INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION

1983 ANNUAL MEETINGS OF THE BOARDS OF GOVERNORS

SUMMARY PROCEEDINGS

WASHINGTON, D.C.
SEPTEMBER 27-30, 1983

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INTRODUCTORY NOTE

The 1983 Annual Meeting of the Board of Governors of the International Bank for Reconstruction and Development, held jointly with that of the International Monetary Fund, took place in Washington, D.C., September 27-30 (inclusive). The Honorable Miguel Boyer, Governor of the Bank and Fund for Spain, served as Chairman. The Annual Meetings of the Bank's affiliates, the International Finance Corporation (IFC) and the International Development Association (IDA), were held in conjunction with the Annual Meeting of the Bank.

The Summary Proceedings record, in alphabetical order of member countries, the texts of statements by Governors relating to the activities of the Bank, IFC and IDA. The texts of statements concerning the IMF are published separately by the Fund.

T. T. THAHANE
Vice President and Secretary
THE WORLD BANK

Washington, D.C.
December, 1983

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* *Speaking on behalf of a group of countries*

OPENING REMARKS BY THE HON. RONALD REAGAN PRESIDENT OF THE UNITED STATES

On behalf of my fellow Americans, I am delighted to welcome you to the United States and to our nation's capital, and I am honored to have this opportunity to speak again to your distinguished members.

I say honored because I believe your institutions, the World Bank and affiliates, and the International Monetary Fund, serve noble purposes. There can be no higher mission than to improve the human condition and to offer opportunities for fulfillment in our individual lives and the life of our national and world communities. You are the leaders of the world community in bringing a better life to the diverse and often tragically poor people of our planet. You have worked tirelessly to preserve the framework for international economic cooperation and to generate confidence and competition in the world economy.

The unending quest for economic, social and human improvement is the basic drive that inspires and unites all of us. In 1945, when your great institutions were established, the civilized world had been brought to its knees by a wave of totalitarian violence that inflicted suffering, sacrifice, and the suppression of human rights on millions of innocent people.

Security, freedom and prosperity were very much on the minds of the citizens of the world in 1945. They should be on our minds today. The institutions you represent could not have been born, could not have flourished—and may I add, will not survive—in a world dominated by a system of cruelty that disregards individual rights and the value of human life in its ruthless drive for power. No state can be regarded as pre-eminent over the rights of individuals. Individual rights are supreme.

In this civilization we have labored so faithfully to resurrect, preserve, and enhance, let us be ever mindful: it is not just development and prosperity, but ultimately our peace and freedom that are always at stake. Too often, the demands of prosperity and security are viewed as competitors when, in fact, they are complementary, natural, and necessary allies. We cannot prosper unless we are secure, and we cannot be secure unless we are free.

The goals of the great international, political and economic institutions—the United Nations where I spoke yesterday, and the World Bank, its affiliates, and the IMF you represent here today—were to be reached by trusting in a shared and enduring truth: the keys to personal fulfillment, national development, human progress and world peace are freedom and responsibility for individuals, and cooperation among nations. When I addressed the delegates of the United Nations yesterday, I reminded them: you have the right to dream great dreams, to seek a better world for your people. And all of us have the responsibility to work for that better world. As caring, peaceful peoples, think what a powerful force for good we could be.

Today, I come before your distinguished assembly in that same spirit—a messenger for prosperity and security through the principles of freedom, responsibility, and cooperation.

When our nations trusted in these great principles in the postwar years, the civilized world enjoyed unparalleled economic development and improvement in the human condition. We witnessed a virtual explosion of world output and trade, and the arrival of many free, self-determined, independent nation states as new members of the international system.

And, as I said when I last spoke to you, the societies that achieved the most spectacular, broad-based economic progress in the shortest period of time have not been the biggest in size, nor the richest in resources and certainly not the most rigidly controlled. What has united them all was their belief in the magic of the marketplace. Millions of individuals making their own decisions in the marketplace will always allocate resources better than any centralized government planning process.

Trust the people, this is the crucial lesson of history. Because only when the human spirit is allowed to worship, invent, create, and produce, only when individuals are given a personal stake in deciding their destiny and benefiting from their own risks—only then do societies become dynamic, prosperous, progressive and free.

In the turbulent decade of the 1970s, too many of us—the United States included—forgot the principles that produced the basis for our mutual economic progress. We permitted our governments to overspend, overtax, and overregulate us toward soaring inflation and record interest rates. Now we see more clearly again. We are working and cooperating to bring our individual economies and the world economy back to more solid foundations of low inflation, personal incentives for saving and investment, higher productivity, and greater opportunities for our people.

Our first task was to get our own financial and economic houses in order. Our countries are interdependent, but without a foundation of sound domestic policies, the international economic system cannot expand and improve. Merely providing additional official development assistance will not produce progress. This is true for all countries, developed and developing, without exception. As the 1983 development report of the World Bank notes, "International actions can greatly improve the external environment confronting developing countries, but cannot supplant the efforts that the developing countries must make themselves."

I believe the United States is making real progress. Since we took office, we have reduced the rate of growth in our Federal Government's spending by nearly 40 percent; we have cut inflation dramatically, from 12.4 percent to 2.6 percent for the last 12 months; the prime interest rate has been cut nearly in half, from 21½ percent to 11 percent. Figures released last week reveal our gross national product grew at an annual rate of almost 10 percent in the second quarter and about 7 percent in the third.

In the United States, we still face large projected deficits which concern us because deficit federal spending and borrowing drain capital that could otherwise be invested for stronger economic growth. But as Secretary Regan correctly pointed out, in the Interim Committee on Sunday, the deficit is coming down as a result of economic growth. Revenues are higher than anticipated, and we expect continued improvement. We will continue to work for greater restraint in federal spending, but we will not risk sabotaging our economic expansion in a short-sighted attempt to reduce deficits by raising taxes. What tax increases would actually reduce is economic growth—by discouraging savings, investment and consumption.

One other point about the United States deficit: let me make clear that it is caused in part by our determination to provide the military strength and political security to ensure peace in the world. Our commitment to military security is matched by our resolve to negotiate a verifiable nuclear arms reduction treaty. Only then can we safely reduce military expenditures and their drain on our resources. As I mentioned at the outset, there can be no lasting prosperity without security and freedom.

Turning more directly to economic development, all signs point to a world economic recovery gaining momentum. As early as last February, the Conference Board predicted that economic growth rates in the United States and six major industrial countries spell economic recovery in any language. Since then, industrial production in the OECD countries has been moving up. Your own IMF economists are predicting growth in the world economy of at least 3 percent next year. This is the brightest outlook in several years.

As the U.S. economy picks up steam, our imports rise with it. When you consider that half of all non-OPEC developing country manufactured goods exported to the industrial countries come to the United States, it is clear what a strong stimulus our imports provide for economic expansion abroad. And as other economies prosper, our exports, in turn, increase. We all gain. Many nations are moving steadily forward toward self-sustaining growth, and like us, they are doing it by relying again on the marketplace. This period of adjustment has not been easy for us; in fact, it has been very painful, but it is the one way that does work, and it is beginning to pay dividends.

Economic recovery is spreading its wings and taking flight. We all know those wings have not spread far enough, and I would add, recovery alone is not good enough. Our challenge is far greater: lasting, worldwide economic expansion. Together, we must make the 1980s an historic era of transition toward sustained, noninflationary world growth. I have every confidence that we can—and with our combined leadership and cooperation—we will.

The IMF is the linchpin of the international financial system. Among official institutions, it serves as a counselor, coaxing the world economy toward renewed growth and stability. At various times in its history, the IMF has provided important temporary balance of payments assistance to its member nations—including my own. At times, it must play the "Dutch uncle," talking frankly, telling those of us in government things we need to hear, but would rather not. We know how significant the IMF's role has been in assisting troubled debtor countries, many of which are making courageous strides to regain financial health. We warmly applaud the efforts of Mr. de Larosière and his staff.

My Administration is committed to do what is legitimately needed to help ensure that the IMF continues as the cornerstone of the international financial system. Let me make something very plain: I have an unbreakable commitment to increased funding for the IMF. But the U.S. Congress so far has failed to act to pass the enabling legislation. I urge the Congress to be mindful of its responsibility, and to meet the pledge of our government.

The IMF quota legislation has been pending for several months, and I do not appreciate the partisan wrangling and political posturing that have been associated with this issue during recent weeks. I urge members of both political parties to lay aside their differences, to abandon harsh rhetoric and unreasonable demands, and to get on with the task in a spirit of true bipartisanship. The stakes are great. This legislation is not only crucial to the recovery of America's trading partners abroad and to the stability of the entire international financial system, it is also necessary to a sustained recovery in the United States.

The sum we are requesting will not increase our budget deficit, and it will be returned with interest as loans are repaid to the IMF. What's more, it will keep the wheels of world commerce turning and create jobs.

Exports account for one out of eight manufacturing jobs in the United States. Forty percent of our agricultural products are exported. I am afraid that, even today, too few in the Congress realize the United States is interdependent with both the developed and developing world.

Examine the record: the United States has been a dependable partner, reaching out to help developing countries who are laboring under excessive debt burdens. These major debtor countries have already undertaken difficult measures in a concerted effort to get their economic houses in order. Most of them are working closely with the IMF to overcome economic hardships. They continue to demonstrate a commendable willingness to make necessary adjustments. That is why I can state that our participation in the IMF quota increase is not a government bailout of these debtor countries or of the banks which are sharing the burden. On the contrary, IMF plans to assist financially troubled countries call for the banks to put up more new money than the IMF itself.

This is by nature a cooperative enterprise. If the Congress does not approve our participation, the inevitable consequence would be a withdrawal by other industrial countries from doing their share. At the end of this road could be a major disruption of the entire world trading and financial systems—an economic nightmare that could plague generations to come. No one can afford to make light of the responsibility we all share.

We strongly support the World Bank; in fact, the United States remains its largest single contributor. We recognize its key role in stimulating world development and the vital assistance it provides to developing nations. Here again, I have proposed legislation to the Congress to meet our commitment for funding the World Bank, and especially the International Development Association. It is important that these funds be available to help the people in the poorest countries raise their standards of living. Tomorrow, Secretary Regan will be discussing both the Fund and the Bank in more detail. Because our investment in the World Bank's operations is so large, we feel a special responsibility to provide constructive suggestions to make it more effective.

Let me simply underscore again a fundamental point, and I say this as the spokesman for a compassionate, caring people. The heart of America is good and her heart is true. We have provided more concessional assistance to developing nations than any other country—more than $130 billion over the last three decades.

Whether the question at hand be Bank project financing or Fund balance of payments assistance, it must be considered a complement to, not a substitute for, sound policies at home. If policies are sound, financing can be beneficial. If policies are irresponsible, all the aid in the world will be no more than money down the drain.

As we work together for recovery, we must be on guard against storm clouds of protectionist pressures building on the horizon. At the recent economic summit in Williamsburg, my fellow leaders and I renewed our commitment to an open and expanding world trading system. The Williamsburg Declaration reads, "We commit ourselves to halt protectionism, and as recovery proceeds, to reverse it by dismantling trade barriers."

Whether such words will prove to be empty promises, or symbols of a powerful commitment, depends on the real day-to-day actions which each of our governments take. Everyone is against protectionism in the abstract. That is easy. It is another matter to make the hard, courageous choices when it is your industry or your business that appears to be hurt by foreign competition. I know. We in the United States deal with the problem of protectionism every day of the year.

We are far from perfect, but the United States offers the most free and open economy in the world. We import far more goods than any nation on earth. There is more foreign investment here than anywhere else, and access to our commercial and capital markets is relatively free.

Protectionism is not a problem solver, but a problem creator. Protectionism invites retaliation. It means you will buy less from your trading partners, they will buy less from you, the world economic pie will shrink and the danger of political turmoil will increase.

You know I have made this analogy before, but we and our trading partners are in the same boat. If one partner shoots a hole in the bottom of the boat, does it make sense for the other partner to shoot another hole in the boat? Some people say yes and call it getting tough. I call it getting wet—all over.

We must plug the holes in the boat of open markets and free trade and set sail again in the direction of prosperity. No one should mistake our determination to use our full power and influence to prevent anyone from destroying the boat and sinking us all.

I firmly believe that we can and must go forward together, hand in hand, not looking for easy villains to explain our problems, but resolved to pursue the proven path on which these institutions embarked almost four decades ago—a path of economic progress and political independence for all countries and for all people.

In closing, let me share with you a very deep personal belief I hold. We are all sovereign nations and, therefore, free to choose our own way as long as we do not transgress upon the sovereign rights of one another. But we cannot really be free as independent states unless we respect the freedom and independence of each of our own individual citizens. In improving their lot, which is the only reason you and I hold high offices in our lands, we cannot forget that how we help them progress economically must be consistent with this highest objective of all—their personal dignity, their independence and ultimately their freedom. That is what this job of ours is all about.

OPENING ADDRESS BY THE CHAIRMAN THE HON. MIGUEL BOYER GOVERNOR OF THE BANK AND FUND FOR SPAIN

It is a great honor for me to be chairing these Thirty-Eighth Annual Meetings of the Boards of Governors of the World Bank, the International Finance Corporation and the International Development Association, and of the International Monetary Fund.

We are meeting once again in this beautiful city of Washington and I am sure that you share with me the desire to express our gratitude to the President and people of the United States for the courtesy and hospitality with which they traditionally welcome these meetings.

Permit me now, on behalf of us all, to extend our most cordial welcome to the representatives of Malta and of Antigua and Barbuda, which became members of the World Bank during the past year.

World Economic Situation

For almost a decade now the Annual Meetings of the Bank and Fund have been noting the persistence of a climate of maladjustments and stagnation in the world economy. The opinions stated and the analyses made during these meetings reveal the persistence of one of the most prolonged crises in the history of the world economy—a crisis that has impacted virtually all countries regardless of their nature and level of development and whatever their economic and political system.

The economic recession has directly and indirectly affected all nations and, in the process, has generated effects of unequal intensity and has obliged the various countries of the international community to adopt a variety of approaches depending on their different adjustment capabilities and the extent of their relative dependence. For this reason, we can detect today, along with clear signs of incipient economic recovery in certain of the major industrial countries, the persistence and even aggravation of the economic difficulties facing many countries and, in particular, a large number of developing countries. Nobody is unaware that this divergence in the economic development of different zones of the world economy cannot continue for long in a world that has become increasingly interdependent over recent years and that will foreseeably become even more so in the years ahead. Sooner or later, growth or depression will be generalized among the economies of the world. The direction that the world economy ultimately takes will result from the balance between the forces that foster sustained and stable economic growth and greater international cooperation and those that tend to perpetuate the inefficient allocation of productive resources and the present economic disequilibria and to encourage the disintegration of the international economy.

For all of these reasons, this is a particularly delicate moment for the world economy and one that carries with it a special responsibility for all of us who are directly involved in the shaping of economic policy in our respective countries. As I see it, two general principles should guide economic policy formulation in the present circumstances of the international economy:

(a) on the one hand, economic growth must be furthered by means which do not simultaneously reinitiate inflationary pressures or external disequilibria that could bring it to a halt at any moment.

(b) on the other, and in accordance with the different influence that each country can exercise in determining prices and quantities on international markets, national economic policies and international cooperation must encourage orderly behavior of the exchange markets, create confidence, cooperate toward bringing about greater transparency and promote stability in capital movements, and eradicate the spirit of protectionism now permeating the international scene.

I would now like to analyze recent developments and prospects of the international economy in the light of these two principles.

The Adjustment Process in the Industrial Countries

We have to distinguish between those countries which have managed to control inflation and whose balance of payments situation allows greater growth of their economies, and the others which will have to direct their economic policies toward attainment of balance of payments structures that are sustainable in the medium and long term and rates of inflation that are similar to those of their major competitors on international markets.

