twenty-Four that in determining the appropriate volume of balance of payments support and the conditions required for the provision of that support it is important to distinguish between those elements of a balance of payments deficit for which a developing country is itself responsible, and those elements that are due to factors beyond its control.

This is not a revolutionary idea for the Fund. At one time developing countries were required to cut back their levels of activity even where external imbalance was due to a decline in exports for reasons beyond their control. The introduction of the compensatory financing facility was a tacit recognition that it was improper to force standard adjustment policies on developing countries in circumstances for which they were not responsible. An extension of the same broad principle at the time of the rise in oil prices led to the introduction of the oil facility. Both of these facilities embodied a low degree of conditionality because it was accepted that the rigours of upper tranche conditionality were inapplicable in cases where problems had originated from abroad rather than from the policies or performance of the countries affected.

But the fundamental principle that underlies the compensatory financing and oil facilities has not yet been applied in a manner that would respond adequately to the five sets of circumstances that I detailed a moment ago.

Take the case of the new protectionism, for example. It is customary to distinguish between restrictions on imports for balance of payments reasons, over which the IMF has jurisdiction, and restrictions for commercial reasons or to avoid market disruption, which come within the purview of GATT. But we cannot ignore the balance of payments effects of protectionist measures. It is immaterial to an exporting country whether its exports fall because of trade restrictions or because of balance of payments restrictions in the importing country. Both types of restriction tend to disturb the balances of payments of the exporting countries. Moreover, if such disturbances are serious enough, either alone or in combination with other factors, to prompt recourse to the IMF, a country may find itself called upon to adjust within a relatively short period of time through a sharp curtailment of domestic expenditure. This is in striking contrast with the importing industrial country, which, if the Multi-Fibre Arrangement is any guide, has almost unlimited time at its disposal in which to effect the necessary adjustments of its weak or non-competitive industries.

Moreover the exporting country may be called upon to adjust its exchange rate downwards, even though the effectiveness of such adjustment is being frustrated by the direct controls applied against its exports.

The intimate relationship between trade and the balance of payments makes it impossible to treat problems in either sphere in complete isolation from the other. Some way needs to be found of treating these problems as a whole, and not in watertight compartments. Similar considerations apply to the segregation of short-term from long-term problems of economic management accompanied by the institutional separation of the sources of long-term capital and short-term balance of payments support.

Or again, it has been recognized that part of the surpluses in the system are due to structural factors of a long-term character. As noted in the report, the Federal Republic of Germany has advanced the idea that its own surplus is structural, and the German Government is therefore reluctant to undertake a rapid process of adjustment.

But if the international community accepts the idea that the German surplus is partly or wholly structural, and that adjustment of the surplus downwards will have to be programmed over an extended period, it cannot escape the consequences that this has for the counterpart deficit countries.

Here we come up against the problem that the counterpart deficits cannot be precisely identified or located. It is impossible to say how much of a given country's deficit should be regarded as the mirror image of a structural surplus of the type referred to by the Federal Republic of Germany.

But the fact that the problem of identification is a difficult one does not mean that it can simply be ignored, which is what is being done at the present time. Since the Federal Republic of Germany and other countries in a similar position are unable to eliminate their collective surplus, other countries that are in deficit are being required to adjust to an extent that goes far beyond the degree of their own responsibility for their deficit positions. The degree of retrenchment presently required of deficit countries may be several times as great as their own domestic situation or performance would warrant in the circumstances.

Of course the inevitable outcome of forcing excessive retrenchment on deficit countries while the surplus countries continue to maintain their surpluses is that the deficits are simply shifted from country to country. And the cumulative deflation thus brought about by the adjustment process is thereby superimposed on, and reinforces, the primary deflation resulting from business recession in the industrial countries.

If I had to select one point out of this whole report that is of greater importance than any other, it is that the diagnosis of balance of payments problems needs to be greatly improved and refined: and that the remedies should be carefully adapted to the problems instead of being based upon a standard recipe. The traditional formula is applicable to cases of excess demand, and may also be one of the ingredients in a situation in which excess demand, though not a predominant factor, is nevertheless present. But to the extent that deficits are due to, or are compounded by, structural surpluses in the system, or reflect a shifting of balance of payments pressures from other countries as a result of business recession or import restrictions, remedial measures should be required of the industrial countries concerned. Furthermore, if the application of such remedial measures extends over a long period, adjustment in the deficit countries should be programmed over similarly extended time periods, and appropriate finance should be provided accordingly. There is no reason why surplus countries should not stretch out their own adjustment process provided that they are prepared to finance their surpluses at long term and ensure sufficient recycling through the Fund and World Bank to the countries faced with the counterpart deficits.

Moreover the remedies should be selected in such a way as to reconcile the need for balance of payments adjustment in the short run with the basic requirements of development in the longer run, and should in no case subordinate the latter to the former. If a stabilization programme results in a significant decline in production and above all in investment, that should be regarded as a prima facie indication that the programme is failing in its purpose and needs basic revision.

So far I have concentrated on problems of deficit countries arising from factors beyond their control. But there are several categories of problems of domestic origin. Many of these are attributable to excess demand, but by no means all of them. Moreover even in cases where excess demand is present, the basic difficulty may be much more fundamental. It may consist of a lack of elasticity in the economy--for example a rigidity in the supply of food or other basic consumption goods, or an inability to shift resources readily in line with new market requirements. In such cases there is a need for measures to tackle the basic causes of disequilibrium and the long-run obstacles to growth along with the proximate phenomena of inflation and balance of payments pressure that accompany them.

An obvious example, as pointed out in the study, is the adjustment to higher fuel prices, involving a process of long-term industrial change requiring investment in alternative sources of energy, as well as in industrial technologies that economize on fuel. The oil facility of the Fund was designed to take some account of this problem, since it was intended to permit medium-term financing of oil deficits that would give some time for the structural adjustments to be made that would realize economies in the use of energy. But this was only one example of a whole series of cases in which essentially similar problems of long-term adjustment arise.

It is interesting to recall that during the hearings in the United States Congress on the establishment of the Bretton Woods institutions in March 1945, it was pointed out by the spokesman for the American Bankers Association that "some stabilization programmes will call for long-term loans." This consideration was one of those adduced by the American Bankers' Association as justification for merging the Bank and the Fund. I have no intention of suggesting that such a merger should now be considered, but certainly the idea that effective stabilization may require long-term facilities should not be allowed to be a casualty of institutional stratification. It is for this reason that we have proposed that consideration be given to the establishment of a new facility that bridges the gap between the short-term lending of the IMF and the long-term lending of the World Bank.

I do not attach any importance to the particular form in which this proposal is made in paragraph 35(vii) of the Summary and Recommendations of the report. I may say that an earlier draft of this proposal provided for a facility jointly operated by the Fund and Bank. It was only in the light of arguments put to us to the effect that joint administration of a facility of this kind would be cumbersome that we revised the proposal, but I do not feel strongly on this score. Moreover there are many other ways of achieving the same objective. Recommendation (vi), for example, suggests that the same objective could be achieved through continuation and substantial liberalization of the supplementary financing facility. It will be obvious, of course, that here one has in mind something more than marginal adjustments to the supplementary financing facility as it exists at the present time, particularly as regards conditionality.

