September 30, 1979

PRESS COMMUNIQUE

1. The Development Committee held its 12th meeting in Belgrade, Yugoslavia, on September 30, 1979 under the Chairmanship of Mr. Cesar E. A. Virata, Minister of Finance of the Philippines, and with the participation of Mr. Robert S. McNamara, President of the World Bank, and Mr. J. de Larosière, Managing Director of the International Monetary Fund. Sir Richard King, 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 considered papers prepared by the World Bank and IMF on the flow of financial resources to developing countries and the stabilization of export earnings. They also took note of the proposals contained in the Outline for a Program of Action approved by the Group of 24 and unanimously endorsed by the Group of 77.

3. The Committee discussed current economic trends and agreed that many developing countries will face a particularly difficult situation over the next few years. The non-oil primary producers are likely to experience a slowdown in the growth of demand for their exports and adverse shifts in their terms of trade. The Committee expressed serious concern that in the context of high rates of inflation this would lead to relatively slow rates of economic growth, a further substantial deterioration in their aggregate current account deficit, and an increase in the number of developing countries encountering debt servicing problems.

4. Recognizing the increased interdependence of national economies and in particular the impact on developing countries of developments in industrialized countries, the Committee emphasized the importance of sound economic and financial policies in all countries; it reiterated the need...
to avoid protectionist trade measures that would adversely affect the exports of developing countries. The Committee also stressed the urgency of implementing effective policies for energy conservation and development.

5. The Committee recognized that there was a clear need for broad multilateral efforts, including an increasing role for the Bank and the Fund, to assist member countries in coping with the very difficult situation ahead. In this context the program of immediate action outlined by the Group of 24 and endorsed by the Group of 77 would be kept in view. The Committee noted with satisfaction a number of recent developments that had enhanced the Fund's capacity to assist its members, including: the Resolution of the Fund's Board of Governors on the Seventh General Review of Quotas under which quotas in the Fund could be increased to SDR 58.6 billion; the coming into force of the supplementary financing facility; the adoption of new guidelines on conditionality; and the improvements in the compensatory financing facility, including the increase from 75 per cent to 100 per cent of quotas in the maximum amount that could be purchased under that facility. The Committee stressed the importance of an early implementation of the quota increases under the Resolution on the Seventh General Review of Quotas.

6. The Committee noted with satisfaction that over the past year agreement had been reached in the Executive Board of the World Bank to recommend to its Governors a $40 billion General Capital Increase, the Committee urged that all necessary steps be taken to make this increase effective as early as possible. The Committee welcomed the Fifth Replenishment of the Resources of the Inter-American Development Bank, the decision by the Governors of the African Development Bank for a substantial increase in the capital of that institution, and the decision of OPEC's Ministerial Committee on Financial and Monetary Matters to approve the second replenishment of the resources of the OPEC Special Fund.

7. In considering the longer-term economic outlook, the Committee noted that low-income developing countries will continue to depend on official development assistance (ODA) for the bulk of their net capital inflows; in view of this, the Committee regretted that only a modest growth in total ODA flows is projected over the next few years. For many middle-income countries, which depend mostly on private sources for capital flows, as well as certain low-income countries, the anticipated increase in total debt and debt service over the medium term were matters for careful attention.

8. The Committee, while recognizing the difficulties facing some donor countries, stressed the importance of increasing the quantity of ODA flows, particularly from those countries which are now at relatively low levels in relation to gross national product. The Committee also called
for improvements in the quality of ODA such as quick disbursing assistance, untying of aid, finance for local costs, and for greater concentration of ODA on the countries most in need. The Committee stressed the urgency of bringing the Sixth Replenishment of IDA to a prompt conclusion at a level which would enable a significant increase in commitments in real terms to continue.

9. In discussing longer-term structural adjustment problems, the Committee welcomed the willingness of the Bank to consider increasing substantially the relative importance of program lending in its overall operations. The Committee requested the Executive Directors of the Bank to explore the criteria which could govern program and sector loans in situations where external disequilibria had not yet become severe, and to consider whether in individual cases such lending should be additional to that now planned. The regional institutions were invited to review their policies and practices in light of the current prospects for developing countries. The Committee endorsed expanded collaboration between the Fund and the Bank in support of economic programs of developing countries facing severe balance of payments problems.

10. The Committee discussed the problem of medium-term financing for balance of payments adjustment. In this connection, the Committee noted that the Fund's extended facility had proved a useful mechanism and that it had considerable potential in the future. Recognizing the difficult situation facing member countries, the Committee requested that the Executive Board of the Fund give further consideration to increasing the maximum repurchase period under the extended facility from eight to ten years.

11. In view of the heavy needs for balance of payments financing facing many countries in the years ahead, the Committee requested the Executive Board of the Fund to give attention to developing ways and means of lowering the interest costs of the supplementary financing facility.

12. The Committee recognized that in the difficult years ahead there would be a major need for recycling of funds to assist developing countries facing large balance of payments deficits and recognized that this need could not be met by official financial flows only. In this connection, the Committee stressed the important role of additional private capital flows in financing the increasing capital requirements of developing countries; such flows would be facilitated by the promotion of policies in these countries conducive to sustaining their creditworthiness. The Committee welcomed the expansion in cofinancing with the private banking sector that had been achieved by the World Bank and regional institutions to date, and suggested that capital-exporting countries should explore what actions could be taken to encourage greater use of this mechanism by their banks. The Committee also requested the World Bank and the regional institutions to explore steps that could be taken further to expand cofinancing.
13. In discussing possible new approaches relating to capital flows, the Committee reaffirmed that priority should be given to exploiting the full capacity of existing institutions, including possible acceleration in the use of their resources, to meet the urgent problems of the developing countries over the next few years. The Committee considered however that the matter should be kept actively under review.

14. The Committee reviewed the question of stabilization of export earnings on the basis of a staff study. The Committee emphasized the importance of appropriate mechanisms to mitigate the effects of fluctuations in export earnings of developing countries, in particular those countries heavily dependent upon primary commodity exports, and to assist them in diversifying their exports. It recognized that, through coordinated action, the Fund and Bank had developed the capacity to meet the needs of countries suffering from shortfalls and noted in particular the progress that the two institutions had made in providing finance for medium-term commodity shortfalls and in reducing dependence on primary commodities. It requested the Executive Boards of the two institutions to keep this matter under review.

15. The Committee welcomed the recent decision of the Executive Board of the Fund to liberalize the Fund's compensatory financing facility, in particular the increase in the limit on the amount of drawings outstanding under the facility. The changes constitute a substantial improvement in the Fund's compensatory financing facility, making it a more effective mechanism to assist members in dealing with problems of fluctuations of export earnings. The Committee noted that in the longer run vulnerability to fluctuating export earnings would be reduced by diversifying exports, for which purpose Bank and IDA resources should continue to be made available. The Committee also welcomed the new convention replacing the Lomé Convention and the new features of the STABEX incorporated in the new convention. They also noted with satisfaction the progress made in negotiations for the setting up of a Common Fund for commodities.

16. It was agreed that the subject of export earnings stabilization would be reviewed by the Committee in a year's time in the light of experience in operation of the recently improved CFF, the ongoing negotiations on the Common Fund, and the further study of the matter being undertaken in UNCTAD in cooperation with Fund Staff.

17. The Committee will meet again on April 24 in Hamburg.

18. The Committee expressed their sincere appreciation to the Government of Yugoslavia for their hospitality and for the excellent arrangements provided for their meeting.