The first group includes the economies of the major industrial countries, whose economic results determine the main parameters of the world economy. It is heartening to note that economic activity is picking up in some of these countries without, at the moment, endangering what has been achieved in bringing inflation under control. It is, however, obvious that if the current rate of economic growth in these countries is to be maintained in a lasting manner, real interest rates must be brought down significantly. These countries must therefore pursue an economic policy that is geared toward the difficult task of reducing interest rates without at the same time raising expectations of inflation. To achieve this, more balanced use must be made of monetary and fiscal instruments. Sustained growth in these economies will also require sustained growth in investment. It will not be easy to secure adequate resources for capital formation if, at the same time, the countries are running substantial budgetary deficits that absorb a large proportion of national savings, and induce, beyond any doubt, real interest rates that are higher than those needed for a recovery of investment in order to bring us close to full employment. No one can be oblivious of the great responsibility that currently rests on the shoulders of those who determine economic policy in the major industrial countries. Given the current situation, there is a very small margin for drastic downward adjustment in countries suffering from high rates of inflation and balance of payments deficits. These countries, which are bearing the costs of reducing inflation and curbing external deficits in a context of economic crisis and considerable uncertainty, are entitled to expect a positive and lasting contribution from those other countries that have succeeded in reining in the constant rise in prices and have the resources available, and are thus in a position to reinvigorate their currently low growth rates through appropriate use of economic policy instruments.

The Spanish Economy

Reference to my own country's experience may serve to illustrate the strategy that should be pursued by countries whose growth is conditioned by control of inflation and correction of external disequilibria.

Our experience parallels in many respects that of other relatively small and open industrial economies. We in Spain found that high rates of inflation are not compatible with stable and lasting economic growth. When the behavior of the economic agents is strongly influenced by pessimistic expectations with regard to the rate of inflation, domestic saving is discouraged and a sizable external deficit is generated. The upshot is that, in economies like ours, as inflation rates outstrip those of our competitors on international markets, economic growth declines rapidly as a result of the deterioration in international competitiveness and, hence, in the external accounts. The economic policy being pursued by the Socialist Government of Spain is accordingly placing great weight on reducing inflation and correcting external disequilibria, as basic prerequisites for increasing the rate of growth of the economy and generating a sufficient volume of employment, which is our fundamental goal.

Given the current situation of the world economy, correction of these disequilibria will necessarily take some time, since it is not enough—contrary to what some simplistic approaches to the economy postulate—merely to slow the rate of growth of the money supply. Attention also has to be paid to the problem of the distribution of resources between consumption and investment and between the public and the private sector. In any event, the adjustment process will be more difficult and more costly in terms of volumes of production and employment if it has to be implemented in the presence of excessive rigidity in the real returns on the production factors.

Thus, as the difficulties have continued, the conviction has gradually been growing that the present situation can only be overcome through continuous adjustments, resulting from collective efforts and the persistent and credible application of corrective economic policies.

This, very briefly, is the strategy behind the economic policy being pursued by the Spanish Government: to bring about a change in the composition of aggregate demand, moving away from expenditure on consumption to investment and exports while disequilibria persist in the labor market and in the foreign accounts, and to make use of the instruments available to the authorities to ensure that the costs of the production factors are sufficiently flexible to bring about the positive adjustments required and reduce the negative impact of these policies on the labor market.

I would not like to conclude these remarks about my country without telling you that our program is progressing as planned and that—even though it is still too early to draw any final conclusions (the new government has been in office for only ten months)—there is already evidence of a significant decline in inflation from 15 percent in July 1982 to 10 percent in July 1983, and also of a reduction in the balance of payments deficit. This shows that we are on the right path for implementing the remaining adjustments, so that we shall be in the best possible position to take advantage of the expected revival of the world economy.

The Adjustment Process in the Developing Countries

The depressive phase of the international economic cycle has had a particularly sharp and negative impact on the developing countries, many of which have been forced to make sizable and sudden adjustments in their economies. In Latin America, for instance, an area whose development we in Spain follow with particular attention and concern, the volume of national production stagnated in 1981, fell in 1982, and has continued to fall in 1983. As the population of this region is growing by some two percent a year, and as the labor force is growing even faster, it is obvious that a drop in living standards of this magnitude cannot be tolerated for very long. These countries have seen a sharp decline in their real terms of trade (this variable has dropped to one of its lowest levels since the Second World War); they have experienced a reduction in the volume of their exports paralleling the decline in growth rates in the industrial countries; they are feeling the effects of growing protectionist practices of all types that are cutting their market share in precisely those activities which, for these countries, display the greatest dynamism and have the best growth potential; and, lastly, the rise in international interest rates has increased the burden of servicing their external debt and placed many of these countries in a liquidity crisis to which there is no easy solution.

Correction of the disequilibria affecting these countries will, of course, depend on their national economic policies, but also on the international context in which they have to bring about these adjustments, in other words on factors beyond the control of the responsible political authorities. The greater the discipline and sense of realism underlying the economic policies pursued by these countries, the smoother and less costly the adjustment process will undoubtedly be. Nevertheless, while the scope for domestic economic policies is not insignificant, it is limited and could almost disappear altogether unless a more pronounced and generalized recovery occurs in the industrial nations than is taking place at the moment. By way of illustration, it has been stated, on the basis of empirical evidence provided by various studies prepared by the International Monetary Fund and the World Bank, that an increase of one percentage point in the average economic growth rate in the OECD countries during the period 1984-86 would bring about an increase of 3.5 percentage points in the average yearly growth rate of exports from the non-oil developing countries. An increase in exports of this magnitude would be equivalent to one-third of the cost of servicing the total short- and long-term external debt of these countries (both interest and amortization) in 1982. These empirical relationships show how important recovery in the industrial countries is for the developing countries and, perhaps even more significantly, how vital it is that the propensity of the industrial nations to import goods from the developing countries should not be reduced further. Growing protectionist pressures are not unrelated to the stagnation and decline in the volumes of international trade over the past two years, and these pressures have had a particularly harmful effect on the developing countries, whose exports are growing at rates far below those recorded in previous years.

The issue of protectionism has grown so serious that I feel it behooves me to stress how much of a real threat it is becoming to recovery and sustained growth of the world economy and, in particular, to the possibilities for progress of the developing countries.

The Financial System and International Cooperation

As a result of the factors I have just mentioned, the distribution of the burdens involved in the process of adjusting the international economy has been skewed against the developing countries, which are making very considerable efforts to the extent that many of them are becoming exporters of capital. The difficulties these countries are facing have been rendered even more intractable by the sudden shrinking in the supply of capital to them, which has compelled them to make a much quicker and larger adjustment, one that may perhaps not have been as appropriate as would have occurred under more favorable circumstances.

It seems to be a constant of history, one which successive developments and reforms of the international monetary system have been unable to modify, that capital flows tend to flood into developing countries in times of prosperity and to recede from them in times of economic crisis. One of the great tasks facing us must be to design stable mechanisms for the creation of liquidity and international reserve assets, even though this is essentially a long-range matter. In the shorter term, stability of the international monetary system requires that sufficient funds be channeled toward the countries that are carrying out rigorous adjustment programs, in order to ensure that these programs can be implemented successfully.

Private markets have been playing an increasing role in international financial intermediation, and their action has helped to lessen the impact of higher oil prices on many of our economies. However, with the benefit of hindsight, we can say that they took on a major responsibility, making up for what ought to have been greater participation by the international institutions and government-to-government transactions. Excessive use was made of short-term borrowing to finance activities that could only produce fruit in the longer term. At the same time, the banks allowed their portfolio of international lending to be excessively concentrated in certain countries and regions, applying less strict criteria in the assumption of risks than they would have in domestic banking operations. All of these factors came together to create a mechanism for the generation and distribution of international liquidity predisposed to erratic fluctuations threatening to the stability of the international monetary system. An orderly transition to viable external debt and balance of payments structures in the capital-importing countries will require, first and foremost, that the private banks be prepared to maintain the minimum flows of financing required and that we should, all of us, endeavor to maintain and increase the flow of concessional funds to those countries. These financial resources, which are particularly limited under present circumstances, should be channeled to investments that will yield the highest return and, wherever possible, a balance should be sought between investments that will bear fruit in the short term and those that will require a longer gestation period. The developing countries must assign priority to investment in health and sanitation systems, education, communications, transportation and other related activities that yield high social returns.

In this process, the international financial institutions have a crucial role to play. Although the President of the World Bank and the Managing Director of the International Monetary Fund will refer to this in greater detail, I would like to remark briefly on the activities carried out by these institutions in regulating the effective use of public and private capital flows channeled from savers to borrowers in the world economy.

The World Bank Group

I would first like to refer briefly to the Program of Special Assistance introduced by the World Bank last February. Drawn up in response to the urgency of the crisis, this program is designed to keep the level of development activities in borrowing countries implementing adjustment policies in their economies as high as possible, so as to reduce to a minimum the impact of the adjustment on their possibilities for future growth. Speedier disbursements and, where appropriate, dialogue on and assistance with suitable adjustment policies are basic elements of the program, which is projected to last for two years.

There is an awareness in the Bank that the gravity of the problems experienced by the developing countries requires an expansion in real terms of its lending program for the years ahead, and it will be preparing suitable proposals to this end. This brings us to the question of the flow of resources. It must be acknowledged that there is a need to strengthen the capital of the institution if we want it to properly carry out its responsibilities as a multilateral development agency. I am confident that, along the lines of the recent Eighth General Review of Quotas of the International Monetary Fund, prompt agreement will be reached on a selective increase in Bank capital in an amount which will be appropriate under the circumstances and which will take into account the current situation of its member countries.

Finally I would be remiss if I did not mention the efforts the Bank is making to mobilize resources through its cofinancing program and the introduction of new instruments in this area designed to increase the net flow of capital to the developing countries and extend loan maturities.

Next I should like to stress the special importance for the poorest of the developing countries of the Seventh Replenishment of the International Development Association. It is vital for these countries that negotiations be conducted speedily and lead to an amount of funding appropriate to present circumstances.

I feel I am speaking for all present when I voice the hope that the negotiations under way will be concluded promptly and that their outcome will be an expression of international cooperation and solidarity with the least privileged nations.

In concluding these brief remarks on the World Bank Group, I should like to state that the International Finance Corporation must persevere in its task of attracting and mobilizing financial and human capital for the private sector in the developing countries. Despite the adverse climate for investment in the curent economic recession, we must not lose sight of the fact that the International Finance Corporation's special features make it an important instrument for mobilizing risk capital and other resources to assist the private sector in the developing countries in these difficult times.

The International Monetary Fund

I should now like to discuss the activities of the International Monetary Fund. The worsening over the past year of the problems of a number of countries with large external debts, and the changes that have taken place in exchange markets, have required the Fund to step up its activities in general, especially its operations designed to finance appropriate adjustment processes, and its supervision of the exchange and financial policies of its major member countries. I shall now discuss actions taken in the first of these two main areas of activity of the institution.

Adjustment and Financing

In the course of the financial year ended April 1983, Fund lending in connection with adoption of appropriate adjustment policies by borrowing countries increased greatly over levels prevailing in previous years. As of the end of April of this year, the Fund had entered into commitments to disburse SDR 25,000 million in connection with 39 adjustment programs, all in non-oil developing countries. In many of these cases, notably in that of borrowers experiencing liquidity problems in servicing their external obligations over the past year, the financing provided by the Fund had a multiplier effect, forming as it did the base of a sizable pyramid of private financing to those countries. The Fund certainly played a crucial role in tackling the problem of external debt in the past year and we wish to congratulate the Managing Director, Mr. de Larosière, not only on the way in which he has managed the financial and human resources of the institution but also on his personal involvement in the delicate negotiations on the external debts of the main debtor countries.

We must not, however, fall into complacency, either as a community of nations or as international organizations. The transition toward viable external debt structures has barely begun, and we must monitor the process carefully, anticipating difficulties and developing and applying the preventive medicine needed to minimize the negative effects of probable future disturbances in this area. The efforts undertaken by the Fund during the past year to prevent a crisis of confidence in the international monetary system fall in this category of discretionary measures which, by their very nature, cannot be applied continuously. We fear that the Fund's resource base may be relatively small for its potential responsibilities in this critical period in world economic history. Thus, ratification of the increase in quotas under the Eighth Review and the disbursement of funds under the General Arrangements to Borrow ought to be speeded up. The agreement in principle on the limits of countries' access to Fund resources, reached with such great effort in the Interim Committee, has unfortunately not satisfied all its members. We feel, however, that the agreement may permit a measure of flexibility in its application, such that the developing countries in the worst straits will not find their possibilities of access restricted, thus facilitating their task of adjustment and strengthening the role of the International Monetary Fund. In this connection, very positive note should be taken of the gesture made by the Government of Saudi Arabia, which, by promoting additional financing and offering to provide a substantial proportion of that financing, has demonstrated in a practical way its commitment to the principle of international solidarity.

Conclusion

We are passing through a period of great difficulty which mistakes on our part may aggravate and extend. Nevertheless, in the period that has elapsed since we last met, there is evidence of an upturn in certain economic indicators in some countries which, while still somewhat hesitant, allows us to speak of promising signs of recovery. The return of sustained, noninflationary growth in the industrial countries is the best guarantee for a generalized revival worldwide. The components of effective demand should grow in such a way as to reduce existing disequilibria between countries and, in particular, the recovery of investment should be encouraged as a means of maintaining noninflationary growth, gradually reducing the unemployment that has built up during the years of crisis, and raising labor productivity and workers' living standards.

In any event, many countries still have to complete the needed adjustments to their economies to prepare them for the revival of economic growth. This means that the adjustment process is, by its very nature, a slow process and implies, as the excellent reports prepared by the Fund and the Bank make clear, the need for national policies that endeavor to establish the basic equilibria and speed up the achievement of the targets set in the programs, without yielding to temptations that could illogically distort the international division of labor. On the other hand, the very persistence of the period of crisis, particularly in the low-income countries, is giving rise to limiting situations that must be remedied if we are to achieve a rapid recovery.

The fact of global economic interdependence is being understood more and more each day, and as a result true international cooperation, and total support for these two institutions with their proven record of utility and effectiveness, will be essential if we are to emerge from this protracted crisis, which we all want to leave behind us for good.

ANNUAL ADDRESS BY A. W. CLAUSEN PRESIDENT OF THE WORLD BANK

Mr. Chairman, Governors, Ladies and Gentlemen,

Welcome to these Annual Meetings.

And a special welcome to the distinguished delegates of our two new members, Antigua and Barbuda, and Malta.

Progress and Innovation.

These are the two words which, I believe, best sum up the performance of your institutions during Fiscal Year 1983.

The International Bank for Reconstruction and Development approved $11.1 billion of new loans, up almost 8 percent over FY82. New borrowing and lending approaches were introduced during the year, as were new techniques for co-financing with commercial banks. A very healthy profit performance permitted significant reductions in the front-end fees.

The International Development Association made $3.3 billion of commitments, a greater share than ever before going to Sub-Saharan Africa, our top geographic priority. IDA's commitments showed an increase over the previous year, but they nonetheless fell 30 percent short of the lending program initially adopted for the Sixth Replenishment period.

In difficult global conditions, the International Finance Corporation attained a record volume of investments and increased its activities in the poorer and smaller member countries.

Agriculture and rural development and energy accounted for approximately one half of total IBRD and IDA lending. These will remain our largest lending sectors.

A new Board of Executive Directors came into office, and has played a most constructive role on your behalf. Meanwhile the staff of the World Bank and IFC performed their vital tasks with energy and skill.

In the coming months we shall continue our best efforts to make your institutions even more effective instruments for economic development.

We face an awesome challenge. But in this age of the space shuttle, electronics for the masses, and instant global communications, there can be no doubt that the means exist to meet it.

The obstacles to a decent, dignified standard of living for hundreds of millions of people in the Third World lie not so much in the halls of modern technology, as in the hesitations of those with the political power to make it possible.

We must work together to clear those obstacles.

If, at these meetings, the political will can be summoned up to secure progress for the hundreds of millions of impoverished people, with the aid of our institutions, we will have done a good week's work.

Mr. Chairman:

A year ago in Toronto, we met in the deepening shadows of global economic decline. And we were unable to say with any assurance that recovery was yet in sight.