In the course of informal discussions we have had on the proposal for a medium-term facility, some difference of opinion has emerged as to the relationship between the conditions required by the Fund for drawings by member countries and the level of resources available. One view put to us was that the conditions required by the Fund are independent of available resources. That being the case, it was considered unhelpful to propose the creation of a new medium-term facility within the Fund. It was felt that the resources provided for such a facility would only add to the total volume of funds already lying idle in the IMF as a result of the disinclination of member countries to draw on the upper credit tranches except as a last resort. If additional resources were available it would be much better, on this view, to provide them in the form of long-term capital and to step up the volume of programme lending by the World Bank.

While recognizing the strong case that was thereby deployed against the idea of a medium-term facility within the Fund, it seemed to us that there were other considerations that ought to be taken into account.

In the first place it does not appear to be quite correct to say that the conditions laid down are completely independent of the resources available. If the potential balance of payments deficit of a country is very much larger than the resources that it is in a position to draw from the Fund, it stands to reason that the stabilisation measures required of it by the Fund will be much more demanding than they would be if the potential deficit could be fully covered by Fund resources without further belt-tightening. Similarly, any proposal, such as that made in the present report, for stretching out the period of adjustment in cases where structural changes are required is bound to come up against the problem of resource inadequacy, especially having regard to the longer periods of repayment envisaged.

An additional factor is that while some developing countries have been able to benefit from access to private capital markets, borrowing from private banks is at best a poor substitute for adequate resources in the Fund, especially in view of the fact that there are great inequalities in the access of member countries to the private banking system and that the terms and conditions of private bank lending are inappropriate for the lowest-income countries. Consequently Fund resources form a much higher proportion of the total balance of payments financing available to the poorest countries, and it is of the highest importance that the volume of such financing should be adequate to the needs. It is equally important to avoid the danger to which the Executive Director for the Netherlands, Mr. H. O. Ruding, alluded in a recent article, namely that the poorer countries will suffer more from conditionality than other countries simply because they have to rely mainly on the Fund for balance of payments support. These are among the reasons for seeking an expansion of the resources of the Fund, accompanied by an easing of conditionality.

The alternative view, moreover, seems to imply that there is no hope for an international monetary system that would be more responsive to the needs and problems of developing countries. This is apt to be a self-fulfilling prophecy in the sense that if one gives up hope of reform, reform is not likely to come.

Despite the impressive weight of the arguments brought to bear against our proposal, therefore, we have maintained it for the reasons I have indicated. I should like to emphasize once again, however, that we attach far less importance to the particular proposals that we have made than to the objectives that underlie them. The analysis in the report has drawn attention to a number of key problems, all of which are set out in the summary at the beginning. We have indicated our own particular suggestions for dealing with these problems, but members of this group are certainly much more qualified than the staff of this project to decide on the means that should be adopted for dealing with the problems identified.

Finally perhaps you would allow me, Mr. Chairman, to take this opportunity of referring very briefly to the third and last phase of the UNDP/UNCTAD project which is designed to provide documentation and support to the Group of Twenty-Four. We have just begun a study of the international exchange rate system as it affects developing countries. We have engaged a number of distinguished analysts who will examine the experience of developing countries in dealing with problems resulting from the system of floating rates with a view to a general evaluation of that system as well as of alternative options. We shall keep in close touch with the Bureau of the Group of Twenty-Four as the study progresses, and we hope to be able to present a report on the study around the end of this year.

SM/78/296
Revision 1
Supplement 3

March 5, 1979

To: Members of the Executive Board

From: The Secretary

Subject: Guidelines on Conditionality

Attached is the Secretary's understanding of the final text of the guidelines on conditionality for the use of the Fund's general resources and for stand-by arrangements which were adopted at EBM/79/37 and EBM/79/38 on March 2, 1979.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Use of Fund's General Resources and Stand-By Arrangements

March 2, 1979

1. Members should be encouraged to adopt corrective measures, which could be supported by use of the Fund's general resources in accordance with the Fund's policies, at an early stage of their balance of payments difficulties or as a precaution against the emergence of such difficulties. The Article IV consultations are among the occasions on which the Fund would be able to discuss with members adjustment programs, including corrective measures, that would enable the Fund to approve a stand-by arrangement.

2. The normal period for a stand-by arrangement will be one year. If, however, a longer period is requested by a member and considered necessary by the Fund to enable the member to implement its adjustment program successfully, the stand-by arrangement may extend beyond the period of one year. This period in appropriate cases may extend up to but not beyond three years.

3. Stand-by arrangements are not international agreements and therefore language having a contractual connotation will be avoided in stand-by arrangements and letters of intent.

4. In helping members to devise adjustment programs, the Fund will pay due regard to the domestic social and political objectives, the economic priorities, and the circumstances of members, including the causes of their balance of payments problems.

5. Appropriate consultation clauses will be incorporated in all stand-by arrangements. Such clauses will include provision for consultation from time to time during the whole period in which the member has outstanding purchases in the upper credit tranches. This provision will apply whether the outstanding purchases were made under a stand-by arrangement or in other transactions in the upper credit tranches.

6. Phasing and performance clauses will be omitted in stand-by arrangements that do not go beyond the first credit tranche. They will be included in all other stand-by arrangements but these clauses will be applicable only to purchases beyond the first credit tranche.

7. The Managing Director will recommend that the Executive Board approve a member's request for the use of the Fund's general resources in the credit tranches when it is his judgment that the program is consistent with the Fund's provisions and policies and that it will be carried out. A member may be expected to adopt some corrective measures before a stand-by arrangement is approved by the Fund, but only if necessary to enable the member to adopt and carry out a program consistent

- over -

with the Fund's provisions and policies. In these cases the Managing Director will keep Executive Directors informed in an appropriate manner of the progress of discussions with the member.

8. The Managing Director will ensure adequate coordination in the application of policies relating to the use of the Fund's general resources with a view to maintaining the nondiscriminatory treatment of members.

9. The number and content of performance criteria may vary because of the diversity of problems and institutional arrangements of members. Performance criteria will be limited to those that are necessary to evaluate implementation of the program with a view to ensuring the achievement of its objectives. Performance criteria will normally be confined to (i) macroeconomic variables, and (ii) those necessary to implement specific provisions of the Articles or policies adopted under them. Performance criteria may relate to other variables only in exceptional cases when they are essential for the effectiveness of the member's program because of their macroeconomic impact.

10. In programs extending beyond one year, or in circumstances where a member is unable to establish in advance one or more performance criteria for all or part of the program period, provision will be made for a review in order to reach the necessary understandings with the member for the remaining period. In addition, in those exceptional cases in which an essential feature of a program cannot be formulated as a performance criterion at the beginning of a program year because of substantial uncertainties concerning major economic trends, provision will be made for a review by the Fund to evaluate the current macroeconomic policies of the member, and to reach new understandings if necessary. In these exceptional cases the Managing Director will inform Executive Directors in an appropriate manner of the subject matter of a review.

11. The staff will prepare an analysis and assessment of the performance under programs supported by use of the Fund's general resources in the credit tranches in connection with Article IV consultations and as appropriate in connection with further requests for use of the Fund's resources.

12. The staff will from time to time prepare, for review by the Executive Board, studies of programs supported by stand-by arrangements in order to evaluate and compare the appropriateness of the programs, the effectiveness of the policy instruments, the observance of the programs, and the results achieved. Such reviews will enable the Executive Board to determine when it may be appropriate to have the next comprehensive review of conditionality.

