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REPORT OF THE ECONOMIC AND SOCIAL COUNCIL
DEVELOPMENT AND INTERNATIONAL ECONOMIC CO-OPERATION

ECONOMIC AND SOCIAL COUNCIL
Second regular session of 1984
Item 3 of the provisional agenda**
GENERAL DISCUSSION OF INTERNATIONAL ECONOMIC AND SOCIAL POLICY, INCLUDING REGIONAL AND SECTORAL DEVELOPMENTS

Letter dated 26 June 1984 from the representatives of Argentina, Bolivia, Brazil, Chile, Colombia, the Dominican Republic, Ecuador, Mexico, Peru, Uruguay and Venezuela addressed to the Secretary-General, transmitting the text of the Cartagena Consensus

We have pleaure in enclosing the text of the Cartagena Consensus signed by the Ministers for Foreign Affairs and the Ministers of Finance of Argentina, Bolivia, Brazil, Chile, Colombia, the Dominican Republic, Ecuador, Mexico, Peru, Uruguay and Venezuela on 22 June 1984 at Cartagena, Colombia.

We should be grateful if you would arrange for this text to be circulated as a document of the Economic and Social Council at its second regular session of 1984 (item 3) and of the General Assembly under items 12 and 80 of the preliminary list.

* A/39/50.

** E/1984/100.

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ANNEX

Cartagena Consensus

I. STATEMENTS

1. On 21 and 22 June 1984 the Ministers for Foreign Affairs and the Ministers of Finance of Argentina, Bolivia, Brazil, Chile, Colombia, the Dominican Republic, Ecuador, Mexico, Peru, Uruguay and Venezuela met at Cartagena in order to resume consideration of the international economic situation, with particular reference to the external debt and the resulting constraints on the reactivation of the economic development of their countries, and in order to propose initiatives and appropriate forms of action leading to acceptable solutions for all the parties concerned.

2. They reaffirmed the validity of the statements and agreements contained in the relevant documents and declarations signed by Latin American countries, in particular the Quito Declaration and Plan of Action, the joint presidential Declaration of 19 May and the communication addressed to the Heads of State or Government participating in the London Meeting, which constituted important background material for the current meeting. The convening of the meeting had been necessary because of the worsening difficulties to which the international economic situation had given rise in Latin America.

3. They drew attention to the statement of President Belisario Betancur, which they regarded as a fundamental contribution to the debate at the current conference.

4. They stated that the region was experiencing an unprecedented crisis characterized by a sharp drop in per capita income to the levels of a decade before, the unemployment of over 25 per cent of their economically active population and a considerable reduction in real wages and salaries, all of which might have serious political and social consequences.

5. They stressed the fact that the crisis was largely due to external factors beyond the control of the Latin American countries, factors which from 1980 to 1983 had been responsible for a contraction of exports and an unavoidable curtailment of imports, to the grave detriment of the development process. The international recession during that period and the stagnation of the industrialized countries' economies, together with the deterioration in the terms of trade and the resurgence of protectionist and restrictive trade policies in the industrialized economies, had had a very adverse effect on the volume and pattern of the region's exports.

6. They emphasized that it was those factors, together with the repeated increases in interest rates, which had brought about the grave and sombre external-debt situation of the countries of the region. The aggregate amount of the Latin American external debt exceeded 50 per cent of the region's gross domestic product or triple the value of its annual exports. Debt-service payments had risen almost twice as fast as exports, and over the past eight years interest payments had amounted to more than $173 billion. For Latin America, each percentage point by which interest rates rose represented an additional annual

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rates rose represented an additional annual outflow of approximately $2.5 billion in foreign exchange. The increase in interest rates in the current year represented one month of the region's exports. The most negative aspect of that situation was that the region had become a net exporter of financial resources. It was estimated that in 1983 the haemorrhage had amounted to approximately $30 billion. Paradoxically, whereas there were signs of economic recovery in most of the industrialized countries, Latin America was being forced to slow down or, in a number of cases, to halt its development process.

7. They expressed the view that the Latin American debt problem was due largely to drastic changes in the terms on which loans had originally been negotiated, particularly with respect to liquidity and interest rates in the level of involvement of multilateral lending institutions in the debt structure, and in economic growth prospects. Those changes, which had originated in the industrialized countries, and concerning which the decision-makers of the region had had no say, plainly indicated that debtors and creditors were jointly responsible.

8. They reaffirmed the resolve, amply demonstrated by their countries, to fulfil their external-debt commitments, and the determination to pursue the efforts to make monetary, fiscal and foreign-exchange adjustments in their economies in order to stimulate renewed economic growth, without in any way neglecting the duty of Governments to guarantee the welfare and social and political stability of their peoples.

9. They reiterated that those efforts had called for major sacrifices in the levels of living of the Latin American population, which in some cases were reaching extreme limits, and they confirmed their Governments' determination not to allow themselves to be precipitated into a situation in which insolvency became unavoidable and economic stagnation continued indefinitely. In that connection, they reaffirmed the need for a political consideration of the debt question at the international level, since that issue had obvious political and social implications and only the concerted will of the Governments of the debtor and creditor countries could change the current conditions, which were an obstacle to appropriate and lasting solutions.