Today there are welcome signs that the shadows are beginning to recede. With recovery under way here in North America and in several countries of Western Europe, there are indications that the worst global recession since the Depression of the 1930s may be approaching its end.

That is good news. But we must temper our satisfaction with a proper measure of caution. Economic recovery has three dimensions: speed, magnitude and durability. It is durability which counts, and the actions of the leaders of both industrial and developing countries will determine whether the recovery will be short-lived or sustained.

It is not that we do not know what actions need to be taken. We know them.

It is not that we do not have the instruments to do the job. We have them.

What is lacking is a firm commitment on the part of the international community to act while the window of opportunity is still open to us.

Today I want to speak to you frankly about how we should use three of those instruments at our disposal: the three institutions in which you are the shareholders, and in whose name I am privileged to address you this morning.

I would like to begin by commenting on the economic situation currently facing the developing nations.

The impact of the three-year recession on individual developing countries has been varied. Nonetheless, most countries have experienced, in differing degrees, deteriorating per capita income growth, stagnating government revenues, and serious balance-of-payments and debt-servicing difficulties. Coping with these difficulties has, in many cases, led to harsh cutbacks in investment plans and the slowdown of ongoing projects, with adverse effects on future productivity and growth.

While developing countries have had to struggle with a hostile world economic environment—an environment of stagnant markets, low commodity prices, increased protectionism and high interest rates—the severity of the recession's impact has depended both on the economic structure of individual countries and on the ways in which nations have chosen to adjust to external shocks.

A number of middle-income oil-importing countries with outward-oriented trade policies have managed to maintain the momentum of export expansion and to avoid serious new debt problems. By emphasizing efficiency and competitiveness, and by being relatively cautious in their foreign debt and fiscal policies, they have created the economic resilience to weather difficult conditions.

But other middle-income countries that had borrowed too heavily and had adjusted less during the 1970s, have been hit by the high interest rates and have had to deflate drastically in response to liquidity crises.

Middle-income countries with access to external capital have a choice in how they respond to global economic pressures. In terms of broad economic policy they can use this capital to help make structural adjustments, such as switching production to additional exports and efficient import substitutes. Or they can use it to help postpone adjustment. Those who choose to maintain consumption levels by reducing investment eventually pay the price of a more difficult adjustment in later years, or must be willing to accept a longer period of slower growth. On the other hand, those who restructure investment programs, increase domestic savings, and do not inhibit exports may, after a relatively short transition period, begin to reap the fruits of the greater efficiency of their economies.

But the choices have been far more difficult for most of the low-income or least-developed countries. Their scope for policy flexibility is limited. Their consumption levels, for example, were already low, and further cuts to maintain investment have added to the suffering of millions.

On the bright side, the two largest low-income countries—China and India—have come through the recession with encouraging resilience. Less heavily dependent on foreign trade, and with only modest foreign commercial debts, they have been less affected by high interest rates.

The position of the low-income Sub-Saharan African countries is altogether different. Long-standing economic problems in the region have been greatly exacerbated by the recession, not least by the heavy dependence on primary product exports at a time of weakening demand. The per capita income of the region is falling and it could well be lower by the end of the 1980s than it was in 1960. To reverse this appalling trend will require a combination of policy reforms in many countries, higher commodity prices, and a large expansion of international concessional assistance to the region.

The developing countries' difficulties were eased by the fall over the last year in interest rates and oil prices. Every percentage point off Eurodollar interest rates saves these countries over $2 billion net in interest payments in a full year. For net oil-importing developing countries, every dollar off the price of a barrel of oil reduces their annual import bill by $2 billion. Recent reductions in the oil price have created problems for oil exporters, but it is likely that oil prices will harden again in coming years. This prospect should prompt oil-importing developing countries to persist with measures to conserve energy and to actively search for additional domestic energy sources.

As we look ahead, we have to be very cautious in our assumptions about the level and durability of the recovery. Sustained growth in the industrial countries, such as they achieved in the 1950s and 1960s, cannot be taken for granted. Inflationary pressures may have been contained for the present, but real interest rates remain historically high. Government deficits are still surging upward in many OECD countries, and higher levels of investment and productivity are being insufficiently encouraged. So we dare not be complacent.

The wide differences in production costs between industrial and developing countries offer a powerful opportunity to stimulate economic efficiency and higher real incomes through trade. It is difficult to imagine how the industrial countries can secure sustained economic expansion without the long-term stimulus to increased productivity resulting from liberalized trade. But very high unemployment has strengthened protectionist pressures.

The developing countries' stake in trade cannot be overestimated. Open and expanding trade has been crucial to the rapid growth that many developing countries have achieved over the last generation. The best way for developing countries to revive their economies now—and the only way for indebted countries to finally overcome their financial difficulties—is to expand exports. Expanding trade opportunities among developing countries is highly desirable, but greater access to the industrial world's markets is absolutely indispensable.

It is true that many increased trade restrictions have been principally among the industrial countries themselves—notably in automobiles and steel. But many restrictions also hurt developing country exports such as textiles and agricultural products. The persistence of such measures has begun to make protectionism in general look more acceptable.

But it is *not* acceptable. Protectionism spreads like a cancer, destroying the very tissues of global commerce, which for three decades have been the sustaining force of Third World development.

It is a cancer that must be rooted out.

Protectionist measures adopted during the recent recession must be rolled back and the momentum of the trade liberalization rounds of the Sixties and Seventies must be recaptured. This is vital!

If recovery from the current recession is going to be strong and lasting, and if individual economies in the developing world adapt realistically to meet the changed economic conditions, then we see a 5.5 percent annual GDP growth rate as feasible for the developing countries as a group over the next decade. This will be a difficult goal to achieve, but well worth working for.

Economic and policy reforms are urgently needed to ensure that all countries can better exploit their comparative advantage and improve their performance. There is no hiding the fact these reforms will be painful, especially for the developing countries, struggling to adjust to the impact of the recession.

We must ask ourselves: how much pressure can these nations be expected to bear? How far can the poorest peoples be pushed into further reducing their meager standards of living? How resilient are the political systems and institutions in these countries in the face of steadily worsening conditions? I don't have the answers to these important questions. But if these countries are pushed too far and too much is demanded of them without the provision of substantial assistance in their adjustment efforts, we must face the consequences. And those will surely exact a cost in terms of human suffering and political instability. A cost eventually to be paid by themselves and by the rest of the world which may well prove far greater than the cost of helping them *now*.

It is imperative that the international community help create the conditions that will make these reforms and adjustments not just possible, but as painless as possible. And that means creating the conditions in which an adequate flow of external resources to the developing countries can be assured on a sustained basis.

A durable recovery in the industrial world, a rolling back of protectionist measures, and a revival of the earlier momentum of trade liberalization will certainly help put world trade and economic growth back on the fast track. But they will not be enough to ensure that the developing countries regain the rate of growth they were previously attaining. The recession has wrought structural changes in patterns of world trade that are not to the advantage of the developing countries. Furthermore, world trade may well grow more slowly in the years ahead than in the years preceding the recession. This means slower growth of developing countries' exports. Even though the developing countries can be expected to increase their share of world trade in coming years, the truth remains: trade alone never has generated, and never will generate, sufficient resources. The developing nations have always needed a steady flow of external capital. And today, if the momentum of development is to be recaptured, there must also be a substantial flow of foreign capital to the poorer nations.

But where should this capital come from?

Between 1970 and 1980, private lending to the developing countries rose at an average rate of 14 percent per year in real terms, and provided about half of medium- and long-term capital flows during the period. Despite a decline in the rate of growth of commercial lending in 1981 and 1982, the share of medium- and long-term debt owed to the private lenders by the developing countries had nonetheless reached an estimated two-thirds of the total debt outstanding by the end of 1982.

Commercial banks are worried about their debtors' liquidity being sufficient to cover repayments on all their loans. Servicing the more than $500 billion debt is posing a sizeable problem. If the banking system as a whole will continue prudently to provide new finance, the problem should be greatly eased. But if individual banks lose confidence and precipitate a general withdrawal, the consequences could be disastrous.

The concerted action taken by international institutions, notably by the International Monetary Fund and the Bank for International Settlements, and by certain industrial country governments, ought to help the major banks decide to sustain, not curb, new lending. The new approach to debt restructuring, involving the packaging of funds from these institutions, some governments and the private banks, is a cause for restored confidence.

The IMF has been, and continues to be, the world's front-line defense against sudden, damaging cutbacks in economic activity due to balance-of-payments problems. It is indispensable that it be given the resources to continue to play this essential role.

Let us acknowledge, however, that the problems of some major borrowers *have* shaken confidence in international commercial lending, and slowed its rate of growth significantly. Some slowdown was to be expected, but the fall in the rate of increase in 1982 was dramatic. And preliminary data through the early months of 1983 shows that the volume of new lending continues to fall. The availability of commercial capital, even to some developing countries that have managed to perform well, has declined. And there is a danger that shortsighted legislative or regulatory actions will force even those commercial banks which are willing to expand their overseas lending to cut back. Such action can only be damaging to Third World economic recovery. And may I say that such action is also damaging to the industrial countries who need expanding markets for their continued recovery.

International private capital is essential to the development process, in the form of both direct investment and commercial lending. Constrained commercial bank lending, together with high real interest rates, makes direct foreign investment more attractive and important to developing countries. Such investment should be encouraged to complement and supplement local entrepreneurial resources.

We have, in the International Finance Corporation, an instrument to help accelerate this process. IFC has a special responsibility within the Bank family to serve as a catalyst in private sector development by bringing together capital, technology, and managerial know-how. An important aspect of this role is to stimulate other lenders and investors by instilling a sense of confidence that might not otherwise exist.

This year marks the end of the Five-Year Program on which IFC embarked in FY79. Following the capital increase approved by the Board of Governors in 1977, IFC launched an ambitious program to expand and reorient its development impact. In spite of a very difficult economic environment, most of the quantitative and qualitative targets set five years ago have been met or exceeded. The volume of investments in constant dollars approved for IFCs own account increased at a rate of 12 percent per year. And the geographic focus of activities shifted to reflect the Corporation's growing concern with the needs of the low-income countries. Africa, which had received 12 percent of IFC net investment in the previous five years, received 18 percent in the just concluded program period.

IFC's catalytic role is well demonstrated by the fact that, with total IFC investment of almost $2 billion for its own account during the program period, the ratio of investment mobilized from other sources to IFC contributions was 6:1. And each additional dollar invested in IFC by its shareholders in this period has so far helped mobilize $35 of additional private investment in its developing member countries.

The demand for IFC's resources and services is steadily increasing. Increasing investments in projects that require large amounts of equity and have long gestation periods will tax IFC's own equity resources. An adequate response can therefore be made only if its own capital base is expanded. Therefore, within the next few months, I will be proposing to the Board of Directors a $750 million increase in IFC's capital. The role of the private sector in the developing countries' struggle to regain the momentum of development is increasingly important. Strengthening IFC will permit it to be of greater assistance to that process.

Accelerating direct foreign investment will, nevertheless, take time, and net direct foreign investment was only 18 percent of total net capital flows in 1982. Direct foreign investment can, at the margin, substitute for borrowing, but it will not grow fast enough to make up for the present disruption in commercial lending.

Given trade prospects, commercial lending trends, and the increasing needs of the developing countries, a clear message emerges: the importance of official capital flows is now greater than ever.

So let me comment first on the concessional element of official flows, or Official Development Assistance (ODA), and then I will turn to the non-concessional element of official flows.

In the early Eighties, ODA flows have failed to increase. In real terms ODA flows to developing countries are estimated to have been at about the same level in 1982 as in 1980. The OECD's Development Assistance Committee now projects a supply increase of ODA in real terms from its member countries on the order of only 2-3 percent per year over the next few years. That is sharply below the rate of increase of the last decade.

ODA is desperately needed by the low-income countries, which do not have access to, and cannot afford the terms of, significant commercial borrowing. Yet, for more than a decade only 30 percent of total bilateral ODA has been allocated to the low-income countries. It is shocking that those who need it most receive so little in both absolute and relative terms. These nations have special and pressing problems, as all of us here today well know. Yet the irrefutable economic arguments for channeling a larger share of bilateral assistance to these countries continues to fall on mostly deaf ears.

The case for improving both the quantity as well as the allocation of ODA cannot be contested. Those countries providing ODA well below the present DAC members' average at 0.39 percent of GNP should increase their real ODA flows faster than their GNP increases. So small is ODA presently—as a share of public spending—that to claim that budget pressures prevent any meaningful increase, and even justify cuts, is a hard argument to swallow.

We salute those donor countries who reject that argument and are increasing their assistance faster than their GNP growth. And we salute those who have consistently maintained high levels of aid.

We urge those countries who have performed less well to emulate the example of their more farsighted peers.

For this is *not* an issue of charity. It is one of national self-interest in an interdependent world economy! I refuse to believe that it is so complex that rich and powerful nations cannot see where their self-interest lies, and cannot recognize the political, commercial and security arguments for doing more.

For many who wish to see these low-income nations helped, it is argument enough that there are hundreds of millions of people existing there at unacceptably low standards of living. But there is also the argument that these low-income nations represent a vast potential market for goods and services, if the potential of these nations can only be realized.

Other developing nations, now newly industrializing and major trading partners of the industrial world, were once in a similarly deprived condition. But the industrial world helped them as they trod the difficult path towards the realization of their potential.

Why, then, do we hesitate to do the same for today's low-income countries?

We at The World Bank are the first to acknowledge that it is an awesome task. We are not blind to the fact that the global economic environment today is far less hospitable than the environment in which many developing countries made progress in the preceding decades. But the international community's capacity to solve these problems is being underestimated, sold short, and deprived of support.

It is still not too late to translate that capacity into a major effort to accelerate the low-income countries' growth and reduce their proverty. But the procrastination must end. And it must end now! The economic distress of the poorest nations is a time bomb ticking away. We delay defusing it at our peril!

Not forgetting that there are low-income countries in other regions in a similar plight, Sub-Saharan Africa illustrates dramatically the need for comprehensive international support in the struggle to adjust. The recession has accelerated the decline in living standards that began in the Seventies. For the region as a whole, Gross Domestic Product remained stagnant in 1981 and 1982. Consequently, income per capita continued its decline. With output for many years growing much less rapidly than the rate of population growth, the plight of these countries becomes progressively more desperate.

Let me say here that despite considerable gains achieved in most Asian and many other middle-income countries in lowering population growth rates, the battle is far from won—especially in Sub-Saharan Africa. If that region could match the birth rate of low-income Asia, its population growth rate would decrease by 40 percent. The direct impact on per capita income would be dramatic. And the reduced population growth would allow resources to be invested in improving productivity and welfare, instead of being stretched out to cover more people.

There is growing awareness in Africa of the need to take steps to make more efficient use of resources and of the productive sectors of their economies. We applaud the efforts being made in many countries to make the necessary policy changes. And we feel a strong obligation to continue to urge our borrowing members to carry out the broad economic reforms and take the policy actions that are clearly needed to reverse the economic decline and to promote growth. But in the current crisis, neither the extent nor speed with which revised programs are being implemented in Sub-Saharan Africa can reverse the trend of declining per capita incomes. Increased external assistance is critical to the reversal. The early stages of policy reform implementation must be nurtured. And we must appreciate that the level of external support that governments can expect can also decide whether or not they do embark on major programs of policy reform.

It may be tempting to believe that a dramatic one- to two-year increase in assistance to Africa will get these nations over the hump. But that is simply not realistic. The needed policy reforms will have to be phased over many years. Their beneficial impact on the structures of the economies, on output, on budgets, on balance of payments, and on the lives of people, will only become manifest in subsequent years.

Should we turn our backs on these countries as they seek to adjust their economies? Do we simply allow global economic pressures to undermine their efforts? Who in this hall will stand up and advocate such a course?

External assistance must not only be markedly increased, it must also be sustained over many years.

Without question, our affiliate, IDA, the largest multilateral channel of concessional finance, has a crucial role to play here.