Item 12

of the provisional agenda for UNCTAD V

MONETARY AND FINANCIAL ISSUES

Introduction

The Group of 77 focused its attention at the outset on certain vital inter-relationships between trade, financial and monetary issues at the global level. The Group noted that the surest way of resisting the rising tide of protectionism - and indeed of turning it back - was to revive the process of growth in the global economy. Needed structural adjustments in the pattern of production and trade would be facilitated in both developed and developing countries alike by a climate of economic expansion rather than of stagnation.

It was in this context that they observed that the extent and persistence of considerable under utilization of resources leading to unemployment in the developed world should no longer be seen as an exceptionally prolonged trough to the business cycle with a more or less automatic recovery to follow. This situation inhibits an effective international adjustment process. What would be required to restore full employment is a new impulse on a historic scale comparable for example with the transfer of resources to Europe for post-war reconstruction; this time, meeting the needs of the third world would have a decisive role to play in a situation where purely domestic reflation in developed economies would be no substitute against the existing background of production capacities geared to export markets that have been developed over three decades of export led growth.

For the resulting revival of effective demand to lead to the restoration of investment and growth initially in the developed world, international monetary stability was an essential prerequisite. Excessive volatility in currency values would otherwise dampen the inducement to invest; and this cannot be eliminated without a major reform of the international monetary system along the lines spelt out below. Regional arrangements contemplated by some developed countries are at best a partial solution which all the same underscores the deficiencies of the present system and the beginning of concern with the problem of reviving investment. Paripassu with movement towards a fundamental monetary reform, a massive transfer of resources to meet the needs of the third world becomes today the necessary precondition for the revival of the growth process in the developed world and more generally in the world economy. If excess production capacity in the developed world is reckoned to be of the order of at least $200 billion, an initial additional financial transfer in the range of $35 billion to $50 billion would help launch the process of fully utilizing this excess capacity and help bring about the necessary structural changes in the world economy. In this regard, special attention should be given to the needs of the least developed countries and the most seriously affected countries. The mechanism would analytically imply the raising under the collective guarantee of the international community of monies in international capital markets and their disbursement to developing countries over a long term period, with an interest subsidy element as appropriate, in the form of both project and programme lending for structural change.

It is axiomatic that recourse to these mechanisms should in no way prejudice the expansion of ODA to meet the accepted international targets for which, again, specific proposals are formulated below.

Item 12(a): Consideration of requirements of the international monetary system which would foster world trade and development, compatible with the needs of a satisfactory international adjustment process, taking account of the adverse effects of fluctuating exchange rates and world inflation, and in particular, taking into account the development of developing countries and their needs for balance-of-payments support

1. Since the breakdown of the Bretton Woods System in 1971, international monetary relations have been marked by unusually high and persistent inflation and a high degree of instability in the exchange rates of major currencies. Despite the ad hoc measures undertaken since then, the international adjustment process has not been satisfactory and large payments imbalances have persisted. This is of special concern in the context of an international economy which seems to be in permanent state of stagnation, with low production and trade growth rates occurring simultaneously with high unemployment, under-utilization of resources and inflation rates. The burden of correcting these imbalances has fallen disproportionately upon developing countries, which have borne the weight of the adjustment measures. It has to be emphasized that in this situation a major proportion of the balance of payments disequilibria of developing countries have been caused by external factors arising in the developed countries such as the world recession/inflation. In the absence of adequate off-setting finance developing countries have had no choice but to limit their development programmes and incur an extremely high external debt compared with their economic capacity. There is now clear and urgent need for a fundamental reform of international monetary arrangements to make them more effective in fostering world trade and development, and in particular, to make them supportive of the development of developing countries in the overall context of the establishment of the New International Economic Order.

2. Although within the International Monetary Fund certain decisions have been taken recently increasing the quotas, establishment of the supplementary financing facility, and new allocation of SDRs, there is still a need for improvements in their characteristics. They only partially meet the demands of the developing countries. Among other things these decisions do not go far enough in making the SDRs the principal reserve asset of the International Monetary System nor in ensuring equitable distribution of international liquidity. Moreover, the allocation of SDRs received by developing countries would be reduced by their contribution for the

reserve tranche of the seventh increase in quotas. In this context the Group of 77 recognizes the merit of the proposal made in connexion with the seventh general review of quotas that the SDR component of the quota increase of developing countries should be financed by developed countries. Unfortunately this was not implemented at that time but it should be done in future increases in quotas.

3. The severe impact of the erratic exchange rate movements of major currencies on developing countries' trade and foreign reserves have contributed to the slowing down of the economic growth rate of these countries. To overcome this problem the international community should move towards a system based on the SDRs as the principal international reserve asset with a minimum of conditions for their use. Moreover, developed countries, in addition to intensifying their efforts to control inflation,*/ should provide financial instruments to protect the real value of the financial assets of the developing countries. Furthermore, in exercising its surveillance over exchange rate, and balance of payments policies the IMF should intensify its surveillance over the major currencies*/ and pay due regard to the special circumstances and needs of the developing countries. In this context the Fund should recognize the structural character of balance of payment disequilibria of developing countries and accordingly apply appropriately flexible conditionality in the use of IMF resources designed to stimulate the recovery of world economic activity, the expansion of trade and employment and facilitate a more balanced adjustment process.

4. Many other issues of importance are relevant in a discussion of the reform of the monetary system. These include *inter alia* ways of ensuring a better and more balanced international adjustment process including measures which would make surplus developed countries and reserve currency countries accept an equitable share of the burden of adjustment and to promote the transfer of real resources to developing countries and the establishment of a link between SDRs creation and development financing which could take one of the two forms viz. (i) a direct link whereby the share of developing countries in SDR allocation would be increased above their share in the IMF quotas; (ii) an indirect link whereby a specified proportion of newly created SDRs allocated to developed countries, would be channelled to multilateral development finance institutions.

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*/ The available empirical evidence supports the observation that, contrary to expectations, floating has not generally succeeded in isolating domestic economies from foreign inflationary shocks. This is especially true when these shocks emanate from the reserve currency country. In particular, developing countries, mainly pegging their currencies to the United States dollar (which is also their main foreign reserve asset), experience both direct price effects and indirect price effects through constant pressures on their domestic monetary bases. These countries cannot easily sterilize such imported inflation due to either their underdeveloped financial markets or commitments of credit policy to long-run credit objectives. Furthermore, their trade pattern may not permit changes in their currency peg, since such changes can have an impact on their competitive positions. Differences in national inflation rates when superimposed on exchange rate changes result in wide divergence in real exchange rates. This is perhaps a major reason for the need of exchange rate surveillance under a system of managed float.

The Group of 77 emphasize that an essential precondition for effective monetary reform is an equitable decision-making process in the Bretton Woods institutions.

5. The Group of 77 emphasizes these issues along with the following as being of immediate importance at UNCTAD V:

(a) In order to enable developing countries to maintain their development programmes in the face of continuing inflation and recession in developed countries, a facility should be established to provide balance-of-payments support to finance their externally induced deficits.* As noted above a major part of the present deficits have arisen from imbalances in the international economy, in particular recession/inflation as well as mounting protectionism in developed countries which has adversely affected both the volume and purchasing power of developing country exports. Since the causes of these deficits are external to the developing countries themselves, the balance of payments should not be dependent on "conditionality" of the type imposed on present upper credit tranche support. Rather it should be related to broader development targets. For the facility to be meaningful it must be able to provide financing that is significant in relation to present levels of deficits. Bearing in mind that these deficits are largely the counterparts of structural surpluses in developed countries - requiring in their own view a substantially long period of adjustment to eliminate - the facility should provide support on longer-term maturity that would enable the concerned developing country to carry out structural adjustments that would facilitate the attainment of its development objectives.

