PRESS COMMUNIQUE

1. The Development Committee held its twenty-first meeting in Washington, D.C. on April 28-29, 1983, under the chairmanship of H.E. Ghulam Ishaq Khan, Minister for Finance, Commerce, and Economic Coordination of Pakistan, Mr. A.W. Clausen, President of the World Bank, Mr. J. de Larosiere, Managing Director of the International Monetary Fund, and Mr. Hans E. Kastoft, Executive Secretary, participated in the meeting. Representatives from a number of international and regional organizations and Switzerland also attended the meeting.

2. The Committee was provided with a brief updated version of the World Economic Outlook circulated at the February meeting of the Interim Committee; this updated version constituted a general background document for its deliberations.

3. The Committee noted with deep concern that the world economic situation had remained very difficult since it had last met in September in Toronto, Canada. The protracted world recession now in its fourth consecutive year has exacted its toll from both rich and poor countries, but its impact has been particularly harsh on non-oil developing countries whose short- and medium-term prospects remain uncertain. World trade declined dramatically in 1982; in this decline the developing countries accounted for a disproportionate share; in 1982 non-oil commodity prices reached their lowest levels in 30 years; and export earnings of developing countries are not yet showing much sign of growth. The situation is further aggravated by declining ODA in real terms, a slowdown in private capital flows and the mounting burden of debt. The level of unemployment is unacceptably high and, apart from its social and political impacts, tends to strengthen trends and pressures in favor of protectionist policies and practices. The growth rates have declined in both industrial and non-oil developing countries and in the latter group are now the lowest on record in several decades with declining real per capita income in many of them.
4. The economic problems of the developing countries were noted in the Economic Declaration of the Non-Aligned Summit held at New Delhi and the Fifth Ministerial Meeting of the Group of 77 held at Buenos Aires, and will receive further attention at the OECD meeting in Paris, at the forthcoming Williamsburg Summit and at the Sixth Session of the United Nations Conference on Trade and Development.

5. There have, however, in the recent past been some welcome trends: inflation rates have come down, particularly in some of the larger industrial economies; interest rates have been on the decline although they remain high in real terms; also oil prices have fallen; at the same time, some commodity prices have started to rise. All these factors play an important role in the economies of all countries. Furthermore, the beginning of economic recovery in some of the industrial countries will, if sustained and strengthened, be of great significance. The Committee emphasized the need for industrial countries to pursue policies to promote sustainable and noninflationary growth.

6. It was against this background that the Committee deliberated at some length on a few selected topics and measures which, if adopted, will help contribute to a resolution of the difficulties which economies of the industrial and developing countries face at present.

7. In this context, the Committee, taking into account changes in the global demand and supply for external capital, first addressed itself to the need for reviewing the lending programs of multilateral development institutions (MDIs) in the period ahead and examining the consequent implications for their capital requirements. This review was in pursuance of the Committee's earlier exhortations at the two previous meetings urging the World Bank and other MDIs to continue their study of the scope for expansion in real terms of their lending to developing countries. Taking into account the great importance of maintaining and increasing external financial flows to the developing countries, the Committee noted with satisfaction the recent approval by the Bank's Board of Executive Directors of a Special Assistance Program designed to be responsive to the current financial requirements of these countries. The Committee invited the Bank to put forward proposals which would, with due regard to financial prudence, allow an expansion of the Bank's lending program. The Committee noted the Bank management's intention to propose an expansion by 5 per cent per annum in real terms beginning in 1985. In accordance with past policy and practice of the Bank, the Committee also urged the management of the Bank to present a specific proposal to the Board of Executive Directors for a selective capital increase following and in line with the Eighth General Review of Quotas in the Fund by the time of the next Committee meeting.
8. On the basis of material provided by the regional banks and IFAD, the Committee took note of their resource needs and urged member governments to take steps to meet the pledges already made. The Committee felt that member governments should seek means of financing the requirements of both ordinary capital and the replenishment of concessional funds for these institutions in order to enable them to continue to play their important role in the development efforts of their member countries.