IDA's effectiveness as an institution serving the low-income countries cannot be in doubt. More than ninety percent of its funds go to these countries, compared to about 30 percent of bilateral aid programs. Fifty-one countries currently rely on IDA. But, in its twenty-three years of operations, twenty-seven nations who were once borrowers of its funds have seen their economies strengthen to the point where they can switch their custom to the IBRD and other sources of harder finance. And some of these are now among today's 33 contributors to IDA's resources.

But IDA's value lies not just in its ability to transfer concessional capital for productive investment. The continuing economic policy dialogue between lender and borrower creates a relationship and achieves results which national aid agencies have found difficult to emulate. Our borrowing countries bear witness that this IDA relationship can help strengthen economic reforms, increase productivity, and reduce poverty.

If IDA is to pursue this vital role, in Sub-Saharan Africa, in South Asia and in other low-income member countries, it *must* have the determined support of the donor community. If IDA is inadequately funded, the growing needs of our borrowing countries will be left unmet. And the consequences of that will be widespread and damaging for all.

Let us not forget that among IDA's borrowing members are the world's two most populous nations, India and China, in which more than 450 million of the world's absolute poor are living. Each country is engaged in far-reaching efforts to realize its potential. The necessary reforms and programs carry substantial costs calling for affordable external finance on a large and sustained basis. But flows of official development assistance per capita to both China and India are very low indeed. Both countries' debt service ratios are low at present, but their ability to absorb greater quantities of non-concessional debt is limited. Their economies lack the capacity to generate the volume of foreign exchange needed to service a large commercial debt. And with so many of the people still living at subsistence levels, there is little hope for rapid increases in domestic savings beyond the high levels already achieved.

To make the necessary large-scale and long-gestating infrastructure investments, both physical and social, a steady flow of financial assistance to both countries is essential. And in both countries, policy adjustments aimed at improving the flexibility and efficiency of their economies will continue to need the underpinnings of finance and advice which the World Bank has long been providing to India and has just recently started to provide to China. To provide India and China with meaningful support is one further compelling reason why we must secure an adequate level of replenishment for IDA.

However, doubts now exist about IDA's prospects. Lengthy and difficult negotiations are taking place on the seventh replenishment of the Association's resources to cover the three-year period ending June 30, 1987. It is imperative that we reach agreement on the replenishment by the end of this calendar year. If we fail, it will not be possible for donors to process the legislation necessary to prevent a hiatus in IDA's commitment authority next July.

At the recent meeting of IDA Deputies in Tokyo, we spelled out the case for a $16 billion replenishment of IDA. I need not go into the details here. But a $16 billion IDA will provide only a modest amount of resources for our two largest low-income members to supplement their borrowing from the Bank to the fullest extent feasible. It will provide only a marginal increase in real terms to the other low-income countries. It provides no capacity to restore IDA lending to those countries graduated from IDA but whose economies remain exceedingly fragile with only a limited ability to borrow funds on non-concessional terms.

There is no escaping the fact that the amount is large in numbers. But it is small in terms of the requirements to support effective programs of development and of policy change. While some donors have indicated difficulty with such a level of replenishment, some are prepared to support a replenishment of this size—or close to it—despite their own budgetary problems.

However, to reach agreement soon, and to avoid a hiatus in IDA operations, this last stage of the discussion now requires decisions at the political level by the major donors. It requires a willingness on their part to compromise and to move away from previously stated positions towards a solution that is more than a simple surrender to the lowest common denominator. If such a spirit now prevails, I am convinced that agreement can be reached on a replenishment of IDA which, while not as much as may be needed, nor as much as could be effectively utilized, will nonetheless be an appropriate response to the critical needs of our low-income members.

A cut in IDA's resources below the levels seen in recent years, in real terms, would be a terrible blow to the poorest nations. Does it really make sense to talk in terms of a retreat from previous levels of replenishment when the needs of IDA's regular borrowers are growing, and when the world's most populous nation has been added to their number?

It makes sound economic sense—prudent political sense—not to let programs of development assistance to low-income countries weaken and decline. In this period of global economic uncertainty, it is not only the low-income countries themselves who need fear the awful consequences of their own economic retrogression. The whole world should fear them, and not least the donor countries. For them, the economic, political and strategic consequences of chronic decline in the poorest countries will certainly be grave.

It is in everyone's interest that IDA should perform to the fullest of its potential. All of us here recognize that the exercise of budgetary restraint by the governments of the industrial world is an important factor in securing a durable recovery for the global economy. Runaway deficits and high interest rates can all too quickly plunge us back into recession. But within the overall constraints that prudence dictates, there ought surely to be a sensible ordering of priorities. In considering global security, every government, developed and developing, would do well to ask itself whether each additional million dollars of military expenditure buys as much global security in the long run as each additional million dollars invested in the Third World's economic development.

There is no doubt in my mind what the answer to that question is. And yet, as we look hopefully for signs of realism in the ordering of priorities, the total of the world's military budgets climbs higher and higher. Meanwhile the struggle to secure a modest increase in economic assistance that would amount to a minute fraction of military expenditures gets tougher and tougher.

IDA should not be held hostage to, nor bear the principal brunt of, the effects of budget reductions. And there is absolutely no reason why the IBRD should find itself similarly fettered. And yet, at a time when the Bank's borrowers are looking to it for increasing assistance to meet their growing needs, the institution's ability to respond is being held in check. The capabilities of IBRD should be fully utilized.

If one looks across the spectrum of problems facing our developing member countries which the recession has aggravated—the difficulty of expanding export earnings rapidly to meet debt-servicing requirements; stagnating official development assistance; uncertainties over the future levels of commercial capital flows—one thing becomes plain: an institution in which the capital markets daily demonstrate their confidence is an institution which could and should intermediate much larger amounts.

We know our strength in the capital markets. The record borrowing figure of $10.3 billion in FY83 is evidence enough. But the argument for an expanded lending program does not stem simply from our ability to mobilize lending resources. That ability merely makes possible what we know, for other reasons, we must do.

The case for more lending rests squarely on the legitimate and growing needs of our borrowing members. Recent experience shows that the developing countries are willing to undertake significant changes in their economies to adjust to the changed global economic environment. They recognize that without such restructuring, it will not be possible for them to maintain appropriate levels of growth.

They also recognize, as do we all, that economic adjustments are expensive, both in political and financial terms. It takes time for production processes to be restructured, for labor and capital to move, and for consumption patterns to be changed. Restructuring may be accompanied in the early stages by declines in real income. And the liberalization of trade regimes may well call for additional foreign exchange. It is a time when borrowing may well be essential. Capital carrying the reasonable rates and maturities of IBRD lending can help meet that need. And if the Bank is going to make an effective contribution to improving public policy and private confidence in its borrowing countries, its money should accompany its advice.

In the past the Bank has had both the ability and the resources to respond to its borrowers' growing needs with steadily rising levels of lending. IBRD commitments grew 7 percent a year from 1970 to 1980, and 11 percent a year in 1981 and 1982. But this pace has slowed to no real increase during Fiscal Years 1983 and 1984. Management is proposing that Bank lending increase at the rate of 5 percent a year in real terms starting in Fiscal Year

1985. But this is a rate which represents a significant deceleration in IBRD's growth as compared with the recent past.

With a 5 percent increase, net disbursements during the period would increase to about $6.9 billion in FY85, but decline thereafter. This does not permit the Bank to do the job that it really should do through the balance of this decade!

Even with a growth rate as low as 5 percent, we have to be looking down the road to see what the Bank's longer-term capital needs are going to be. And the signs are clear: in the longer-term the Bank will need a substantially larger capital base. In the immediate term, a modest increase will help prevent the IBRD lending program from being constrained even below the levels currently planned.

Therefore, as a first step, we are consulting with the Board of Executive Directors on a Selective Capital Increase, parallel to the Eighth General Review of Quotas in the Fund. A Selective Capital Increase will not go any distance towards facilitating an expansion in real terms of our lending operations. Its primary purpose is to realign the member's voting rights in IBRD in a manner consistent with past precedent and practice following the Fund quota increase. In doing so, we are also concerned with ensuring fair treatment of all members whose relative positions will change as a result of share allocations.

So an effective role of the Bank in the Eighties will require further action to augment its capital. In this period of economic uncertainty—when countries will continue to struggle with problems of adjustment and debt, when there is an urgent need to restore investment levels and resume growth, and when the capacity and willingness of the commercial banking system to expand its lending to developing countries is in doubt—we must not allow any uncertainty to persist about the Bank's capacity to adequately support the development efforts of its members.

We must therefore begin work now—in this 1984 Fiscal Year—to shape the framework of the next General Capital Increase, so that negotiations can be agreed upon and completed before the end of Fiscal Year 1986.

But let me emphasize strongly the fact that the amounts paid in on a capital increase are minimal. And the likelihood of calls on the large portion not paid in is wholly remote. The resources to finance a bigger lending program would come from the marketplace. The increase in subscribed capital would serve the specific purpose of giving the bank the expanded base of guarantee capital which a larger lending program would constitutionally require.

I make this appeal to you, the shareholders, to support these initiatives, confident that you recognize what a remarkable, indeed unique, institution your Bank is.

It is a *sound* institution. Its 37-year record of productive investments, together with its reputation for conservative financial management, has given it a credit standing in the capital markets second to none. And our ability to borrow at the most favorable available rates has enabled us to make three interest rate reductions since June 30, 1982, bringing the rate down from 11.6 percent to 10.47 percent. Meanwhile, our liquid investments increased from $9.4 billion at the end of FY82 to $13.2 billion at the end of FY83.

It is a *profitable* institution. In the last three fiscal years, net income has averaged $650 million. During the course of FY83, which produced a record net income, we were twice able to reduce the front end fee on new loans; from 1.5 percent to 0.75 percent in December '82, and again to 0.25 percent in March '83.

It is an *innovative* institution, constantly seeking ways to adapt to the changing needs of our members without abandoning the fundamental principles upon which it has historically operated. The recession imposed harsh new problems on most of our developing member countries, so we embarked on a Special Action Program to accelerate disbursements and strengthen our economic policy dialogue.

As the developing world looked for more commercial investment from the industrial world, the Bank moved to strengthen its role as catalyst by introducing innovative new co-financing instruments in January of this year. The opportunities to initiate our new "B" loan program on a trial basis did not arise until after the close of the fiscal year. The program has two principal objectives: first, to make additional funds available to countries for high priority investments, and provide access to funds not otherwise available; and second, to encourage a lengthening of maturities and grace periods offered by commercial lenders, and so ensure a better match between the amortization of the loan, the project, and the borrower's capacity to repay. We believe these new techniques will prove highly attractive to both borrower and co-lender.

Your Bank is also a *knowledgeable* bank. Our long-standing working relationships with our developing member countries, together with our continuing economic policy dialogue, combine to make the Bank a unique source of knowledge on the developing countries' economies. By sharing this knowledge, we can help countries evaluate foreign borrowing in relation to their economic policies and prospects. By then making such information on debt and development more readily available, we can help stabilize international capital markets and encourage more commercial lending.

Finally, this institution is, I sincerely believe, a *respected* institution. Heaven forbid that we should claim to be the fount of all wisdom or the oracle of infallibility! But our accumulated experience, and the skills of our highly qualified and dedicated multinational staff are broadly recognized. We are listened to not just because we may have something of value to impart. We are heard because we insist that advice alone is not enough; that material help must often accompany advice, if that advice is going to be effectively acted upon. Furthermore, both donor and recipient nations look to the World Bank for more help in international aid coordination. Through our Consultative Group system, we will continue to give such help as we can in this area.

Sound, profitable, innovative, knowledgeable and respected.

But underutilized.

And that is hard to accept.

With your help, there is much more that we can contribute to the international development effort. We need your support for IDA's replenishment, and for increases in the capital of IBRD and IFC, if your institutions are going to make that extra contribution.

Mr. Chairman:

Through the 1960s and 1970s, the multilateral financial institutions demonstrated how effectively they could intermediate in an increasingly complex global economy, and in an increasingly demanding development environment. They were not always rapturously applauded. But in the end they were always supported. And without that support, they could not have done what they did.

And this support will be required even more strongly in the Eighties. Amid the stresses and strains that the world economy in general and the international financial system in particular have been undergoing, it is essential that the Bank, IDA and IFC should continue to grow and to evolve in response to the changing requirements of a changing world. In an era of constrained resources, complex interdependency and far-reaching adjustments, this will only be possible with the full support of all of our members.

That is how all institutions of value have evolved. And that is how our institutions here should be allowed to continue to evolve.

The growing diversity of the global economy and the growing interdependence of its many parts present a formidable challenge to the IMF and The World Bank and its affiliates, in whose names we are gathered here this week. So the international community must ponder carefully these questions:

Do we vigorously support their further evolution? And strengthen their ability to achieve what they are designed to achieve?

Or do we leave these unique instruments inadequately armed in the face of tomorrow's challenges?

What are the destinies of these institutions?

They lie in your hands.

And require your decisions.

In an earlier part of this century, an American statesman, William Jennings Bryan, spoke thus of destiny.

"Destiny is not a matter of chance," he said, "it is a matter of choice. It is not a thing to be waited for, it is a thing to be achieved."

Mr. Chairman, Governors and Ministers, Ladies and Gentlemen:

The lives of hundreds of millions of people in the Third World will be touched, for good or for ill, by what destiny you choose for these institutions.

As choose you must.

As choose rightly, I know you will.

REPORT BY GHULAM ISHAQ KHAN CHAIRMAN OF THE DEVELOPMENT COMMITTEE

It is my privilege to present to you the Annual Report of the Development Committee.

The world economy as is now widely recognized has started emerging from almost pervasive recession which had remained a source of serious and widespread concern for the past four years. The recovery is however neither universal nor yet assured of durability.

For a large part of the world, difficult conditions continue to prevail, as exemplified by high levels of unemployment, high real interest rates, protectionist pressures inhibiting the growth of world trade, and continued worsening of debt service ratios of developing countries.

The challenge in the period ahead is how the incipient recovery can be sustained, strengthened, and extended in a noninflationary environment. The recovery in the industrial countries is a necessary but not a sufficient condition for restoring growth momentum in the developing world. There are other elements, like expansion in the world trade, a rollback of the tide of increased protectionism, capital flows—private and official, bilateral and multilateral—which need to be harnessed to enhance the effectiveness of the adjustment process launched by many countries. The steadfast pursuit of adjustment policies by all developing countries, within the limits of political and social tolerance, will continue to be crucial for the attainment of their long-term growth.

It was against this background that the Development Committee in its two meetings held during the year—one in April and the other concluded in Washington on the 26th of September—concentrated its attention on a variety of measures relating to the promotion of development and to the improvement of capital flows and their effective utilization in the developing countries.

The main thrust of our work during the past year has been to identify some essential elements in the efforts to extend the economic recovery to developing countries and focus Ministers' attention on their pursuit with urgency and a fresh resolve. These included the issues of: financial flows from, and level of lending by, the World Bank and other multilateral development banks, and implications of such programs for their capital base; funding of IDA; additional lending for energy; external debt problems of developing countries; and linkages between trade and promotion of development.

The full details of the work on the various topics discussed by the Committee are available in the Annual Report, which does not however cover the meeting held on the 26th; for this I have to refer you to the press communiqué. From the communiqué you will see that most members agreed to a selective capital increase for the World Bank of about $8 billion, and requested that Executive Directors work out the specifics with the aim of submission to the Board of Governors by the end of this calendar year.

Furthermore, the Committee agreed on the importance of encouraging direct private investment and, in that connection, took note of the intention of the Bank management to propose expanding the investment program of the International Finance Corporation during FY84-88 with a capital increase of $750 million.

The needs of the low-income developing countries and particularly those of sub-Saharan Africa have been a continuing concern to the Committee. The urgency of concluding IDA-VII negotiations by the end of this year was unanimously accepted. The Committee recognized that the size of IDA-VII should be agreed at a realistic level which would seek to reconcile the needs of an expanded IDA recipient community faced with an extremely serious economic predicament and the budgetary constraints of donor countries.