(b) The international economic situation is adversely affecting developing countries and a more flexible conditionality in the use of IMF resources would stimulate the recovery of world economic activity, the expansion of trade and employment and facilitate the adjustment process. The rules of the game for balance-of-payments adjustment should be fair and balanced so that the burden of adjustment falls not only on deficit countries but also on persistent surplus countries. Balance-of-payment support in general must not be used to exercise political pressure on developing countries and should not be dependent on acceptance by the developing country of measures and programmes which involve social costs which hinder its basic aims, objectives and priorities.

(c) The existing compensatory financing facility should be improved and liberalized to compensate fully for shortfalls in the purchasing power of exports of developing countries resulting from changes in relative price or shortfalls in volume measured according to a trend rate of growth. Repayments should be set in the light of the factors giving rise to the shortfall and should be required to be made when the purchasing power of export rises above the trend rates. In this connexion, the Group of 77 should urge for the acceptance of the following recommendations:

(i) the limit on outstanding drawings under the facility should be increased from 75 per cent to 100 per cent of a member's quota. Drawings in any twelve-month period should be increased from 50 per cent to 100 per cent;

(ii) the repayment period should be lengthened from the present three to five years to one of five to seven;

(iii) countries should have the choice of basing the calculation of their shortfalls on their total receipts from merchandise exports or the combined receipts from merchandise exports and services;

(iv) in the calculation of shortfalls, account should be taken of the increase in the price of imports;

(v) increased import volume resulting from climatic or other factors beyond the control of the country concerned should also be taken into account in calculating the shortfalls;

(vi) drawings under the facility should not be subject to any credit tranche conditionality; and

(vii) even when the charges for the Compensatory Financing Facility are lower than the commercial rate, the annual rate of 4-3/8 per cent should be maintained for the period during which this service is being provided.

(d) The Group of 77 urges that a subsidy account to enable developing countries, in particular the least developed, to borrow from the IMF supplementary facility be created.

6. The Group of 77 emphasizes that a genuine and fundamental reform of the international monetary system is necessary and that such a reform should be consistent with the trade and development requirements of the developing countries.

7. The Ministers of the Group of 77:

(i) Call on the Group of 24 to intensify its work in accordance with its mandate and to do preparatory work on the fundamental reform of the international monetary system, and invite the Chairman of its Deputies to convey reports of all its meetings to the Chairmen of the Group of 77 in Geneva and New York; further call on the above-mentioned Groups to collaborate with each other on these matters and make arrangements for continuing co-operation. The Ministers of the Group of 77 are of the view that member Governments of the Group of 77 should avail themselves of the occasion of the Bank/Fund meeting in Belgrade in 1979 to convene a meeting of the Group of 77 at the level of Ministers of Finance or Economy and in this connexion request the Government of Yugoslavia to make appropriate arrangements for such a meeting in consultation with the Chairman of the Group of 24;

(ii) Recommend that UNCTAD V establish an ad hoc intergovernmental high level group of experts within UNCTAD to examine fundamental issues concerning the evolution of an international monetary system that is consistent with the long-term trade and development requirements of the developing countries;

(iii) Call for examination of the possibility of holding an international conference on monetary reform at an appropriate time.

Item 12(b): measures to augment the net flow and improve the conditions of resource transfers from developed to developing countries

ODA - Bilateral

(a) The Ministers of the States Members of the Group of 77 note with concern (i) that the actual performance of the developed countries belonging to the DAC has fallen far short of the 0.7 target; (ii) that ODA as a percentage of DAC GNP has fallen steadily from 0.34 per cent in 1971 to 0.30 per cent in 1977; (iii) that the three largest developed market economies - the United States, Federal Republic of Germany and Japan have allowed a continuing decline in ODA as a proportion of their GNP; (iv) that concessional flows from Socialist countries of Eastern Europe are below the international target. The Ministers of the Group of 77 record with appreciation that three developed donor countries - Netherlands, Norway and Sweden have passed the 0.7 per cent ODA target, and have stated that they intend to try to reach the level of one per cent of their GNP's.

(b) Without prejudice to whatever target that may be set for the Third Development Decade, the Ministers of the Group of 77 call for a programme of immediate measures by each developed donor country in the form of binding commitments for an annual growth rate of ODA disbursements for each of the next three years. In particular, the Group of 77 call on the United States, the Federal Republic of Germany and Japan to raise their ODA disbursement at least by 25 per cent per year for each of the next three years in real terms so as to double their disbursement by the end of the period. In this connexion the Group of 77 note that the Government of Japan has announced its intention to double its ODA disbursement in three years and express its view that this increase should be in real terms. They also call on the Socialist countries of Eastern Europe to increase their development assistance to satisfactory levels and provide full information on such flows.

(c) There should be a general increase in real terms in the present total ODA flows to all developing countries and in the context of this general increase the quantum in real terms of ODA flows to least developed countries, most seriously affected countries, land-locked and island developing countries should be doubled.

The increases to these categories of countries should be achieved within the shortest possible time and in any event not later than in 1981.

(d) The transfer of resources should be depoliticized and placed on an increasingly assured, continuous and automatic basis and achieve a rational and equitable distribution among developing countries taking into account different levels of development. The quality of ODA should be improved so that:

(i) ODA to least developed countries should be in grants and to other countries at least at 95 per cent concessionality.

(ii) Definition of ODA should be modified to be net of amortization and interest.

(iii) Loans with less than 50 per cent grant element should not qualify as ODA.

(iv) ODA should be untied and programme assistance should be increased as against project assistance.

(v) Local cost financing should be provided.

(vi) Greater preferential margins should be allowed to developing countries' suppliers in the context of international bidding for projects financed by multilateral financial institutions.

(e) There are now substantial ODA funds which have been committed but remain undisbursed. Consideration should be given to the possibility of using these for developmental purposes and particularly to provide balance of payment support by having the developed donor countries deposit ODA resources in a revolving fund as soon as they are committed. They would be drawn down by the developed donor country as and when they are disbursed.

(f) Developed countries should keep their public opinion informed about the importance of accelerating the transfer of resources to developing countries.

(g) Implementation of immediate increases should be monitored regularly by the Trade and Development Board.

Multilateral assistance

The Ministers of the Group of 77:

(i) In view of the size and increasing financial needs of developing countries, stress the need of an urgent and substantial general increase of the capital base of multilateral financial institutions provided by developed countries so as to ensure that their commitments in favour of developing countries increase in real terms at a satisfactory rate and are consistent with the needs of those countries. The increase in capital base should be made for both the World Bank and the regional development financial institutions.

(ii) Urge IBRD and regional development banks to modify their rules and procedures in granting loans to developing countries in order to avoid delays in implementation and disbursements.

(iii) Urge the IBRD and the regional banks to provide increasing technical assistance both for project development and execution.

(iv) Since IDA plays a major role in the transfer of resources to the least developed countries and other low income countries, call for the sixth replenishment to be effected without delay so as to result in a significant real increase in resources. In this regard the replenishment of the soft windows of the regional development banks should be co-ordinated so as to result in increased lending capacity in real terms.