10. They reiterated that the conduct of external-debt negotiations was the responsibility of each individual country. At the same time, they observed that recent experience had demonstrated the impossibility of surmounting the developing countries' external-debt problem solely by means of dialogue with the banks, the isolated action of the multilateral financial institutions or the free play of market forces. It was therefore necessary to establish and adopt general guidelines for restructuring and financing policies which could serve as a frame of references for the individual negotiations of each country. In view of the diverse external-debt situations and the different measures required to restore conditions conducive to growth in the various economies, it would be necessary for those guidelines to be adapted to the specific circumstances of each nation.

11. They agreed that the frame of reference must take account of the joint responsibility of the parties involved in the search for a permanent solution to

the problem, including the Governments of the creditor and debtor countries, the international financial institutions and the international banking system.

12. They also recognized that the frame of reference must make provision for the concept of equitable distribution of the costs of economic restructuring. If the adjustment process was to be effective, it must be balanced and fair, and if there was to be a sustained expansion of the world economy, there must be changes in the economic policies of a number of industrialized countries. They drew attention to the urgent need for those countries to adopt policies that would impart a sustained stimulus to their respective economies and yet allowed for a reduction in interest rates, without prejudice to anti-inflation goals.

13. They also emphasized that there was a close link between debt, financing and trade issues, inasmuch as the region's capacity to pay could be strengthened by promoting economic growth through increased exports, renewed financial flows and the sustained ability to purchase an appropriate volume of imports.

14. They also drew attention to the urgent need for the industrialized countries to adopt measures and policies that would open up their markets to the developing countries' exports and to create conditions conducive to a resumption of financial flows and lasting and substantial relief from the debt-servicing burden, without which the economic restructuring undertaken by the Latin American countries would be to no avail.

15. They expressed the view that direct foreign investment could play a complementary role by virtue of its injection of capital and its contribution to the transfer of technology, the creation of jobs and the generation of exports, provided that the policies and legislation of the countries of the region were respected. However, since it was of limited usefulness in providing foreign exchange, and hence in eliminating the external imbalance, such investment could not be a crucial element in solving external-debt problems.

16. They welcomed the call by the President of Colombia for an endeavour to establish an international financial system that would facilitate vigorous growth in the developing countries with a view to raising the quality of life of the population of those countries. Such a system should take account, inter alia, of the fundamental concepts underlying the present Consensus.

17. They resolved to urge the Governments of the industrialized countries and the international banks to pay due attention to the proposals formulated in the present Consensus with a view to finding a lasting and far-reaching solution to Latin America's external-debt problems.

II. PROPOSALS

18. In the light of the foregoing, the Ministers for Foreign Affairs and the Ministers of Finance decided to make the following proposals:

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(a) Measures should be taken in order to bring about a drastic and immediate reduction of nominal and real interest rates on international markets. This should be the fundamental goal, and the Governments of the industrialized countries should do all in their power to achieve it;

(b) In the renegotiation of debt agreements and the negotiation of new loans, the international banks should use reference interest rates that on no account exceed the true cost of raising funds in the market-place and are not based on administered rates;

(c) Intermediation margins and other costs should be reduced to a minimum, commissions should be eliminated, and, during renegotiation periods, interest payments on arrears should be cancelled;

(d) Temporary arrangements to mitigate the impact of high interest rates - such as a compensatory window at the International Monetary Fund, official concessional loans for that specific purpose and the extension of maturities - should be instituted, even though such arrangements are of limited usefulness, since they merely enable the problem to be deferred;

(e) In the renegotiation process, account should be taken of the debt profile and the capacity for economic recovery and payment of each country, and conditions pertaining to the maturity date and grace period should be substantially improved. If the debtor countries concerned agree, the basis for the negotiation might be extended to cover multi-year periods and to include the capitalization of interest;

(f) In the case of countries with critical balance-of-payments problems, consideration should be given to clauses permitting postponement of the payment of a portion of the interest, on which no additional interest would be due, and which would be paid subsequently from a predetermined proportion of the resources derived from an increase in exports;

(g) In the renegotiation of external debt, commitments should absorb a percentage of export earnings that is reasonable and compatible with the maintenance of appropriate levels of domestic productive activity, in the light of the particular characteristics of each country's economy;

(h) The requirement of creditors that business risks in the private sector should be transferred indiscriminately and involuntarily to the public sector should be withdrawn;

(i) Action should be taken to eliminate the regulatory rigidities of a number of international financial centres, since these automatically penalize the developing countries' loan portfolios and impede the granting of further loans, the recognition of the special status of sovereign countries as debtors of the international financial community and the adjustment of the rules in force to take account of that status;

(j) Flows of finance to the debtor countries, which have been virtually suspended in many cases, should be reactivated and the granting of short-term