In the period under review the Committee dealt for the first time with two new subjects.

First, 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. It stressed the importance of avoiding an abrupt reduction in the level of international bank lending to developing countries. While noting with satisfaction the prompt response by bilateral and multilateral sources to recent critical debt 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. The Committee, while appreciating the efforts by the Bank and the Fund, encouraged both institutions to keep the important matter of the net capital flows to developing countries under constant review.

The second subject which attracted the Committee's attention related to the linkages between trade and the promotion of development. Recognizing the interdependence of the economies of the industrial nations and the developing countries, the Committee held the view that global economic recovery and progress on trade issues were of critical importance for increasing the foreign exchange earnings of developing countries. The expansion of world trade has made and must continue to make an important contribution to the economic growth and development of both industrial and developing countries. The Committee urged the Bank and the Fund to keep under constant review, in the areas of their competence, the progress made to liberalize trade, including, inter alia, the dismantling of trade barriers. This subject will again be discussed by the Committee at its spring 1984 meeting at which the results of further intensive work currently under way in the Bank and the Fund are expected to be available.

The Committee was established by the Boards of Governors as a focal point in the structure of international economic cooperation and to maintain an overview of the development process. This basic objective remains of great importance and validity, and it received a fresh endorsement in the most recent meeting of the Committee. It is relevant to recall in evaluating the work of the Committee that it is not a decision-making body; its role essentially is to facilitate decision making at national and international levels through the mobilization of political consensus on important development issues. The Committee served during the year as a useful forum, as it was instrumental in achieving a convergence of views on a number of measures of particular importance to developing countries.

As the last two decades of this eventful century have begun to wind down, we face the tremendous challenge to eradicate hunger and poverty from the face of this earth. A large part of the human family today lives in absolute poverty. This silent and suffering humanity is not decreasing in number. The spectacular progress made by mankind in this century in science and technology has put the means at our disposal to meet this greatest challenge of our times with determination. We have to demonstrate that now that we have the means we also have the political will and a willingness to reorder our priorities to meet this challenge.

STATEMENTS BY GOVERNORS AND ALTERNATE GOVERNORS[1]

AFGHANISTAN: MEHRABUDDIN PAKTIAWAL

Governor of the Bank and Fund

It is my pleasure and privilege to represent the Democratic Republic of Afghanistan at these Annual Meetings of the Boards of Governors of the Bank and the Fund.

At the outset, let me congratulate the management of the Bank and the Fund for the excellent arrangements made for the conduct of these Meetings. The staff of both institutions deserve compliments for the good analyses of the world economic situation and prospects presented in the two important documents placed before us, namely, the *World Development Report 1983* and *World Economic Outlook* for 1983.

It is clear from these documents that the world economy today is in the grip of a prolonged crisis, dominated by stagflation, rising unemployment, intensification of protectionist pressures in capitalist industrial countries, weakness in international trade, and widespread and substantial imbalances in external current account transactions. While the crisis has affected adversely all groups of countries, its impact has been most severe on the non-oil developing countries. Indications are that the setback suffered by the non-oil developing countries is not simply a temporary one. There seems to be real danger of their facing continued difficulties that will seriously retard their growth and development for several years to come.

The rate of growth of output of non-oil developing countries decelerated sharply for the second year in succession during 1982. These countries also experienced a sharp fall in their foreign exchange earnings. Under the impact of the recession, world demand for the commodities on which most of these countries depend for the bulk of their export earnings has become sluggish, and their prices collapsed between 1980 and 1982. At the same time, their manufactured exports to developed countries suffered from the rising tide of protectionism. On the other hand, the high interest rates pushed up the servicing costs of their external debt. As a result of these adverse developments, the deficit in the external current account of these countries had increased to a staggering total of $108 billion in 1981. The deficit was lower at $87 billion in 1982, not because of any favorable developments, but as a result largely of the drastic pruning of import demand with its adverse impact on development programs and, therefore, on the growth rate. With the net inflows of capital declining sharply during 1982, the non-oil developing countries had to draw heavily on their own reserves

[1]*Comprising statements relating to the work of IBRD, IFC and IDA. Omitted passages are indicated by dots (. . .). Statements relating to the International Monetary Fund are produced in the IMF Summary Proceedings.*

and reserve-related credit from the Fund, for financing the current account deficits. By the close of the year, their aggregate foreign exchange reserves were only about $80 billion, barely sufficient for financing two and one-half months' imports, while their external debt stood at $612 billion, which was more than one third of their gross domestic product. Their debt service payments exceeded $100 billion per annum, the debt service ratio being more than 20 percent. Indeed, the non-oil developing countries are facing an extremely difficult and grim economic situation. Needless to add, the plight of the low-income least developed countries among them is much worse, especially in the context of the decline in real terms of official development assistance flows in recent years.

The principal component of any policy package for solving the problems of developing countries would need to be specific and urgent action directed to ease the balance of payments difficulties and strengthen the availability of foreign exchange for undertaking sound development programs. The resources requirements for this would be, indeed, very substantial.

The international and regional financial institutions and other official agencies should have an important role in implementing such a policy package. However, the financial institutions appear hamstrung by serious resources constraints. The Fund has, no doubt, initiated certain measures for augmenting its resources, but given the uncertainties of the current situation, these appear to have fallen far short of the requirements. The Bank is yet to finalize its action plan in this regard, while the tardy progress made in the mobilization of resources for IDA-VI from some of the developed countries seems to be typical of the experience of attempts at augmenting the resources of other financial institutions. The record of official agencies in providing development assistance is not very encouraging either. The net disbursements during 1981 by Development Assistance Committee members as a whole amounted to only 0.35 percent of their gross national output as against 0.51 percent in 1960. Thus, when the need for concessional assistance is most pressing, there is a decline in the flow of such assistance. The achievement of 1981 is much below the target of 0.7 percent of gross national product of developed countries fixed by the United Nations. Again, very little progress has been made on the implementation of the substantial new program of action for the 1980s, for which some commitments were made at the United Nations conference on least developed countries, held in Paris in 1981. The case is similar with regard to the UNCTAD integrated program for commodities. Discussions, resolutions, and commitments at international conferences notwithstanding, international economic cooperation for assisting developing countries appears to be weakening rather than strengthening. We believe that this is a reflection of the many weaknesses—structural and other—of the existing international economic system, and would, therefore, strongly support the early establishment of the

New International Economic Order, which has been on the international agenda for over a decade now.

The year that has gone by was again one of major difficulties for us in the Democratic Republic of Afghanistan. Besides absorbing the shocks transmitted by the adverse developments in the global economic environment, we had to contend with the disruption in our economic activity caused by counter-revolutionaries, assisted by international reaction and imperialism. Addressing the Twelfth Plenary Meeting of the Central Committee of the People's Democratic Party of Afghanistan, Babrak Karmal, General Secretary of the Central Committee of the People's Democratic Party of Afghanistan and President of the Revolutionary Council of the Democratic Republic of Afghanistan stated that the damage to productive assets and infrastructure facilities caused by the undeclared war of the imperialists and reactionary forces amounted to 24 billion Afghanis, which was equal to half the total capital investment made during the 20 years prior to the Revolution.

Despite the setbacks, thanks to the hard work of the toiling masses, and the assistance given by friendly countries, especially the Soviet Union, real gross domestic product increased by 1.5 percent during the year 1361 (April 1982 to March 1983). Production of principal crops reached the previous year's level or exceeded it in most cases. In the industrial sector, production is reported to have recorded an increase over the previous year in certain key industries.

Our external finances were, however, under very considerable strain during the year. We had been facing substantial deficits in the current account of external transactions for some time in the recent past, but these deficits used to be more than offset by net capital inflows, chiefly by way of development assistance from official sources and project loans from international and regional financial institutions. With the unilateral suspension of development assistance flows by Western countries and of project loan disbursements by financial institutions in 1980-81, overall deficits of large magnitude started emerging, posing acute financing problems. Like many other non-oil developing countries, we had to draw heavily on our reserves to finance the deficits. The net draft on the convertible foreign exchange reserves amounted to as much as $100 million during 1981. The depletion in these reserves continued during 1982 and 1983, and as of this year, at the end of June, they were only a little over $190 million. The bilateral balances which had peaked at $310 million in March 1982 have also been drawn down to $165 million in the period since then. And that is not all; there was a net addition of $370 million to our external debt burden during the period since 1980-81.

As you are aware, for centuries our country remained under the oppressive yoke of feudalism with the vast masses of our people steeped in illiteracy and poverty. The main objective of the April Revolution was, and still is, to free our people from the shackles of feudalism and develop the national economy with a view to raising their standard of living. Within the short period since the Revolution, we have, through land reforms, debt relief, and other progressive measures, set the stage for growth with equity, and have started on the path of planned development for ensuring optimum growth and diversification of our predominantly agrarian economy.

The public sector, especially in industry and transportation, has been strengthened and expanded. Government has all along followed a policy of encouraging private sector investment. Several trading companies have been already established with the participation of the Chamber of Commerce and the private sector. Further strengthening of this policy was underlined by Babrak Karmal, General Secretary of the Central Committee of the People's Democratic Party of Afghanistan and President of the Revolutionary Council of the Democratic Republic of Afghanistan, in his Report to the General Conference of the People's Democratic Party of Afghanistan held in February 1982, in the following terms: ". . . The Democratic Republic of Afghanistan will create the necessary economic and legal foundation for the long-term effective and sound cooperation of private sector entrepreneurs with the State . . ."

On the basis of subsequent discussions on implementation of economic policy, held in the Eleventh Plenum of the People's Democratic Party of Afghanistan, the Executive Committee of the Council of Ministers has called for the advice of the Economic Advisory Committee and the concerned Ministries on the modification of the statutes governing the relation between the public and private sectors, for promoting growth of both sectors on the basis of mutual advantage. In pursuit of this decision, the private investment promotion law, the income tax law, customs tariffs, and banking regulations and practices are now under review.

As explained earlier, our external finances are under tremendous pressure. The demand for our export products in the markets of the Western countries has been stagnating or declining for quite some time now, depressing our foreign exchange earnings in real terms. The crash in prices of some of these products during 1981 and 1982 has made a further severe dent on our export earnings. We do not see any prospects for an immediate improvement in the situation. The debt service obligations which have increased in the meantime are cutting drastically into the current foreign exchange receipts, correspondingly depressing our import capacity for undertaking developmental activities. Against this background, and in the context of our foreign exchange reserves being at a very low level, we are in dire need of external assistance for implementing our development plans.

We, however, find ourselves in the unenviable position of being denied access to their resources by some international and regional development finance institutions. We had the unfortunate experience of these institutions withholding release of loans for which agreements had been signed after due appraisal of technical feasibility and economic viability of the projects concerned. Much worse, we had to face the denial of withdrawals on firmly committed assistance, that is to say, assistance for ongoing projects on which considerable progress had been made, and some of which, in the absence of further inputs, would remain unproductive, locking up millions of dollars of scarce capital without any return. These include agriculture and livestock development projects, projects for infrastructure development, as well as projects for human resources development. We are not sure that the decisions taken by these institutions to cancel the assistance agreed upon are based exclusively on pragmatic economics. It appears that they reflect a change in attitudes influenced by politics. This is not consistent with development objectives, and we earnestly hope that these institutions will review their policy, keeping in mind the spirit of the provisions of the Articles of Agreement, the Resolutions of the UN General Assembly and UNCTAD, specifically calling upon the international institutions to implement special measures for solving the problems of the least developed countries, especially the landlocked countries, and the substantial new program of action for the 1980s for the least developed countries. In this connection, it may be recalled that early this year, a staff mission of the Fund visited Afghanistan for Article IV consultations and this mission's report on the country's economic situation could be of assistance to the financial institutions in undertaking their reviews.

Let me now conclude, as I look forward to the most sympathetic consideration on our case.

AUSTRALIA: PAUL J. KEATING

Governor of the Bank and Fund

After a decade of disappointingly slow growth and three years of severe recession, the recovery in a number of major industrial countries is a very welcome development. However, the major problems of the world economy will not be overcome by a short-lived cyclical turnaround in activity and we must not relax our efforts to implement policies that will enable the recovery to be broadened and sustained. We should not be lulled into thinking that global inflation has been contained just because a few major countries have had some recent success on this front. In most countries inflation has yet to be convincingly dealt with and in almost all countries inflationary expectations remain stubbornly entrenched. All of us will need to be on our guard against a rekindling of inflation as recovery gathers momentum.

As many speakers have acknowledged, the task of financing large budget deficits can have adverse expectational effects and exacerbate problems of monetary management. Nominal interest rates are holding well above the current rate of inflation. In turn, consumption and investment expenditure by the private sector is being discouraged. Financial markets are rightly looking for convincing evidence that governments will wind back budget deficits as the recovery strengthens so as not to put undue pressure on interest rates and exchange rates. Monetary growth must also be supportive of noninflationary growth objectives.

In a number of countries, including my own, poor economic performance can be linked to past failings in the reconciliation of conflicting income claims. Although the process of income determination differs among countries, we consider it desirable for governments to achieve a greater social consensus about that process and its requirements for economic recovery.

The vitality of recovery can be enhanced by measures designed to increase the responsiveness of economies. Many of the factors which have stifled productivity and economic growth over the last decade lie within the power of individual countries to correct. Domestic pricing distortions, rigidities in markets both for labor and goods and services, disincentives to saving and investment, and unnecessary regulation are but some examples.

The growth in protection, particularly over recent years, has been most disturbing. That issue is of course one on which few, if any, of us can legitimately avoid criticism. However, there is a need to find a way forward. We must look to leadership from the major developed countries but it is important that the framework used should be global in nature and embrace all product groups and trading nations.

The single most important longer-run contribution that the industrial countries can make to resolving the problems of high-debt countries is to foster a sustained and gradually strengthening recovery in the industrial world. If this recovery can be achieved in a non-inflationary manner, and interest rates brought down, the difficulties will be further lessened. The obligation to adopt appropriate domestic policies weighs on us all, not just on the heavily debt-burdened countries or, more generally, those in balance of payments difficulty. . . .

Economic adjustment, of course, is not merely to do with monetary matters. It embraces also the development process more generally. In this context, I particularly welcome the contribution that the Bank has made. It has adjusted its operations in such a way as to assist member countries to maintain their longer-term development prospects, while at the same time undertaking the necessary adjustment to a lower overall supply of external finance.

The Special Action Program introduced at the end of last year illustrates that the Bank, despite its size, has not lost the flexibility to respond to changing needs and circumstances. A flexibility which I note it has also shown in respect to its lending and borrowing practices. The Bank is, however, a development institution whose mandate is to provide assistance for long-term productive investment. While, as I pointed out earlier, there is need for flexibility, the Bank should not depart from this basic role. Its level of future operations must be influenced by the ability of its borrowing member countries to absorb such assistance effectively. Of course, for the Bank to operate effectively it needs an adequate level of available resources.

I regret the limitations that have been placed on IDA's ability to assist its poorer member countries as a result of the funding difficulties in respect of IDA-VI. It is to be hoped that the Seventh Replenishment, which is currently being negotiated, will provide a more predictable basis for the future. Australia will certainly make its contribution to that.

Finally, may I assure you of the Australian Government's continued strong support of the operations of the World Bank and the Fund.

AUSTRIA: HERBERT SALCHER

Governor of the Bank

Since our last meeting in Toronto, the world has changed somewhat. In at least two areas, for the better. First, pessimism prevailed at the last meeting about the financial system's ability to handle the world's debt problems of a limited group of countries. So far, with few exceptions, the financial community has demonstrated its efficiency in dealing with a large number of reschedulings that we did not even dare to think about in Toronto. Second, last year the recession was at its worst and the outlook rather worrisome. Today the recession has bottomed out in many industrial countries, particularly in the United States, and the economic forecast seems to be more promising. There is a saying that goes: "When economists are wrong, it's likely to be just at the critical time when we most desperately need them to be right." At least this time I hope they are right.