(v) Urge the reviving of the Third Window of the World Bank.

(vi) Considering the multiyear nature of the programme of the operations of the UNDP and other related United Nations Agencies, urge that the financing of these operations should be planned also to cover several years.

(vii) Agree that the proposal for the establishment in the World Bank of a long-term facility to finance purchases of capital goods by developing countries should be considered as quickly as possible with a view to taking a positive decision at the earliest possible date.

(viii) Call for an increase in programme lending of the multilateral financial institutions to make it equal to at least 25 per cent of total loans and also to stress in this context that the lending programmes of the multilateral financial institutions should become increasingly responsive to the overall priorities and in particular to sectoral priorities of the recipient developing countries. Call for adequate local cost financing to be provided.

(ix) Call for a massive transfer of resources to developing countries which would enable them to accelerate their pace of development and thus contribute to inflation free growth of the global economy. Such a massive transfer of resources for project development and execution and programme finance purposes to developing countries will be successful only if it is compatible with the development priorities of developing countries and its terms and conditions consistent with their debt servicing capacity over the longer term.

(x) Support the establishment of clear and coherent objectives for the transfer of resources from developed creditor countries and multilateral institutions as well as to the creation of operative mechanisms that effectively verify the additionality of resources.

(xi) Reject the principle of arbitrary "financial graduation" which is being established in IBRD and other international financial institutions providing non-concessional finance. With this principle, developed countries also seek on the one hand to reduce or cease loans to these countries, which have achieved progress in their economies and on the other hand to avoid their responsibility with regard to the transfer of real resources. The problem should be resolved by establishing objective criteria through negotiations where developing and developed countries will have equal representation and voice.

Private flows

The Ministers of the Group of 77:

(i) While acknowledging the need for private flows, stress that these should not in any way undermine the targets set for concessional flows.

(ii) Call for expeditious implementation of the Manila recommendations to help remove the present administrative and institutional obstacles impeding the developing countries' access to national capital markets. Call for a preferential treatment for developing countries to enable them to make floatations or placements on schedule in developed countries with national capital markets; and raise in favour of developing countries the ceilings on foreign floatations especially in countries whose currencies are in high demand. Charges should be carried out rapidly with a view to facilitating the developing countries' access to international capital markets. In this regard, the Group of 77 hopes that the contemplated European Monetary system will not lead to realignment of currencies that would result in imposing a cost on developing countries incurring liabilities in these currencies.

(iii) Welcome direct private investments which are compatible with their national legislation and development priorities while at the same time allowing them to enjoy an increased local participation in management, administration, employment and on-the-job-training for local manpower, as well as local participation in ownership. The Group of 77 Ministers recall the urgency of defining a code of conduct governing the activities of the transnational corporations which meets the interests of all parties concerned.

(iv) Call on multilateral financial institutions to consider undertaking co-financing arrangements, after study and detailed examination in accordance with the priorities of the countries concerned.

Multilateral guarantees

Whereas multilateral financial institutions (MFIs) have the capacity to extend guarantees to enable their members to mobilize resources from the private capital markets, they have not so far provided guarantees in any significant volume since such guarantees are considered by their articles of agreement as being equivalent to loans. In seeking multilateral guarantees, the Group of 77 stress the need to ensure that such guarantees bring additional capital flows to the developing countries concerned and do not in any way adversely affect the access to capital markets already enjoyed by some developing countries. The guarantees must be established in such a way as to avoid the possibility of existing borrowers being asked to go to the facility for guarantees even if they do not wish to do so. In this context the Group of 77 countries urge that attention be given to: (1) a recommendation to establish a separate multilateral guarantee facility for the interested developing countries; (2) a recommendation to amend the articles of agreement of multilateral financial institutions to allow them to provide guarantees more easily, including partial guarantees.

Item 12(c): Other financing issues related to trade

The Ministers of the Group of 77 considered the proposal for the establishment of the multilateral export credit guarantee facility which was examined and recommended by a group of international experts in UNCTAD. The Ministers of the Group of 77 call for UNCTAD V to agree on the establishment of such a facility in favor of developing countries that wish to enhance their access to international capital markets and diversify their exports.

Item 12(d): (i) Review of implementation and further action that may be required pursuant to Trade and Development Board resolution 165 (S-IX), part A

The Ministers of States Members of the Group of 77 while recognizing the efforts of some developed countries in taking steps to alleviate ODA debts of some developing countries, regret that the efforts so far have not been fully consistent with the relevant provisions of Part A of resolution 165 (S-IX). In this regard, the Ministers:

- Invite the developed countries which have already taken some actions in favour of some developing countries affected by the resolution to extend these actions to cover the ODA debt of all the poorer developing countries described in the resolution without discrimination on any ground. In the case of developed donor countries which grant relief measures to only a limited group of countries the Group of 77 would not consider such developed countries as having implemented resolution 165 (S-IX).

- Urge the developed countries which have not yet done so, to take, as early as possible, the necessary steps to fully implement Part A of the above-mentioned resolution; to benefit all the poorer developing countries covered by the resolution without discrimination;

- recall that the initial aim was to succeed in alleviating the ODA debt of the developing countries affected by resolution 165 (S-IX) within the framework of international co-operation.

Item 12(d): (ii) Detailed features for future operations related to debt problems of interested developing countries (Trade and Development Board resolution 165 (S-IX), part B)

The Group of 77 calls for:

(a) The completion of negotiations on detailed features for future debt operations by UNCTAD V in the light of the basic concepts contained in resolution 165 (S-IX). In this connexion the preamble, objectives and initiative procedures as drafted by the UNCTAD intergovernmental group of experts are satisfactory. In "analysis", the Group of 77 rejects any effort to bifurcate debt problems into "acute" and "long-term". In "action", the Group of 77 stresses the need to ensure that domestic measures correctly reflect the responsibility of the debtor and do not give external authorities the right to infringe on the sovereignty of states.

(b) The establishment of an International Debt Commission, comprising eminent public figures with recognized knowledge and experience of debt problems and economic development. Any interested developing country which believes it has, or may have a debt problem could address itself to the Commission.

The Commission will:

(i) examine the debt and development problems of the requesting country;

(ii) in the light of such examination and in accordance with the modalities of the detailed features, make recommendations on measures required to deal with the debt problem in the broader context of development including measures of debt reorganization and additional bilateral and multilateral finance, and;

(iii) convene a meeting of all parties concerned with a view to implementing the recommendations under (ii).

In carrying out its work, the commission will be assisted throughout by relevant international organizations including UNCTAD. This procedure and the detailed features drawn up in terms of resolution 165 (S-IX) will assure a global approach in which countries in similar situations will be treated similarly.

The Ministers of the Group of 77 note with dismay that explicit provisions in two UNCTAD consensus resolutions, namely 132 (XV) and 165 (S-IX) calling for UNCTAD to attend the creditors clubs were not honoured by the Paris Club in a recent instance. This was so in spite of an invitation by the debtor developing country concerned. In future debt negotiations interested developing countries using creditor clubs should be entitled to full assistance and participation from UNCTAD and other relevant international institutions.