9. Recognizing that the poorest countries had been most affected by the global recession, the Committee reiterated its concerns about the crucial importance of IDA in financing the development programs of low-income developing countries. Delays in the availability of IDA-6 commitment authority, its subsequent stretching out to four years and the resultant reduction in intended annual IDA commitments, particularly during the present prolonged global recession, have already had a serious impact on the low-income developing countries, especially in the poorest nations in Sub-Saharan Africa and other regions; coupled with reductions in overall ODA flows in real terms, this requires the maintenance of concessional assistance at reasonable levels in the face of expanded needs. The Committee therefore urged the United States to provide its full third payment of $945 million in FY83 and to complete its IDA-6 contribution in FY84, recognizing that failure to do so would have serious consequences for safeguarding future levels of concessional assistance.

10. In a related view, the Committee noted that the extremely serious economic predicament of the poorest developing countries required a major effort on the part of donor governments to ensure that the Seventh Replenishment of the Association's resources (IDA-7) takes account of the need to accommodate an expanded recipient community and the desirability of reversing negative growth rates in IDA's most distressed borrowing countries. The Committee urged, therefore, that IDA-7 negotiations be completed as early as possible to ensure that the Seventh Replenishment became effective no later than July 1, 1984, and thus avoid another funding gap from arising.

11. The Committee reviewed the growth of developing country debt and expressed its concern about the severity of the debt servicing problem faced by many of them. While noting the substantial contribution of commercial banks in meeting the severe debt problems faced by some medium-income developing countries over the past several months, the Committee stressed the importance of avoiding an abrupt reduction in the level of international bank lending to developing countries. It welcomed the efforts of the Fund and institutions in the main creditor countries to ensure that a reduction in availability of private bank credit does not impede a smooth and orderly adjustment of the domestic economies of the debtor countries. While noting with satisfaction the prompt response by bilateral and multilateral sources to recent critical situations, the Committee emphasized the necessity of maintaining and increasing financial flows to developing countries from official sources,
It also noted the importance for borrowing countries of monitoring their external indebtedness carefully and maintaining sound economic and debt management policies and also welcomed the joint efforts of the Bank and the Fund to increase their assistance provided to member countries in the areas of external debt statistics and debt management. The Committee encouraged the Bank and the Fund to keep the important matter of the net capital flows to developing countries under review.

12. A subject of increasing importance which attracted the Committee's attention related to the linkages between trade and development. The Committee recognized the interdependence of the world economies and found that global economic recovery was critically important for increasing the foreign exchange earnings of developing countries. The expansion of world trade has made and can continue to make an important contribution to the economic growth and development of both industrial and developing countries. In this connection, the Committee welcomed the intensified efforts of the Bank and the Fund to encourage an expanding and open world trading system while remaining sensitive to the special needs of the developing countries. The Committee urged both institutions to collaborate with the GATT in keeping under careful review, in the areas of their competence, the progress made, including inter alia the dismantling of barriers. It also called upon governments to resist protectionist pressures and to step up their efforts, both at the national level and in the relevant international fora, to liberalize trade, urging in particular that governments of industrial countries refrain from introducing restrictions or negotiating agreements which would limit their imports from developing countries. The Committee urged the Bank and the Fund, in continued collaboration with other agencies, to pursue their examination further in the areas of their competence on the linkages between capital flows, trade and development, and to keep the Committee informed of the results of these examinations.

13. The Committee noted that since its Toronto meeting the Bank has introduced a set of new co-financing instruments designed to increase the participation of commercial banks in World Bank projects. The new pattern of participation is intended to provide developing country borrowers with new benefits like longer maturities and increased financial flows. The Committee also noted with satisfaction co-financing arrangements entered into by the Bank with official lenders. This will be of special significance to low-income borrowing members of the Bank.

14. The Committee briefly discussed the subject of lending for energy development. A full consideration of the subject was, however, deferred until receipt of a comprehensive study under preparation by the Bank which will take into account the recent developments and future prospects in this area. A report on this subject will be submitted to the next meeting of the Committee.

15. The Committee agreed to hold its next meeting in Washington, D.C. on September 26, 1983, at the time of the Annual Meetings of the Bank and the Fund.