Clearly, we need internationally better-coordinated approaches toward economic policy, particularly in four areas:

—first, continued rising unemployment

—second, monetary and fiscal policy

—third, in fighting inflation

—fourth, in the commitment to increase development aid, bilateral and multilateral, and, in doing so, emphasizing solidarity with developing countries.

Let me now say a few words on unemployment, because it is the most worrisome aspect of the current evolution of our economies in the industrial as well as in the Third World countries. Today we face structural unemployment with a dangerous secular rise in unemployment.

Apparently, traditional or conservative economic policies do not satisfactorily solve this problem, because the number of employed is looked upon as a "residual variable," as a result of decisions taken in other economic areas, such as in the field of fiscal and monetary policies. It should be considered rather as one of the factors that could possibly contribute, in a positive way, to the restoration of economic policies. Since we cannot count on high growth rates we have to find new ways and means to cope effectively with the pressing problem of unemployment. We should be more aware that if we do not succeed, this could have far-reaching consequences for the fabric of our societies in the long run.

In this respect, I believe that several larger industrial countries have acquired some leeway and could adopt somewhat more expansionary fiscal policies and somewhat less restrictive monetary policies.

Expansionary measures in countries where they seem to be possible should be selective and should take into account structural adjustment in the industrial countries. I believe a reasonable balance between selective expansionist measures and careful inflation-dampening measures can be established.

We have pursued this policy in Austria and, I think, rather successfully. We have followed this economic policy of compromises between traditionally contradictory goals and we believe that suitable trade-offs were found. In terms of fiscal policies we realized that to the extent that the execution of the budget influences the economic situation, it again has repercussions on the budget. With expansionary measures, this "rate of return" reduces the increase of budget deficits; with restrictive measures, it reduces net savings. That is the essential reason why, in Austria, despite the priorities given to labor policy, the federal budget deficit is low compared with other countries. Furthermore, in those countries where drastic and painful programs to reduce spending were followed, the results were comparatively modest.

Monetary belt-tightening alone with its well-known repercussions on employment and on interest rates is not an acceptable solution. Moreover, the still-prevailing real interest rates are counterproductive with respect to investment activities and increase also the already high burden of debt service.

We also believe that economic policy implies more than just monetary and fiscal policies. Under current circumstances, it is necessary to use the full range of policy instruments in support of financial policy, such as incomes policy, labor market policy and structural adjustment policy.

Let me now say a few words on the relation between industrial and Third World countries. As a result of the worldwide economic interdependence, we must all closely cooperate and the industrial world must show solidarity vis-à-vis developing countries. Governments must fight protectionism and the financial community must assist countries in solving their debt problems and promoting economic and social programs.

Austria has not followed the trend to reduce its official development aid. On the contrary, in the past four years my country has increased its development aid to 0.53 percent of GDP in 1982. Despite budgetary constraints, we will aim at even higher levels in the future in order to achieve the goal of 0.7 percent of GDP. Austria's commitment to ODA is reflected in increased bilateral aid efforts with an emphasis on low-income countries as well as strong support for multilateral aid agencies.

In the recent past the financial community and the developing world could successfully reschedule large parts of their debt burden. This was done in the spirit of international solidarity. Within a very short time it has been possible to establish effective cooperation between the Paris Club, the Fund, central banks of industrial countries—through the BIS—and the commercial banks. At the same time, it has been possible to coordinate economic programs for afflicted countries with the Fund and to negotiate and introduce coordinated programs of debt renegotiations and additional lending. Clearly, all this has been a great challenge. Although we did not reach a definite solution for the persisting problem, I am somewhat optimistic that future similar challenges can be met again. To prevent further burdening of the international financial system or to at least weaken the possibility of this occurring—or in any case, to be able to deal with it better—one should bear in mind two important aspects:

—the expansion of world trade is a necessary precondition for the long-term solution of the debt problem. Therefore, we all have to fight protectionism;

—it is absolutely essential, for the positive development of our economies, that the financial system functions. Therefore, it is necessary to strengthen, as much as possible, multilateral financial institutions such as the IMF and the World Bank.

In this context, one should be careful in not letting political considerations play a part in it. . . .

I would like to turn now to the World Bank. I consider the World Bank the most suitable institution to play an expanding role in several areas, and I understand that it needs additional resources to do so. I support, therefore, a selective capital increase in line with past practices. The volume of this selective capital increase should reflect the changes in voting power in the IMF after the Eighth General Review of Quotas and give the Bank room for additional lending, particularly in the important area of structural adjustment and energy lending. Furthermore, the future growth of the World Bank should be ensured by an early agreement on the next general capital increase. Efforts to increase cofinancing have to be continued. Austria would like to enhance cooperation with the World Bank in this area.

Austria has traditionally supported IFC's activities because of their high developmental impact. I, therefore, particularly welcome IFC's increased activities in low-income countries and support the planned sectoral broadening of the Corporation's activities.

Finally, I come to the most salient issue of the World Bank Group, the funding of IDA. IDA is of vital importance for the development of the poorest countries. In a situation where the number of IDA-eligible countries and their population as well as their financial needs are rising, we cannot accept a Seventh Replenishment which is smaller in real terms than the Sixth Replenishment. I therefore urge other IDA donors to agree before the end of this year on a Seventh Replenishment which comes as close as possible to the management's proposal.

In conclusion, I call for economic policies which encourage higher growth to provide increased employment opportunities, strengthen the demand for exports from developing countries, and enable them to improve their financial position. I further urge donor countries to provide multilateral institutions with the necessary funds to fulfill their growing role in the development process.

BAHRAIN: IBRAHIM A. KARIM

Governor of the Bank

It is a great honor indeed to address these Meetings on behalf of the Arab Governors of the World Bank and International Monetary Fund. Allow me to start by joining the others in welcoming the new members of the Bank and the Fund. I would also like to express our appreciation for the thoughtful statements made at the opening of these Meetings by you, Mr. Chairman, and by Mr. Clausen and Mr. de Larosière on the problems facing the world economy and the course of action that could be pursued in coping with them.

World economic prospects appear to have improved somewhat over the course of this year. Unfortunately, however, the recovery in the industrial countries is still rather fragile and lacks a sufficiently broad geographical base. In the developing countries, which have been affected particularly seriously by the recession, the situation remains difficult, marked by low growth, large external imbalances and—for many of them—severe debt service problems.

A key policy challenge at this time is to consolidate and strengthen the incipient recovery. In this connection, while the progress made against inflation in industrial countries will need to be preserved, and extended, additional measures for stimulating recovery could now be considered in those countries which have been more successful in controlling inflation. In many cases, greater efforts need to be directed at correcting continuing imbalances in the mix of monetary and fiscal policies and at reducing structural distortions and rigidities. Furthermore, there is a need for better harmonization of policies among major industrial countries with a view to restoring stability to interest and exchange rates.

In developing countries, the focus of policy has been on adjustment. Programs for adjustment being carried out in many of these countries have made possible a significant reduction in their large payments imbalances. However, this improvement has been achieved at the cost of a sharp compression of imports and a further slowdown of investment and growth. Evidently, a firm pursuit of adjustment policies will need to be maintained. However, the attainment of a viable external position together with a return to satisfactory growth rates will require that measures for domestic adjustment be accompanied by restoration of a more propitious environment for the exports of these countries—through a pickup in world recovery as well as freer market access—and be supported by sufficient financing while they are taking hold. . . .

For the oil exporting countries, the most significant development over the last two years has been the decline in oil revenues. As a consequence, the current account surplus of these countries has all but disappeared, and in many cases has turned into a deficit. These countries are, therefore, reassessing their financial policies and development programs. . . .

In the area of external development assistance, the Arab donor countries are making every effort to insulate their development assistance programs from the unfavorable situation facing them. The Arab development institutions have largely maintained their level of commitments during the past two years. The overall aid performance for the four Gulf donors, namely, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates, continued to be over 4 percent of their gross national product. Aid by these countries is untied and covers a wide range of countries.

The Arab countries attach great importance to IDA as the leading multilateral development institution in the field of concessional aid. IDA has played a key role in promoting the development of the poorer countries which have been severely hit by the global recession. This raises the question of the size of the Seventh Replenishment. The matter is presently under active negotiations and we hope that an agreement will soon be reached on an adequate size of the Replenishment. The next three years will be of crucial importance in the development of the low-income countries. This is particularly so in the case of sub-Saharan Africa and other least-developed countries, including a number of Arab countries. The Arab donor countries are, therefore, supporting a Seventh Replenishment of $16 billion.

World Bank lending is of particular importance to the middle-income countries as well as a good number of the low-income countries with access to private capital markets. However, the planned level of World Bank commitments over the next three years shows that net disbursements will decline significantly after fiscal year 1985. Such a development would be most unfortunate. Moreover, the World Bank will soon run into constraints on its lending capacity arising from the requirements of the statutory gearing ratio. To ease these constraints and to strengthen the lending capacity of the Bank, the Arab countries are hopeful that a compromise agreement will soon be reached on an adequate selective capital increase. However, a selective increase would only serve to meet the immediate needs of the borrowing countries. The long-term needs of these countries can only be addressed in the context of a general capital increase. We urge the World Bank to start preparations for the general capital increase as soon as possible so that agreement could be reached by 1985 or at the latest by 1986.

The International Finance Corporation has been playing a useful role in supporting private investments. Its resources should be increased so that it may continue to play such a role.

Finally, the experience of the last few years has shown that the present international monetary and financial system suffers from a number of shortcomings and inequities. This points to the need for considering ways and means of placing the system on a more solid and equitable basis. The Arab countries are prepared to participate positively in such efforts.

BANGLADESH: A.M.A. MUHITH

Governor of the Bank

In his message to the inaugural plenary session of the Bretton Woods Conference, President Roosevelt reminded that gathering of economic statesmen that economic diseases are highly communicable. He also told them that their hopes for the future could be fully realized only through a soundly expanding world economy.

During the long years that have since rolled past, the Bretton Woods twins, the World Bank and the International Monetary Fund, in association with the truncated replica of the International Trade Organization, have endeavored to identify the shifting economic maladies of the times and to devise an ever-varying optimal mix of growth and stability for their remedy. A soundly expanding world economy has always remained the ideal—constantly sought, though never perfectly attained. The deliberations at the joint Annual Meetings of our institutions have guided this courageous quest.

This year, we are meeting at a time when we need more than our ordinary share of courage and faith in order to maintain a convincing continuity of this quest.

In describing the economic setting, I could almost quote from my statement of the previous year. Perhaps I can add only the following:

— Despite an encouraging resumption of output growth achieved in some major industrial economies, especially the heartland of the world economy in North America, there is no perceptible impulse toward the deepening of this recovery or its geographical dispersal. A renewed momentum of fixed investment in the industrial economies and a beneficial impact on growth in the developing countries and on world trade are not in sight.

—Despite a truly admirable disinflation achieved in the leading economies of the world, a combination of inflationary expectations and anticipation of competing private credit demands and budget deficits is sustaining high real interest rates and exchange rate volatility.

—The historically high levels of developing country debt continue to worry borrowers as well as lenders, inhibiting capital and trade flows and, therefore, growth and recovery.

—Decline in international reserves, an adverse shift in the availability of international liquidity for developing countries and recession-induced neoprotectionist pressures in some industrial countries militate against the revival of healthy international trade.

—Finally, and most poignantly, a growing conservatism in many major donor countries about the nature and role of foreign aid, perhaps born out of recession-induced budgetary concerns, has gravely jeopardized present and prospective aid flows—nonconcessional as well as concessional, bilateral as well as multilateral. This is happening at a time when many of the developing countries have taken severe adjustment measures against tremendous odds—internal as well as external. They are therefore badly in need of accelerated capital flows of various kinds suited to their respective situations, both to support these adjustment measures and to make possible the resumption of a reasonable investment momentum, which has had to be severely depressed in pursuit of adjustment. Austerity in these countries is now threatening social stability.

The actions required to remedy the grave situation in which the world economy finds itself have been widely discussed at various international forums. As nearly all of these actions involve conscious departures from the current policies and practices of individual countries and economic alliances and also from current perceptions of the interests of nations, these discussions have almost always been marked by controversy. I believe that today our common peril has deteriorated to a stage where it is dangerous to allow the level of that controversy to rise.

Our experience of the last three years demonstrates that reduced capital transfer has been a very crucial factor in the resurgence of socioeconomic primitivism in the developing countries. Severe adjustment measures, too drastic to be repeated again and again, are being frustrated by continued slowdown in external financing. Like the concept of sustainable recovery there seems also to be an equally real concept of sustainable adjustment. The point has been made with admirable candor and compassion by Mr. Clausen. And I am particularly touched because of a certain amount of personal and national experience. It bleeds your heart to find expected benefits of bold and imaginative measures being halted halfway by the absence of reasonably expected external financing.

For the low-income countries and the least-developed among them, like my own, the options are very limited indeed. For us, even Fund facilities are unduly expensive and commercial borrowing is out of the question. Flow of private capital is so low in our case that we have to fall back on concessional assistance. We stake our claims for soft funds like those of IDA. We are still hoping that decisions on redirection of aid and easing of modalities of resource transfer agreed in the UNLDC conference will soon be acted upon. Of course, patient waiting can only be for a certain period. Because otherwise chaos will sweep us away and surely others of the same species cannot hope to weather the catastrophe without being hurt. Defense expenditure, the annual level of which is about the same as global debt, may not in the event provide any cushion for peace and stability.

IDA commitment went up by 24 percent in 1983 to $3.3 billion. It is, however, lower even in nominal terms than the commitment level of 1980. But we always count small blessings, and so now we are looking forward to resource availability of the same level for 1984. We have been encouraged by the supplementary appropriation of $245 million that the U.S. Congress made in 1983. This naturally leads us to believe that appropriation of $1.1 billion for 1984 will materialize. For IDA lending in 1984 this is so very important.

It is regrettable that there is no agreement yet on the Seventh Replenishment of IDA. And we have only three more months to conclude it in order to avoid a further hiatus in 1985. IDA's credentials have never been questioned. IDA's value to the underprivileged need not be restated. The founding fathers of IDA and its early managers deserve the gratitude of humanity. This mechanism for resource transfer was conceived in the U.S. Congress, and let us hope that in its hour of crisis it will once again receive adequate support there. Claims on IDA have vastly expanded, both on account of enlarged membership and on account of needs of vital and critical sectors. China is a new and deserving claimant. Sub-Saharan Africa and the least-developed countries need special attention. IDA has a contributor community of 33 members, some of whom at one time were IDA recipients. The burden sharing today is much more equitable and fair so that no one is called upon to shoulder a disproportionate burden.

Looking at the requirements, a replenishment of $20 billion would have been amply justified. But the financial difficulties of contributors spawned by the continued recession must also be acknowledged. So it seems that views have converged on a three-year replenishment of $16 billion. This will mean only $1 billion more in real terms than IDA-VI and hence will warrant a rather delicate and difficult redistribution of the pie to accommodate new demands. This is indeed the barest minimum package, as also has been highlighted by the management. As for burden sharing there can be change in only one direction and that is enhancement. IDA assistance is directed at the least-demanding human beings and to them it means less starvation, less disease, less malnutrition, less illiteracy and in one word less human indignity. The IDA Replenishment is indeed crucial to human existence.

The importance of the Bank's intermediation in capital transfer has been further underscored by recent developments. The recycling process undertaken by commercial banks in the mid-1970s has proved to be too fragile and is responsible in no small measure for the present threat to the international monetary system. It needs the support of multilateral agencies in a strengthened manner. With hindsight it can be rightly questioned if some of the middle-income countries were not pushed too early to the money markets. In such a situation the Bank's capacity to lend should be increased. Last year, Bank lending grew by only 8 percent, hardly keeping pace with the inflation rate, and net disbursements recorded only a 3 percent increase.

We note with concern the following developments:

—The Bank's present lending program does not enable it to play any significant role in resource transfer. This year only 20 percent of gross disbursement meant net transfer. In 1987 net transfer will be only $900 million against a gross disbursement of $16.4 billion.

—The Bank's present lending program does not permit sufficient lending for energy. It is already over 20 percent and it comes to a paltry $3 billion per annum against an investment need of $130 billion.