Item 12(e): Review of the present system of international financial co-operation in the context of world trade and development and consideration of ways and means within this context to make it more effective in contributing to the development of developing countries

1. Past experience has shown that various aspects of international financial co-operation have been dealt with in an *ad hoc* manner by a multiplicity of fora and institutions which often operate along lines which are not mutually supportive of, or even consistent with, each other. This has led to a lack of predictability which has prevented individual developing countries from planning their development with confidence and it has also resulted in a failure to achieve the targets for the development of developing countries despite the fact that these have been universally accepted. Basically the problem has been that there is no meaningful commitment in respect of the total transfer of resources required to achieve these targets and the contributions necessary from individual developed countries and multilateral financial institutions in order to ensure that the total is reached. The need for a coherent system of international financial co-operation is becoming increasingly evident and the Group of 77 endorses the following basic elements of such a system.

2. In order to become fully supportive of internationally accepted targets for the development of developing countries the Group of 77 should seek from developed countries commitments to co-operate more effectively in evolving in a comprehensive manner an effective and equitable system of international financial co-operation, which must *inter alia* meet the following objectives:

(a) Ensure the transfer of real resources to developing countries adequate to meet the external capital needed to achieve these development targets.

(b) The form and composition of these capital flows should be consistent with the development plans of recipient developing countries and fully responsive to their investment and development priorities including sectoral allocations: the characteristics of the capital flows should be such - quickly disbursing, untied, programme, etc., so as to enable their rapid and effective utilization.

(c) This transfer of real resources should be on terms commensurate with the debt servicing capacity of the developing countries and their own development objectives. This would imply that notwithstanding the importance of private flows the bulk of the resource transfer should be in the form of concessional flows.

(d) In order to achieve this, the developed countries that have failed so far to reach the ODA target, should sharply increase their ODA to reach this internationally accepted target.

(e) Private capital flows to developing countries should be sustained on improved terms and conditions. Capital market regulations in developed countries should be liberalized in order to ensure the improved access of developing countries to these markets.

(f) In the context of transfer of resources to developing countries the need for more concessional transfers to least developed, MSA and other special categories of developing countries should receive special attention.

(g) In addition to securing adequate long-term capital flows the system of international financial co-operation should provide necessary financial resources including fund quota increases, longer-term balance-of-payments financing and compensatory finance to off-set shortfalls in the purchasing power of exports and to meet unforeseen import needs of individual developing countries. These financial resources should be available on appropriate terms and conditions and should be fully supportive of the country's development programme.

(h) This system of financial co-operation would also provide for a multilateral framework for future debt operations of interested debtor developing countries that safeguards their development programmes, on the basis of Trade and Development Board resolution 165(S-IX).

(i) The transfer of real resources should be placed on an increasingly assured, continuous and automatic basis, providing reasonable certainty to recipient countries in making their development and investment programmes. There should be an assessment at an international level of the necessary contributions of developed donors and multilateral financial institutions. Means should be found in the form of an international covenant to ensure that transfer of resources take place in a way consistent with this international assessment.

(j) The policies of multilateral financial and monetary institutions and their treatment of individual countries should be fully consistent with the priorities and development objectives established by the international community in the United Nations General Assembly.

(k) Developing countries should enjoy an equitable share in the decision-making process at the international level on matters affecting the international monetary and financial systems including decision-making in specialized agencies competent in these areas.

(l) There should be regular monitoring to ensure that inadequate functioning of any of the components of the system of international financial co-operation is remedied promptly.

(m) The transfer of resources should be adequate in volume, terms and conditions to meet the development finance needs of all developing countries.

The Group of 77 calls for agreement at UNCTAD V on these basic elements of a system of international financial co-operation in the firm belief that it would be in the interest of the international community as a whole. Further detailed work on the elements should then be entrusted to appropriate intergovernmental machinery within UNCTAD, beginning with the convening of a group of experts.

(vi) To assure that proposals and views expressed by Executive Directors are fully reflected in the papers, agenda and work program, when they meet on Development Committee matters, they will do so as Committees of the Whole of the Executive Boards.

(vii) Senior Officials would not be part of the institutional framework. However, ministerial deputies could meet on an ad hoc basis, when appropriate, to consider special issues. Since they would be deputies to Ministers, the decision to convene them would be one for the Ministers.

(viii) The Secretariat would be reduced to a senior official who would serve as Executive Secretary. He would assist the Chairman, Managing Director and President in ensuring the effectiveness of the Development Committee's work. The Secretariat service required by the Development Committee would be provided by Bank/Fund staff.

(ix) The Working Groups would be abolished. Task Forces--with a specific limited task and duration--might be used for certain issues with approval of the Development Committee.

(x) Studies and papers for the Committee would normally be prepared by regular Fund/Bank staff, but consultants or staff of other agencies may be asked by the Committee to contribute work under certain circumstances.

4. Some developing countries were in agreement with the proposals presented by the President of IBRD and Managing Director of the IMF.

5. Other developing countries, however, believed that the proposals presented went beyond the terms of references given by the members of the Development Committee; and that they went beyond changes of a purely administrative nature and implied substantive changes in the functioning of the Committee. It may be useful for the G-24 to consider the procedural and substantive issues in advance of the Development Committee meeting to present their views.

FUTURE ROLE OF THE DEVELOPMENT COMMITTEE

1. Fund Board of Governors Resolution No. 33-10, established that the Development Committee should continue functioning with its present broad mandate until 1980, when the Board of Governors should again review the work of the Development Committee and take such action as would be deemed appropriate.

2. Furthermore, the same resolution stated that "the Chairman of the Development Committee, the President of the World Bank and the Managing Director of the Fund will consult together on ways to improve the effectiveness of the work of the Committee and they will report to the Committee at its next meeting".

3. The Chairman of the Development Committee, taking into consideration the discussions of the Executive Boards of the World Bank and the IMF, and the recommendations of the President of the World Bank and the Managing Director of the Fund, emerging from them, has conveyed to the members of the Committee a number of proposals to achieve their mandate:

(i) The Development Committee would be continued as a Joint Bank/Fund Committee with its present broad mandate to consider all matters relating to the transfer of real resources.

(ii) The Development Committee's main function would be that of a broad discussion forum, including its use as a "reserve forum", for the discussion of issues relating to the operations of the institutions when circumstances warrant it.

(iii) The Chairman of the Development Committee, the Managing Director of the Fund, and the President of the Bank would be jointly responsible for organizing the work of the Development Committee, with a view to more effective performance.

(iv) The Boards of the Bank and the Fund would be used as preparatory bodies for the work of the Development Committee including its agenda and work program, as well as reviewing and sharpening issues in papers prepared for Committee consideration.

(v) The independence of the Development Committee would be reflected in its ability to present ideas freely. The work of the Committee would not be bound by a narrow definition of the responsibilities of the Bank and the Fund.

March 4, 1979

INTERIM COMMITTEE

ANTICIPATED ATTENDANCE - March 7, 1979

Chairman: Denis Healey

Managing Director: J. de Larosière

1. Member (or Alternate)

Abdul Aziz Al-Quraishi
Governor of the Saudi Arabian Monetary Agency
(Alternate for Mohammed Abal-Khail, Minister of Finance and National Economy of Saudi Arabia)

Associates

Abdul Aziz Al Dukheil
Deputy Minister for Financial Affairs, Ministry of Finance and National Economy

Abdullah Alkuwaiz
Saudi Arabia's Representative to Board of Arab Monetary Fund

Hossein G. Askari
Assistant to Executive Director (Fund)

Mohamed Omer Chapra
Advisor, Saudi Arabian Monetary Agency

Yusuf A. Nimatallah
Alternate Executive Director (Fund)

Executive Director

Mahsoun B. Jalal

Member (or Alternate)

2. José Ramón Alvarez Rendueles
Governor of the
Bank of Spain

Roberto Picado
Director,
Economic Research Department,
Central Bank of Costa Rica

Luis Angel Rojo
Director General of Studies,
Bank of Spain

Gustavo Romero Kolbeck
Director General,
Banco de México, S.A.

