PRESS COMMUNIQUE

September 29, 1980

The Committee recommends that developing countries continue to focus on policies and measures to reduce the gap between the growth rates of exports and imports and to increase the share of exports in the GNP. The Committee expressed concern about the impact of the oil crisis on the medium-term prospects for many developing countries and their ability to maintain stable economic growth.

1. The Development Committee held its fourteenth meeting in Washington, D.C., on September 29, 1980 under the Chairmanship of Mr. Cesar E.A. Virata, Minister of Finance of the Philippines, and with the participation of Mr. R.S. McNamara, President of the World Bank, and Mr. J. de Larosière, Managing Director of the International Monetary Fund. Mr. M.M. Ahmad, Interim Executive Secretary, took part in the meeting, which was also attended by representatives from a number of international and regional organizations and Switzerland as observers.

2. The Committee discussed development policy issues and financing requirements in the light of the current and projected international economic situation. It considered medium-term prospects for the world economy and particularly their impact on the oil-importing developing countries. The Committee also reviewed relevant issues with respect to the Group of Twenty-Four Program of Immediate Action and the recommendations of the Brandt Commission.

3. The Committee noted with concern that the medium-term prospects for the world economy are now perceived to be more unfavorable than they were a year ago. Because of sustained higher real costs of energy and other factors, the expected annual growth rates of major industrial countries are projected to fall further below their historical trends. This is expected to reduce the expansion of world trade, combined with persistent high rates of inflation, and possible constraints on capital flows, particularly on concessional assistance, oil-importing developing countries as a group are expected to face serious and prolonged payments imbalances. According to the Fund's latest projections, the current account deficits of these countries are expected to rise from $56 billion in 1979 to $72 billion in 1980 and around $80 billion in 1981.

4. The Committee recognized that successful adjustment by the oil-importing developing countries to the new international environment should contribute to achieving significantly better growth rates in these countries; on this basis,
a growth rate in excess of 3 per cent could well be attainable in the second half of the decade. The Committee stressed, however, that such an adjustment effort would require strong resource support from industrialized countries and from oil exporters. The Committee encouraged efforts by industrial nations to ensure that, in formulating their own adjustment policies, they take effective measures to conserve energy and do not adopt measures restricting trade or capital flows which might worsen the position of developing countries. The Committee recognized that developing countries would have to take measures to stimulate exports, expand production of new energy sources and economize the use of energy in relation to their industrial growth, and improve the efficient use of capital, human resources and imports, in order to achieve maximum rates of growth in the context of the changed international economic situation. The Committee stressed that it was of the utmost importance to ensure that increased external capital flows be made available to the oil-importing developing and especially to the least developed and other low-income countries, in support of these efforts.

5. The Committee noted with particular concern that the growth prospects of the low-income countries, especially Sub-Saharan Africa, are bleak. It also viewed with deep concern the particularly difficult situation of the least developed and other low-income countries which face large financing needs to meet investments required in agriculture and infrastructure, including longer-term adjustments in investment programs to higher energy costs and changes in comparative advantage. These countries have limited capacity to generate domestic savings, and large borrowing on non-concessional terms, even if possible, could further jeopardize their future development because of too rapid build-up of debt service payments. Increased concessional assistance is therefore required both from capital surplus and industrial countries to avoid declines in already unsatisfactory growth rates in these poor countries.

6. The Committee felt that it would be consistent with the objectives of the various donors to increase the amount and proportion of bilateral assistance going to the least developed and other low-income countries. The Committee suggested also that donor countries might examine the budgetary implications of setting aside the equivalent of a modest proportion of future GNP increases to facilitate more rapid progress toward the 0.7 per cent GNP target for ODA by countries that have not yet attained this level in their official development assistance. The Committee also recognized the importance of mobilizing public opinion in favor of official development assistance. In considering these and other suggestions in the Bank paper on the volume and quality of concessional assistance, the Committee requested that a continuing study be undertaken.

7. The Committee welcomed the active consideration that is being given by both the Bank and the Fund to specific recommendations of both the Group of Twenty-four Program of Immediate Action and the Brandt Commission with respect
to measures to enhance the flow of resources to developing countries. It stressed that the Brandt Commission proposals on reduction of poverty receive special attention. The Committee also endorsed the action of the Interim Committee as reflected in their communiqué.

8. The Committee, noting the urgent need to expand investment in energy development in oil-importing developing countries, welcomed the Bank's initiative to examine the possibility of establishing an energy affiliate or facility to promote expansion of its lending operations in the energy sector. It urged the continuing process of consultations be brought speedily to a successful conclusion.

9. The Committee welcomed the progress which has been made by the Fund in adapting the compensatory financing facility to meet more adequately the needs of countries with export shortfalls and decided to pursue the matter of the export earnings stabilization programs based on the comprehensive study being prepared by UNCTAD.

10. The Committee emphasized the importance of early action by governments to make the agreed Sixth Replenishment of IDA effective. In addition, contributors to IDA were urged to participate in the bridging arrangements to provide IDA interim commitment authority pending the effectiveness of IDA VI.

11. The Committee noted the change in the representation of China, and the concomitant increase in demand for the Bank's financial assistance to support China's development efforts. In addition the Bank faces new requirements for structural adjustment and energy lending. The Committee also observed that previous planning assumptions had been based on lower rates of world inflation than those now prevailing and anticipated for the near future. In view of these factors, the Committee urged the Board of the Bank to explore promptly appropriate ways of expanding the lending capacity of the institution and also to consider ways in which lending in the next fiscal years could be expanded above presently planned levels.

12. The Committee welcomed the extensive work that had been undertaken by the Task Forces on Non-concessional Flows and on Private Foreign Investment; the reports of the Task Forces provided a useful basis for further consideration of specific proposals to strengthen the functioning of international capital markets and the flow of resources to developing countries. It welcomed the Fund's active response to the current recycling problems and viewed the Fund's role as complementary to the role of international capital markets.

13. The Committee reaffirmed the importance of proper supervision in maintaining confidence in the international banking system, thereby enabling it to continue as an important channel of funds over the longer term. The Committee endorsed the conclusion of the Task Force on Non-concessional Flows
that such supervisory activity should avoid abrupt and severe changes which could unduly restrict bank lending to developing countries, and that debt servicing capacity of the borrower should be adequately taken into account in assessing bank portfolio concentration. The Committee also supported the request of the Task Force on Non-concessional Flows to the World Bank for a full study of the various proposals under its consideration.

14. The Committee noted that further analysis of private foreign investment might lead to a better understanding of important factors in both investor and host countries that determine volume and nature of such investments. It suggested that the Board of the Bank consider the recommendation of the Task Force on Private Foreign Investment for a study of incentives and performance requirements.

15. The Committee took note of the efforts at the United Nations Special Session to organize global negotiations on the North-South issues and expressed its desire to play a very active role in regard to matters pertaining to the IMF and the World Bank within the framework of the UN global negotiations once these negotiations have started.

16. The Members placed on record their special appreciation for the Chairman’s long and distinguished service to the Committee.

17. The next meeting of the Committee will be held in Libreville (Gabon) on May 22...