—Program and structural adjustment lending cannot be increased much under the existing global ceiling of 10 percent of total lending. The new move toward too close a collaboration with the Fund in terms of emulating conditionality does not appear to be a healthy development.

—Cofinancing does not appear to have become too dynamic a source. In 1983 the level actually declined. However, new initiatives taken recently may help somewhat.

These considerations make a very strong case for increased Bank lending. We strongly support the management proposal for 6.2 percent real increase a year, which means a five-year program of $60.5 billion in place of $56.5 billion.

This expansion will call for a capital increase at the earliest possible opportunity. An opportunity for selective capital increase has been provided by the principle of parallelism with the Fund's quota increase. A $20 billion selective capital increase is warranted by the recent review of Fund quotas.

An agreement for a selective capital increase of about $12 billion will be sufficient for the time being. The question of a general capital increase will have to be decided upon in 1986.

We have consistently been asking for expansion in program lending, larger coverage of project cost, and higher levels of local cost financing. We are pleased to note that the Special Action Program has been initiated, based largely on the arguments we have been advancing for making external assistance more useful. For low-income countries the importance of fast disbursement and greater support to development outlay cannot be overemphasized. I believe it is time to consider withdrawal of the global limit of 10 percent for program lending. An interesting suggestion has been made by the Commonwealth experts on combining structural adjustment lending with use of the extended Fund facility and generally enlarging program lending on soft terms. This suggestion richly commends itself and should be considered in the context of a similar recommendation made earlier by the Brandt Commission.

We believe that the public sector has a very important and crucial role in the countries like ours where infrastructure is so underdeveloped and poverty is so endemic. But we also acknowledge that individual initiative and enterprise must be allowed to blossom fully so as to participate in the onerous task of economic development. We recognize with renewed interest the catalytic role that the IFC plays in resource transfer. In fact, we are looking forward to early fruition of some IFC initiatives in our country. We are convinced of the need for IFC's capital increase by $750 million and strongly support it. . . .

Both the President of the World Bank and the Managing Director of the Fund have asked for growth with stability. They have called for close coordination of economic policies by nations emphasizing international cooperation.

—We are afraid of protectionism and the uncertainty of capital movements.

—We are worried about stagnation of output and under-utilization of capacity.

—We notice that the payments disequilibrium is turning out to be essentially a long- or medium-term phenomenon.

—We find that coordination of global policies on money, finance, and trade leaves much to be desired.

—We observe that surveillance of national economic policies and their harmonization are extremely tenuous.

This only reiterates the fact that many of the assumptions of the Bretton Woods system are no longer valid. To meet the challenges to the world trading and financial system, a new course should now be charted. And the Commonwealth Secretariat has provided a valuable experts' report to help us in this endeavor. "Towards a New Bretton Woods," as the report is entitled, calls for three sets of action.

—There are some immediate measures which existing institutions can implement under the existing rules of the game.

—A second set of measures demands technical preparatory work, perhaps in some existing coordinating forums.

—And finally there is the need for a new orientation and a rènewed political will.

Perhaps we should start thinking about initiating a process, the culmination of which will be a new Bretton Woods. New ways and a new philosophy have to be found to contain the "highly communicable economic maladies" that are threatening to jeopardize the "soundly expanding world economy." We need what John Maynard Keynes so earnestly wished—institutions "belonging to the whole world, owing allegiance to the general good, without fear or favour to any particular interest." This I reckon is the choice of destiny that we must make in our continuing courageous quest.

BELGIUM: WILLY DE CLERCQ

Governor of the Bank

Each year, we draw up here the balance sheet of our individual and joint efforts to promote balanced and noninflationary growth. And we promise ourselves that we'll do better next year.

Considering the slowing of inflation in the major industrial countries, the recovery that is beginning in the United States, and the reduction in current disequilibria in the world, this year we can, to a certain extent, *feel satisfaction over progress accomplished.*

But at *what cost*? At the cost of a further rise in unemployment, which has reached unbearable levels; at the cost of a cessation of growth in many developing countries; at the cost of a worsening of already disquieting indebtedness situations.

It behooves us to demonstrate swiftly that these costs are but temporary and that the outlook for employment, for growth and for the soundness of the financial system can therefore improve, since otherwise our struggle against inflation will have been in vain. What is at stake is the consistency between *pursuit of our individual efforts* and the *strengthening of our cooperation disciplines.*

First, let us consider pursuit of our individual efforts. The requirements in this respect differ from country to country.

In certain *industrial countries*, the results achieved in the struggle against inflation are still deceptive. Those countries need to strengthen the mechanisms for the free determination of prices and to remove the rigidities that paralyze the labor market.

In the countries where inflation has been brought under control better, it is the persistence of high real interest rates that is surprising and disturbing. These high rates are holding back the recovery of investment and obstructing the structural adjustments that are acknowledged to be necessary. In addition, they are adding to the debt service burden of the developing countries.

In a large number of countries, it is unquestionably the magnitude of budgetary deficits—generated by mechanisms that are insensitive to interest levels—which is at the root of this phenomenon and aggravates it by diverting a part of domestic savings into consumer spending. As regards *Belgium*, reduction of the budget deficit remains, together with restructuring of the major industrial sectors, one of the Government's primary goals. The steps already taken have called for significant sacrifices on the part of the population; they are beginning to bear fruit in the recovery of the external accounts and the profitability of enterprises.

In many *developing countries*, a similar adjustment, but often more painful, has to be pursued. Even if the disequilibria to be corrected derive partly from a world environment shaped mainly by others, these countries cannot manage without the efforts necessary to control inflation, public finances, monetary expansion and the balance of payments. It would seem to me that these efforts should be sustained—and in no way relaxed—through the complementary contribution of adequate external financing, both public and private.

The efforts of some can be frustrated by others if they are not undertaken in the context of the *cooperation disciplines* that we have all accepted, within the framework of institutions such as this.

The *opening of markets* remains today one of the fundamental conditions for the worldwide propagation of economic recovery, as well as a vital prerequisite for enabling the indebted countries to obtain the means to put their situation to rights. We must refrain from scrambling to erect various forms of protection, visible or invisible, and must even make a combined effort to remove the barriers to trade that have already been set up. We invite GATT and the IMF to cooperate more closely in order to spotlight the problems to be resolved and take appropriate action in their respective spheres.

The opening of markets is certainly not favored—quite the contrary, in fact—by the instability of exchange rates and the disorderly fluctuations of certain currencies. Moreover, this instability of exchange rates is deterring investment, which ought to play the motor role in economic recovery. We think that it is time for greater priority to be assigned to the righting of international relations in this field and we are gratified to note the process of reflection and concertation embarked on in this area since the Williamsburg summit.

International cooperation has up till now made it possible to cope with the acute debt situations that have recurred in the past year. There is a lesson to be learned here. The IMF, which deserves our support because of its dynamism, has been able to stave off the immediate danger and take the necessary steps to encourage in future a more appropriate balance between the financing of disequilibria and their needed adjustment. The complementarity between public and private flows, more particularly between the IMF and the commercial banks, appears more obvious than ever. We must ensure that from now on, with the assistance of all parties concerned, capital intended for development be used productively, under appropriate conditions and in sufficient quantity. . . .

We are firmly in favor of closer cooperation between the Fund and the World Bank and of complementarity between their activities. But to make the best use of this approach, the two institutions must have sufficient resources at hand on appropriate terms. . . .

Turning to the World Bank, its resource requirement prospects have been unfavorably affected by the worldwide crisis that has obliged numerous countries to reduce their investment plans. On the other hand, these same countries, especially the poorest of them, must be able to benefit from external contributions in order to sustain their capacity to import and maintain a minimum level of necessary investment.

In this specific climate, the Bank has succeeded once again in increasing the volume of its operations, to over $11 billion, or 8 percent more than in the preceding fiscal year.

Thanks to its new policy, it has also been able to lower the cost of its loans at a time when interest rates remain high, despite all efforts, and when the economic outlook for the future remains doubtful.

The introduction of the Bank's Special Action Program for fiscal 1983 and 1984, with a view to aiding Bank borrowers, came in response to a need. We believe this program should be assessed as it is being implemented and its potential repercussions should be considered, especially those affecting the Bank's need for additional resources.

The fact that nearly one half of the projects were submitted to the Executive Board of the Bank during the last two months of the past fiscal year should merit the attention of the Bank's management, which we think should strive to spread submissions more evenly to prevent potential difficulties from arising in the future.

The principal problem facing the Bank is that of determining its financial base for the next few years, taking into account both the needs of its borrowers and the primarily budgetary constraints facing its major subscribers.

In this difficult moment of limited government resources, it must be ensured that they will have the greatest possible multiplier effect.

A selective increase in the Bank's capital should make it possible to adjust members' subscriptions to some extent and to consolidate the Bank's financial base. It should be possible to reach a satisfactory solution as to the volume and form of such a selective increase. Moreover, preliminary discussions could be started on a new general increase in capital to guarantee the Bank's long-term requirements.

At the same time, the Bank should pursue its efforts to intensify the degree of cofinancing with official and private sources. We are especially pleased with the conclusion of two cofinancing operations with commercial banks for Hungary under the new type of instrument.

Let us now turn to the question of the poorest countries, in the case of which private financing mechanisms are unable to function adequately.

These countries' problems may be less striking, but they are often more serious and even more difficult to solve. In their case, a world economic recovery would have no immediate impact.

Highly special attention should be given to the poorest countries south of the Sahara; increased assistance for them by the World Bank, and especially from IDA, would be welcome. For its part, Belgium devotes more than two thirds of its bilateral official development assistance in the form of grants or very long-term loans to these countries.

The volume of IDA operations increased appreciably in 1983, but it still remains below the amounts approved in 1980 and far short of the projections of a few years ago.

Prospects for the future will remain bleak unless concerted action is undertaken by all IDA donors.

The goal must be to avoid a new decline in its lending operations and a recurrence of the situation of the last three years.

For fiscal year 1984, Belgium will take part in this effort by furnishing a special contribution, and a bill to this end has been submitted to Parliament.

The Seventh Replenishment of IDA resources should be completed with the support of all donor countries before the end of this year. A figure on the order of $12 billion should be sufficient to guarantee an increasing volume of IDA operations over coming years.

The ultimate result may seem inadequate to some, of course, but the essential feature will have been preserved, and this in circumstances of exceptional gravity and duration: the spirit of international cooperation.

The difficulties afflicting the international community are severe, but they are not insoluble if we have the will to apply the policies required by today's economic reality.

The Annual Meetings of the Bretton Woods institutions have traditionally offered an opportunity for those in charge of economy and finances to discuss potential solutions.

We must make full use of this opportunity to bring our points of view closer together and to make progress toward the end to which we all aspire: a just, more balanced world, based on harmonious economic growth.

BHUTAN: DAWA TSERING

Governor of the Bank

I have the honor to convey to you the greetings and good wishes of His Majesty King Jigme Singye Wangchuck for the success of these Meetings. I consider it a great privilege to attend this annual gathering and to participate briefly in the general debate. Our membership in these premier international development and financial institutions represents the fulfillment of an important aspiration of the Bhutanese people. We greatly value this membership, and we are confident that these institutions will play an important role in Bhutan's economic development.

I would like to take this opportunity to express our deepest thanks to the President of the United States for his inspiring inaugural statement. We were pleased to hear that the economic recovery in the United States is well under way. The President also had some words of wisdom on the factors that could promote faster development. He stressed in particular the greater efforts that could be made by governments and people. The process of development often entails centralization of functions and responsibilities, with the result that people become over-dependent on government as the source of their welfare and the arbiter of their destiny. We, in Bhutan, have given a great deal of thought to this aspect and under the enlightened leadership of our King, we have made self-reliance, decentralization of responsibilities and powers, and participation by the people in developmental activities the basis of our development effort. We believe that development is, above all, a process of change and adaptation that should aim at reducing economic dependence as well as at raising per capita incomes.

We are of the view that the Bank and the Fund have a leading role to play in promoting lasting economic recovery and accelerating the pace of development in developing countries. Such a role for the Bank and the Fund is all the more important for a country like Bhutan which relies heavily on external support for its development activities. It is our hope that despite the stringency of financial resources at present, the least developed countries such as Bhutan will receive special consideration.

I would like to mention very briefly some of the activities of the Bank and the Fund in Bhutan. Since we became a member of the Bank and the Fund two years ago, we have developed close and fruitful relations with these two institutions, primarily as a result of their deep understanding of our special needs and problems. With the Bank's cooperation, an economic report on

Bhutan, the first of its kind to be prepared, was brought out last April. It provides substantive information on Bhutan's economy and its development programs and perspectives. A US$3 million IDA credit agreement is about to be presented to the Executive Board for approval. This credit will be used for the preparation of feasibility studies and project reports. A number of missions from the Bank have visited Bhutan in order to identify potential projects for financing. A visit by the Vice President for South Asia, Mr. W. David Hopper, last April was particularly productive. . . .

Before concluding, I would like to take this opportunity to express our appreciation for the exemplary leadership provided by Mr. Clausen and Mr. de Larosière to the Bank and Fund, respectively. Mr. Clausen has continued his efforts in making the Bank a trusted partner in economic development of the developing countries. We particularly appreciate the measures directed at alleviating poverty in developing countries, and the priority being accorded to the low income among them. Under Mr. de Larosière's wise and dedicated stewardship, the Fund continues to maintain its important role in international financial and monetary affairs. We are particularly happy that his term has been extended by another five years, and we are confident that all of us will benefit from his extended tenure in office.

CANADA: MARC LALONDE

Governor of the Bank and Fund

Since last year's Meetings, which Canada had the honor of hosting in Toronto, there is much from which we can take comfort. A strong recovery is now under way in both the United States and Canada, with signs—more tentative than I would like to see—of a move away from recession in the rest of the industrial countries. Inflation in most industrial countries has been sharply reduced. The serious problems of international debt that loomed so threateningly at Toronto have been well managed, thanks to the broad and effective cooperation among governments, private banks, and the multilateral institutions under the inspired leadership of the International Monetary Fund.

However, realism and prudence require that we also recognize the serious problems and risks that remain. Unemployment remains distressingly high; and the reduction of this economic and social burden promises to be painfully slow. The recovery in the world economy is still too narrowly based and overreliant on the North American expansion. Until the forces of economic expansion are stronger, protectionism will continue to pose a major threat to the recovery of world trade, on which depends the success of these adjustment efforts by deficit countries and the heavily indebted.

I believe Canada is meeting its international commitments to foster sustained economic recovery and contribute to an invigorated international economy. We have made remarkable gains in raising the level of output and in the creation of new jobs; since the trough of the recession last fall, industrial production in Canada has expanded by more than 9 percent and employment has increased by over 300,000 jobs. We have adopted a program of public investment in infrastructure that is intended to bridge the period until private investment is reinvigorated. Consumer spending has responded positively to this favorable environment, indicating a broadening and deepening of the recovery. Inflationary forces have receded in Canada—from a rate of almost 12 percent a year ago to less than 6 percent currently. Our determination to bring down the structural component of our budget deficit, supported by responsible monetary policy, should allay concerns about a possible resurgence of inflation in future years and ease potential pressures on our capital markets.

While recovery in North America seems well established, the outlook in most other industrial countries is less certain. Real interest rates remain high globally and the appreciating U.S. dollar, while enhancing other countries' competitiveness vis-à-vis the United States, has also created new inflationary pressures. Even in the United States, inflationary expectations remain disquieting. Further relaxation of monetary policies in the major industrial countries would be imprudent under these conditions. Greater confidence that the U.S. budgetary deficit will be reduced in coming years would make an important contribution to lowering interest rates. On the other hand, it is important that the recovery be supported in other countries to ensure its sustainability. I believe there exists some room on the fiscal side in certain countries to provide additional stimulus to domestic demand, and that more can be done to contribute to the recovery of the world economy.