Bernardo Supulveda
Director General of International
Fiscal Affairs,
Secretary of Finance and
Public Credit (Mexico)

Carlos Rafael Silva
President,
Central Bank of Venezuela

Francisco Suárez
Manager,
International Economic Affairs,
Banco de México, S.A.

Juan Toribio
Director General of Financial
Policy,
Ministry of Economy (Spain)

Roosevelt Velázquez
Advisor to the President,
Central Bank of Venezuela

Executive Director

Joaquiń Muns

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General Secretary,
Bank of Spain

Carlos Alpírez
Manager,
Bank of Guatemala

Oscar Alvarez
Executive Secretary,
Central American Monetary Council
(Costa Rica)

Guillermo Bueso
President,
Central Bank of Honduras

Ariel Buira
Alternate Executive Director (Fund)

Francisco García Palacios
Advisor to the President,
Central Bank of Venezuela

Plinio A. Grazioso
President,
Bank of Guatemala

David Ibarra-Muñoz
Secretary of Finance and Public
Credit (Mexico)

Oscar Levin
Private Secretary to the Secretary
of Finance and Public Credit
(Mexico)

Mario Mejía
Director,
Exchange Department and International
Financial Institutions Department,
Bank of Guatemala

Julio Noriega
Chief,
International Financial Organization
Section,
Bank of Guatemala

Alfredo Phillips O.
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Banco de México, S.A.

Member (or Alternate)

3. Erik Hoffmeyer
Governor of the
Danmarks Nationalbank
(Alternate for Anders Andersen,
Minister for Economic Affairs
and Minister for Inland Revenue
of Denmark)

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Alternate Executive Director (Fund)

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Kaarlo Jännäri
Head of Office,
Bank of Finland

Carl-Göran Lemne
Head of the International Department,
Sveriges Riksbank

Bertil Lund
Director,
Ministry for Economic Affairs (Sweden)

Jóhannes Nordal
Governor and Chairman,
Board of Governors,
Central Bank of Iceland

Carl-Henrik Nordlander
Governor,
Sveriges Riksbank

Hermod Skånland
Deputy Governor,
Norges Bank

Niels Ussing
Deputy Director,
Ministry for Economic Affairs (Denmark)

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Member of the Board of Management,
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Member (or Alternate)	Associates (Seven of the following)
4. F. H. J. J. Andriessen Minister of Finance of The Netherlands	H. G. Akhniotis Manager, Economic Research Department, Central Bank of Cyprus
	Ksente Bogoev Governor, National Bank of Yugoslavia
	D. H. Boot Deputy Director, De Nederlandsche Bank N.V.
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	Tom de Vries Alternate Executive Director (Fund)
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	Gavra Popovic Assistant Federal Secretary for Finance (Yugoslavia)
	A. H. E. M. Wellink Treasurer-General, Ministry of Finance (Netherlands)
	J. Zijlstra President, De Nederlandsche Bank N.V.

Executive Director

H. O. Ruding

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5. W. Michael Blumenthal
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Sergio Undurraga
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Corporación de Fomento de la
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	Ziauddin Ahmad Deputy Governor, State Bank of Pakistan
	Kadhim A. Al-Eyd Alternate Executive Director (Fund)
	Tarik Al-Haimus Adviser, Central Bank of Iraq
	Husayn S. Kasim Deputy Governor, Central Bank of Jordan

Executive Director

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Executive Director

Jahangir Amuzegar

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	John A. Fraser Assistant to Executive Director (Fund)
	John R. Hewson Economic Consultant to the Treasurer, Australian Treasury
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	Ernest Leung Special Assistant to the Minister of Finance (Philippines)
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	Hoon Shim Chief, International Cooperation Division, Bank of Korea
Cesar E. A. Virata Minister of Finance (Philippines)	Byong Hyun Shin Governor, Bank of Korea
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	Toshihiro Kiribuchi Director, International Organizations Division, International Finance Bureau, Ministry of Finance
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	Rei Masunaga Alternate Executive Director (Fund)
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Kozo Yamamoto Deputy Director, International Organizations Division, International Finance Bureau, Ministry of Finance	Takehior Sagami Vice Minister of Finance for International Affairs, Ministry of Finance
Executive Director Masanao Matsunaga	Kumiharu Shigehara Associate Adviser, Foreign Department and Coordination and Planning Department, Bank of Japan

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	Werner Flandorffer Division Chief, Ministry of Economic Affairs
	Manfred Lahnstein Under Secretary, Ministry of Finance
	Gerhard Laske Alternate Executive Director (Fund)
	Rolf Moehler Division Chief, Ministry of Foreign Affairs
	Karl Otto Poehl Deputy Governor, Deutsche Bundesbank
	Wolfgang Rieke Department Head, Deutsche Bundesbank
	Gerd Saupe Senior Economist, Ministry of Finance
	Mrs. Ursula Schaefer Assistant Division Chief, Ministry for Economic Cooperation
	Alwin Steinke Division Chief, Ministry of Finance
	Hans-Herbert Weber Assistant Secretary, Ministry of Finance

Executive Director

Eckard Pieske

Member (or Alternate)

15. René Monory
Minister of Economy
of France

Associates

Henri Baquiast
Deputy Director of Multilateral
Affairs of the Treasury,
Ministry of Economy

Didier Floquet
Assistant Director of International
Affairs of the Treasury,
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Jean-Yves Haberer
Director of the Treasury,
Ministry of Economy

Jean-Christian Metz
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Affairs of the Treasury,
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René-Paul Rigaud
Technical Adviser to the
Minister of Economy

Denis Samuel-Lajeunesse
Alternate Executive Director (Fund)

Marcel Théron
Deputy Governor,
Banque de France

Executive Director

Paul Mentré de Loye

Member (or Alternate)

16. O. O. Vincent
Governor of the
Central Bank of Nigeria
(Alternate for J. J. Oluleye,
Federal Commissioner for
Finance of Nigeria)

Associates (Seven of the following)

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Deputy Governor,
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Research Department,
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Chinyamata Chipeta
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M. V. Gadgil
Director of Development Finance
Department,
Bank of Uganda

Charles A. Greene
Governor,
National Bank of Liberia

Robin D. Kibuka
Assistant to Executive Director (Fund)

Semyano Kiingi
Alternate Executive Director (Fund)

Andrew K. Mullei
Advisor to Executive Director (Fund)