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credits to finance trade and other essential transactions in those countries should be resumed forthwith;

(k) More resources should be allocated and the lending capacity of the international financial institutions, such as the International Monetary Fund, the World Bank Group and the Inter-American Development Bank, should be strengthened;

(l) A further allocation of special drawing rights commensurate with the developing countries' liquidity requirements should be made at the International Monetary Fund, the deadlines for the IMF adjustment programmes should be extended and access to IMF resources should be opened up;

(m) The conditionality criteria of the International Monetary Fund should be revised as follows:

(i) Priority should be given to the expansion of output and employment, in the light of the specific economic, social and political circumstances of each country;

(ii) In the establishment or modification of fiscal and balance-of-payments targets, the impact of further increases in international interest rates beyond what is provided for in the stabilization programmes should be disregarded, with a view to averting an unreasonable curtailment of public investment or imports;

(iii) Agreed monetary targets should be subject to modification, so that unforeseen increases in inflation rates may be absorbed and bottle-necks detrimental to stabilization goals may be avoided;

(n) Access to the resources of the World Bank Group and the Inter-American Development Bank should be expedited and expanded through:

(i) An increase in the proportion of programme loans and the fundable percentage of project costs;

(ii) The accelerated disbursement of funds already negotiated;

(iii) A temporary but substantial reduction of counterpart requirements in local currency;

(iv) The elimination of financial graduation;

(o) The debtor countries should be accorded much longer repayment periods and yet more preferential treatment with respect to interest rates when their debts are renegotiated with the Governments and official export-credit agencies of the industrialized countries. They should also be granted without delay, new credit lines on preferential terms and in amounts that will enable them to avert a suspension of their imports;

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(p) Immediate attention should be paid to the developing countries' demands with respect to the stabilization of the prices of their commodities at remunerative levels, with a view to halting the severe deterioration in their terms of trade, this being one of the adverse factors which seriously prejudice their ability to repay their external debt;

(q) Prompt action should be taken to eliminate the industrialized countries' tariff and non-tariff barriers, which restrict access to their markets for the developing countries' commodities from both the traditional and the industrial sectors, including high-technology goods.

III. CONSULTATIONS AND FOLLOW-UP

19. With a view to pursuing the implementation of the guidelines and proposals contained in the present Consensus, contributing to the dialogue with the creditor countries, monitoring the international economic situation and evaluating the application of the measures proposed, the Ministers for Foreign Affairs and the Ministers of Finance decided to set up regional consultation and follow-up machinery, in which all the other countries of the region would be eligible to participate.

20. They agreed that the purposes of the consultation and follow-up machinery in question should be:

(i) To facilitate, at the regional level, the exchange of information and experience and to provide support for requests for technical assistance, in connection with debt, financing and other related issues;

(ii) To promote contacts outside the region with other developing countries;

(iii) To promote the dialogue with the Governments of the creditor countries and, subject to appropriate procedures, with the multilateral financial institutions and the international banking system.

21. They expressed the view that the need for that dialogue was demonstrated by the contents of the communication of 5 June to the participants in the London Meeting, which stated that there was an urgent need for the international community to tackle the problems of the world economy in an integrated and coherent manner, recognizing the inter-relationships that linked them, and to find satisfactory solutions, in an interdependent world, and which stressed that the urgent need for concerted action was particularly obvious in the case of indebtedness and that a constructive dialogue must therefore be held between creditor and debtor countries, in order to identify specific measures for relieving the external-debt burden, taking into account the interests of all the parties involved.

Encouragement for the dialogue was also manifest in the contents of the London Communiqué of 9 June, which recognized the interdependence of the industrialized and developing countries, acknowledged that continuously high or even further growing levels of interest rates could exacerbate the problems of the debtor countries, reaffirmed the determination to conduct relations with those countries in a spirit of good will and co-operation and announced a series of actions to which the Governments of the participants in the London Meeting attached particular importance in the field of debt-renegotiation procedures and monetary, financing and trade issues.

22. They agreed that, in the consideration and analysis of external-debt issues, full use should be made of the existing forums, in particular the Development Committee of the International Bank for Reconstruction and Development, where the establishment of a working group to consider the matter would be proposed.

23. They indicated their readiness to hold a meeting with the Governments of industrialized countries in order to examine jointly the many aspects, and the economic, social and political implications, of the indebtedness of Latin America, taking into account the need to find ways of alleviating the excessive burden of that indebtedness and to create conditions conducive to the reactivation of the debtor countries' development and the sustained expansion of the world economy and world trade, while safeguarding the interests of all the parties involved.

24. They agreed to convene a further meeting in order to evaluate the actions resulting from the present Consensus in connection with debt, financing and related issues. That meeting would be held at Buenos Aires prior to the forthcoming annual meetings of the International Monetary Fund and the International Bank for Reconstruction and Development or at such time as some extraordinary development might require. To that end, the host country would act as secretariat pro tempore.

Issued at Cartagena on 22 June 1984.