T. M. Mutagamba
Chief Accountant,
Bank of Uganda

B. I. Omomukuyo
Adviser,
Central Bank of Nigeria

T. Thahane
Ambassador of Lesotho
Washington, D.C.

M. A. Uduebo
Deputy Director of Research,
Central Bank of Nigeria

Executive Director

Festus G. Mogae

	Member (or Alternate)	Associates (Seven of the following)
17.	Filippo Pandolfi Minister of the Treasury of Italy	Paolo Baffi Governor, Banca d'Italia
		Vittorio Barattieri Chief of Cabinet and Director General, Ministry of Foreign Trade (Italy)
		Costa P. Caranicas Alternate Executive Director (Fund)
		Roberto Cirocco Deputy Chief of Cabinet, Ministry of the Treasury (Italy)
		Giovanni Magnifico Economic Adviser, Banca d'Italia
		Luigi Marini Representative in the United States, Italian Exchange Office
		Stefano Micossi Assistant to Executive Director (Fund)
		Silvano Palumbo Counselor to the Minister, Ministry of the Treasury (Italy)
		Giuseppe Pasqua Senior Director, Ministry of the Treasury (Italy)
		Felice Ruggiero Director General, Ministry of the Treasury (Italy)
		Fabrizio Saccomanni Division Chief, Research Department, Banca d'Italia
		Savino Spinosi Senior Director, Ministry of the Treasury (Italy)
	Executive Director Lamberto Dini	Augusto Zodda Director of Division, Ministry of the Treasury (Italy)

Member (or Alternate)

18. Mario Henrique Simonsen
Minister of Finance
of Brazil

Manuel Moreyra Lloredo
President,
Banco Central de Reserve del Peru

Jose Roberto Novaes de Almeida
Assistant to Executive Director
(Fund)

Jose Carlos Oliveira
Assistant to the Minister
of Finance (Brazil)

Paulo H. Pereira Lira
President,
Banco Central do Brasil

Ary dos Santos Pinto
Chief,
International Adviser,
Ministry of Finance (Brazil)

Rafael Gama Quijano
General Manager,
Banco de la República (Colombia)

Karlos Rischbieter
President,
Banco do Brasil

Jose Madeira Serrano
Director of the External Area
(Designate),
Banco Central do Brasil

Germán Suárez
Assistant to Executive Director
(Fund)

Executive Director

Alexandre Kafka

Associates (Seven of the following)

Edward M. Agostini
Alternate Executive Director (IBRD)

Antonio André
President and General Manager,
Banque Nationale de la
République d'Haiti

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Division of Financial Policy,
Ministry of Foreign Affairs (Brazil)

Eimar Avillez
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Luiz Barbosa
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External Area,
Banco Central do Brasil

Virgilio Barco-Vargas
Ambassador of Colombia,
Washington, D.C.

Eligio Bisone
Assistant,
Banco Central de la República
Dominicana

Ferñao Bracher
Director of the External Area,
Banco Central do Brasil

Victor E. Bruce
Governor,
Central Bank of Trinidad and Tobago

Gustavo Gonzalez
Minister of Planning and
Economic Policy (Panama)

T. Ainsworth Harewood
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Roel F. Karamat
Ambassador Extraordinary and
Penipotentiary of Suriname
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Drago Kisic
Adviser to the President,
Banco Central de Reserva del Peru

Hernán Mejia
Director of Economic Research,
Banco de la República (Colombia)

Member (or Alternate)

19. I. G. Patel
Governor of the
Reserve Bank of India
(Alternate for Charan Singh,
Deputy Prime Minister and
Minister of Finance of India)

Associates (Seven of the following)

V. B. Kadam
Adviser and Officer in Charge,
Economic Department,
Reserve Bank of India

Ronnie de Mel
Minister of Finance and Planning
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R. L. Misra
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Embassy of India,
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V. K. S. Nair
Assistant to Executive Director (Fund)

M. Narasimham
Executive Director (IBRD)

Abidur Rahman
Economic Minister,
Embassy of Bangladesh
Washington, D.C.

Warnasena Rasaputram
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Y. V. Reddy
Assistant to Executive Director (IBRD)

M. Syeduz-Zaman
Alternate Executive Director (IBRD)

W. M. Tilakaratna
Secretary,
Ministry of Finance and Planning
(Sri Lanka)

Executive Director

S. D. Deshmukh

Member (or Alternate)	Associates (Seven of the following)
20. Ali Wardhana Minister of Finance of Indonesia	Cu Dinh Ba Counselor, Vietnamese Permanent Mission to the United Nations (New York)
	Tan Sri Ismail bin Mohamed Ali Governor, Central Bank of Malaysia
	I. R. Panday Chief Economic Advisor, Nepal Rastra Bank
	Rachmat Saleh Governor, Bank Indonesia
	Datuk Sallehuddin bin Mohamed Deputy Secretary-General, The Federal Treasury (Malaysia)
	Savenaca Siwatibau Alternate Executive Director (Fund)
	Mrs. Tan Geok Lin Manager, Economic Department, The Monetary Authority of Singapore
	Chavalit Thanachanan Assistant Governor, Bank of Thailand

Executive Director

Byanti Kharmawan

Member (or Alternate)

21. K. E. Couzens
Second Permanent Secretary of H. M. Treasury (Alternate for Sir Douglas Wass, Permanent Secretary of H. M. Treasury of the United Kingdom)

Associates (Seven of the following)

C. J. Bailey
Assistant to Executive Director (Fund)

A. M. W. Battishill
Principal Private Secretary to the Chancellor of the Exchequer

J. Beverly
Private Secretary to the Governor, Bank of England

P. G. Davies
Press Secretary, H. M. Treasury

Mrs. M. E. Hedley-Miller
Under Secretary, H. M. Treasury

Pendarell Kent
Alternate Executive Director (Fund)

J. A. Kirbyshire
Chief Adviser, Bank of England

C. W. McMahon
Executive Director, Bank of England

Barry Hope Potter
Assistant to Executive Director (Fund)

Gordon Richardson
Governor, Bank of England

Executive Director

William S. Ryrie

Gamani Corea, Secretary General, UNCTAD
G. D. Arsenis, Director of Money, Finance and Development Division, UNCTAD

Kenneth S. Dadzie, Director-General for Development and International Economic Co-operation, UN
Jean Ripert, Under-Secretary-General for International, Economic and Social Affairs, UN

Pierre Languetin, General Manager, National Bank of Switzerland
P. Hadorn, Economist, National Bank of Switzerland

René Larre, General Manager, BIS
Alexandre Lamfalussy, Economic Adviser and Head of the Monetary and Economic Department, BIS

Emile van Lennep, Secretary-General, OECD
Stephen N. Marris, Economic Adviser to the Secretary-General, OECD

Olivier Long, Director General, GATT
Gardner Patterson, Deputy Director General, Trade Policy, GATT

Ugo Mosca, Director General for Economic and Financial Affairs, CEC
Frederic Boyer de la Giroday, Director, Monetary Matters, CEC

Rene G. Ortiz, Secretary General, OPEC
Cyrus Sassanpour, International Money and Finance Analyst, OPEC

Ernest Stern, Vice President, Operational Staff, IBRD
Attila Karaosmanoglu, Director, Development Policy, IBRD

Cesar E. A. Virata, Chairman, Development Committee
Sir Richard King, Executive Secretary, Development Committee

William B. Dale, Deputy Managing Director, IMF
Joseph Gold, the General Counsel, IMF
J. J. Polak, the Economic Counsellor, IMF
Walter O. Habermeier, Treasurer, IMF
A. S. Shaalan, Director, Middle Eastern Department, IMF
Ernest Sturc, Director, Exchange and Trade Relations Department, IMF
L. A. Whittome, Director, European Department, IMF
Charles F. Schwartz, Director of Adjustment Studies, IMF
G. P. Nicoletopoulos, Associate General Counsel, IMF
Aldo Guetta, Director, Office in Europe, IMF
John H. Young, Deputy Director, Research Department, IMF

Leo Van Houtven, Secretary