Sustained recovery in the industrial countries is a necessary condition for improvement in the prospects of the developing countries. However, it is also essential to ensure that markets are not closed off by protectionist actions. Canada is a major trading nation and relies on trade for 30 percent of its economic activity. For that reason, Canada has more reason than most countries to work toward the liberalization of world trade and against the spread of protectionism. The Government of Canada has recently released a major discussion paper on trade policy. The paper reaffirms Canada's support for a more stable and more open international trading environment and gives first priority to efforts to strengthen the multilateral trade and payments system, to broaden both its scope and its discipline. Canada supports a continuation of international efforts to translate the world's heightened economic interdependence into a more open trading system.

Let me now deal with the immediate questions on our agenda and then address our longer-term concerns. . . .

In the World Bank,we face two important issues. First, we must ensure that the International Development Association (IDA) has sufficient resources to maintain a program that can meet the most critical needs of the world's poorest countries. Second, it is vital, during this period of economic uncertainty and financial stress, to ensure that the capital resources of the World Bank are adequate to support a growing lending program to middle-income developing countries. With respect to IDA, I am very concerned that, despite the fact that we are less than a year away from the date on which the Seventh Replenishment is to begin, very little progress appears to have been made in the negotiations. Indeed, it is my understanding that the position of the United States and that of the majority of the other donors still appear to be far apart. In my view, an IDA-VII at least as large as the $12 billion originally agreed upon for IDA-VI would be the minimum amount acceptable. Such a level, though not representing an increase in resources over what had been intended for IDA-VI should still enable IDA to maintain recent nominal levels of lending, while at the same time providing for some increased funds for priority areas such as sub-Saharan Africa and for a new program for China. I am convinced that the continued strength of the multilateral system of development finance depends on all member countries and, in particular, the United States, maintaining, at minimum, current levels and shares of support for IDA.

I should also like to record the strong support for a Seventh Replenishment expressed by the Finance Ministers of the Commonwealth at our meeting last week in Trinidad and Tobago. They specifically asked that I register that support to the Governors assembled here.

Turning to the World Bank itself, I am pleased that discussions have started in earnest on a possible selective capital increase, following from the IMF's Eighth General Review of Quotas. Exchange rate movements and inflation since 1979 have limited the Bank's lending flexibility, and in real terms its program has not grown. Canada supports a selective capital increase in the World Bank, to reflect the changes in relative country positions arising from the Fund's quota review. The increase should also be large enough to allow for some immediate boost in the Bank's lending program. We should recognize, however, that a selective capital increase will not be sufficient to permit a growing program of Bank lending in the second half of this decade. To meet these needs, I think that our objective should be to launch negotiations on a new general capital increase by the time of next year's Annual Meetings.

Apart from these immediate and pressing issues, calls for a broader review of the international system have lately been emerging with growing insistence. Commonwealth Finance Ministers considered a useful analysis of the problems the global economy faces and how we might proceed to correct them.

Reform of the exchange rate system has been called for. To date we have discovered that floating has not brought exchange rate stability. Given the disruptions the world has faced over the past decade and the need for major structural changes, however, a continuation of the old regime would only have added to our problems. There is a need for the strengthening of the surveillance system but not a return to pegged rates. More emphasis, particularly by the major countries, on gearing domestic financial policies explicitly to the objective of promoting exchange rate stability is required, and I welcome the commitments made at the Williamsburg summit to this end.

The issue of some form of debt relief has also been raised in the context of proposed longer-term reforms of the international monetary system. Such proposals raise matters with which we have only limited experience. We have not traditionally based our aid policies on the expenditure commitments of individual countries to a particular group in the internationl economy, namely, the commercial banking system. Nor is it clear, when considered in this light, that diverting some of the limited aid resources—and we should not deceive ourselves that special programs would not involve cutbacks elsewhere—in this way would meet with general acceptance.

Even in our domestic economies we have strongly resisted debt-relief proposals. When interest rates soared in Canada in 1980, and again in 1982, highly visible and diverse income groups were directly and severely affected. Debt or interest-related subsidies in such an environment quickly become very expensive, are almost inevitably inequitable, and in the long run are self-defeating in terms of distorting the basic signal to borrowers that the cost of credit has gone up.

The international debt situation has many parallels. The problem of maintaining equity in the treatment of individual debtors in any assistance package would be enormous. The extent of burden sharing between borrowers, lenders, and the governments/taxpayers of the industrial countries would also be an extremely contentious issue. In sum, the degree of indebtedness is a poor basis for providing international aid. As I noted earlier, the ad hoc approach to resolving debt problems has worked well, and I believe we should continue with this pragmatic case-by-case method. I would stress, however, the importance of the support of the commercial banking systems and governments through their aid agencies and export credit institutions, as well as the adjustment efforts of debtor countries themselves, in ensuring a stable overall lending environment in which individual cases of payments difficulties can be resolved.

This brings me to actions that can be undertaken immediately in the context of the existing institutional framework. We must adapt the mix of credit flows to the developing countries by funneling more of it through official channels, notably through the IMF in support of adjustment programs and through the World Bank and other multilateral development agencies. This would both improve the targeting of credit flows and ensure tighter control over the expenditure of these funds. The increases in the scale of operations of our international financial institutions implies increased subscriptions, higher capitalizations and replenishments, and increased market borrowing by these institutions. Resolution of these issues remains an unmet challenge.

We could also consider in this context strengthening the role of the main advisory bodies of the IMF and the World Bank. The Interim Committee can play a useful role in encouraging its members to play a more effective role in addressing the issue of improved mechanisms for surveillance and policy coordination. Similarly, we could expand the mandate and authority of the Development Committee. The Committee might consider ways in which the World Bank and the IMF can help improve coordination between public and private lenders in response to debt problems, and encourage more private and commercial bank lending to developing countries. As well, it might re-examine the critical links between the development process and maintenance of an open multilateral trading system.

While "political will" in the form of a special high-level conference may be appropriate at some point in the future, we should first devote our energies to strengthening existing institutional arrangements. This is likely to produce faster and more effective results in dealing with the pressing problems facing us.

CHINA: WANG BINGQIAN

Governor of the Bank

First of all, please allow me, on behalf of the Chinese Delegation and in my own name, to extend our warm congratulations to Mr. Boyer, Chairman of the current Annual Meetings. I would also like to take this opportunity to express our sincere congratulations to Mr. de Larosière on his re-election as Managing Director of the International Monetary Fund and on his contribution to the amelioration of the international debt problems. I would also like to express our appreciation to Mr. Clausen, President of the World Bank, for his efforts in promoting the economic development of the developing countries over the past two years. In their reports to the Annual Meetings, Mr. de Larosière and Mr. Clausen made very good analyses of the current world economic situation and its problems. This is very helpful to our discussions and exchanges of views.

I would like to make some observations on behalf of myself and my colleague Governor Lu Peijian with respect to the current world economic situation and to some important questions before the World Bank and the International Monetary Fund.

The current world economic situation remains less than optimistic. Despite the signs of recovery in some industrial countries, it is still hard to predict whether this initial trend of recovery will be sustained or short-lived under the dark shadows of huge financial deficits, high interest rates, and abnormal exchange rates. At present, unemployment in many developed countries is still serious; world trade is stagnating; interest rates in real terms remain high; and the international monetary situation is unstable. A vast number of developing countries are still faced with grave economic difficulties, and the threat of a debt crisis is far from being removed. As we can see, the current economic crisis, the gravest ever since World War II, has brought most serious and damaging consequences to the world economy. In particular, the trade protectionism and high interest rate policies adopted by some developed countries and their reduction of official development aid have dealt a severe blow to the developing countries, where economic conditions have worsened drastically, economic growth has been seriously impeded, living standards cannot be improved—and some have even dropped; this leads to social unrest and political instability. What causes particular disquiet and deep concern is that the economic growth of some developing countries has in fact been outstripped by their population growth and that by the end of the 1980s the per capita national income in some low-income African countries might drop below the level of the 1960s.

Many important proposals were put forward at the Seventh Summit Conference of the Non-Aligned Countries and the Fifth Ministerial Meeting of the Group of 77 for a settlement of the immediate problems and for the restructuring of outdated international economic relations. In the financial and monetary fields, they have proposed the increase of official development assistance, alleviation of the debt burdens of the developing countries, expansion of the source of funds for international monetary institutions, and convening a conference on international monetary and financial problems to explore the restructuring of the international monetary and financial system. All these proposals reflect the actual immediate needs and just demands of the developing countries. The Sixth United Nations Conference on Trade and Development held in Belgrade three months ago offered a good opportunity for promoting the North-South dialogue, improving North-South relations, and facilitating the solution of world economic problems. Regrettably, however, the rigid attitude of some major developed countries prevented this conference from achieving its anticipated substantive progress.

We have always held the view that the economies of all countries are closely interrelated. The economic recovery of industrial countries cannot be achieved without the economic growth and prosperity of the developing countries. If one ignores the developing countries' urgent need for economic growth and fails to actively help them overcome their economic difficulties, it will be difficult for the developed countries to achieve real economic recovery. The argument that the economic recovery of the industrial countries will automatically bring about the economic revitalization of the developing countries is hardly credible. We hope that the industrial countries, the major ones in particular, will conform to the trend of our time by adopting a wise and farsighted policy to promote the economic growth of the developing countries in the commodity, trade, financial, and monetary fields. This will not only benefit the developing countries but will also contribute to the recovery of developed countries and the revitalization of the world economy.

The World Bank and the International Monetary Fund should and can play an important and positive role in facilitating the economic growth of the developing countries and promoting the revitalization of the world economy. Since the beginning of this year, loans available on the international capital markets have remained tight, the rescheduling of debt servicing is still on the increase, and harsher terms have been imposed by commercial banks. Consequently, the developing countries have to rely more heavily on multilateral financial institutions, whose loans have increasingly become a major resource for solving their financial difficulties. In these circumstances, the World Bank and the International Monetary Fund are facing a severe test as to whether they can meet the pressing needs of the present situation and vigorously support the developing countries in overcoming their difficulties by expanding their lending capacity and playing a more active role especially in providing concessionary funds.

We have all along supported the two organizations in expanding their resources so as to meet the growing demand for funds . . . .

In order to expand the lending capacity of the World Bank, it is necessary to increase its capital base. We support the "selective capital increase" proposed by the management of the World Bank. The forthcoming selective capital increase should be considered in conjunction with the future general capital increase and the size should be large enough to meet the needs of the lending program of the World Bank in the later half of the 1980s. In formulating the concrete program for the increase, considerations should be given to the developing countries as a whole, whose proportion in the total number of shares should not be affected. In regard to some member countries, financial arrangements should be made, for reasons both historical and current, in the allocation of shares to maintain or adjust their respective positions. Once the selective capital increase is agreed upon, preparations should be initiated to effect a general capital increase.

With regard to negotiations on the Seventh Replenishment of the International Development Association, many donor countries have shown a positive approach at earlier meetings of representatives of the donor countries to adopt a positive attitude of cooperation, as well as to ensure a satisfactory settlement of IDA-VII. There should be a real increase in the total sum of IDA-VII over that of IDA-VI. At least, it should be not less than the real value of IDA-VI. With regard to the allocation of funds, it should be reasonably distributed in accordance with the agreed standards. We hope that the negotiations on the IDA-VII will be concluded before the end of this year, so that it may take effect in July 1984.

Now, let me speak briefly on China's economic situation. In a nutshell, our national economy has reversed the state of instability that was caused by a serious disproportion between various sectors of the national economy and has embarked on a path of steady growth. In recent years, our industrial and agricultural production have increased annually, and a basic balance has been maintained between state revenue and expenditure. Our urban and rural markets are brisk, prices remain basically stable, and the real income of our people has shown a steady rise. Our economic and technical exchanges with other countries have continued to expand. Needless to say, in our progress, we still face many difficulties and problems in our national economy that call for a solution. China is a developing socialist country, relatively backward, with a huge population and a weak material and technical foundation. The level of our gross national product per capita is still very low. This predetermines the protracted, arduous, and complex nature of China's endeavor for modernization. At present, we are still in the process of economic readjustment and consolidation, and we are redoubling our efforts on key projects in such weak areas as energy and transport and are vigorously promoting the technical transformation of the existing enterprises. At the same time, we are carrying on programs of family planning to control population growth. A salient problem in gradually achieving the modernization of our national economy is the shortage of funds. We must adhere to the policy of self-reliance and take effective measures to improve economic results, bring in more income, and use the available funds with priority. We should also, on the basis of equality and mutual benefit, accelerate our economic legislation and adopt more flexible economic policies, so as to make good use of foreign investments and carry out economic and technical cooperation with other countries. The present surplus in our balance of payments and the increase in our foreign exchange reserve are mainly due to our failure to fulfill the planned target of import in the course of our economic readjustment and is, therefore, a temporary phenomenon. Either in the long term or in the immediate future, our development funds are far from adequate. As before, we will continue to implement a policy of openness with the outside world and further strengthen our economic and technical cooperation with international financial institutions and friendly countries.

Finally, we wish to join with you all in making efforts to enable the World Bank and the International Monetary Fund to play their due positive role in helping to solve the existing world economic problems, promoting economic growth of the developing countries, and establishing the new international economic order.

DENMARK: UFFE ELLEMANN-JENSEN

Governor of the Bank

On behalf of the five Nordic countries, Finland, Iceland, Norway, Sweden, and Denmark, I wish first of all to welcome the two new members of the Bank.

Compared with last year, the outlook for the international economy is somewhat more encouraging. An improvement, particularly in North America, seems to be established. But the last three years have marked the sharpest recession of the world economy since the depression of the 1930s, international trade stagnated, and international interest rates and exchange rates were marked by great instability.

All countries in the world have been affected by the recession. Among the most seriously hit are the low-income countries in Africa south of the Sahara, which have experienced a negative per capita growth in the decade since 1973.

In this situation, many developing countries are experiencing an undermining of their economic base. Inadequate foreign exchange, falling government revenues and cutbacks in investment plans have affected the results gained through decades of development efforts. The visible reflection is the disintegration of production facilities and infrastructure due to lack of possibilities for maintenance. A continuation of this trend can make the costs of regaining growth and development potential extremely high.

What is even more serious is that the efforts and strategies of the developing countries to alleviate poverty are threatened. Today, a rising number of developing countries find it difficult or impossible to finance the measures that should ameliorate the social conditions of the poorest segments of the population.

In the immediate situation, it seems necessary to place increased emphasis on the need for economic growth in the developing countries through maintenance and rehabilitation of existing production capacities and increased investments, especially in the agricultural sector, and improvement of infrastructure. The focus of such an intensified effort must be to provide the basis for a lasting solution to the poverty problem. The Bank's Special Assistance Program, agreed on earlier this year, was a welcome step in this direction. At the same time, the level of investments in human development must be safeguarded, even in the present difficult economic situation, if long-term growth and development prospects are not to be impaired. The Nordic countries fully agree that the Bank's long-term strategy should continue to be alleviation of poverty.

One aspect of development that so far has received too little attention is the change in the cultural and sociological pattern which determines women's social conditions. There are many examples that development projects inadvertently lead to an increase in women's work burdens or reduce their access to income-creating activities. At the stage of project preparation and during implementation, careful consideration must therefore be taken of the need to involve women as equal participants in the development process. It is particularly important that women have equal access to the education system. The education of girls and women may be one of the best investments a developing country can make in future economic growth and welfare. The benefits reach the entire family through improved health and nutrition. Experience shows that improved education also can lead to a reduction in the birth rate.

I have pointed out the serious situation, especially for the low-income countries, partly due to the external factors to which they must adjust. The adjustment process imposes heavy burdens upon the developing countries which face difficult policy decisions. For most developing countries, a shortage of external resources is a major constraint. The effectiveness of the adjustment efforts and the long-term economic prospects depend, to a large degree, on the economic and trade policies of the industrial countries, and an adequate capital flow to the developing countries—official as well as private—is essential. In the present interdependent world, the industrial countries have a responsibility to help create an environment which is responsive to the needs of the developing countries for increased capital and exports.

An international economic recovery will greatly assist many developing countries in their efforts to restore the development momentum. If the recovery can be sustained, industrial countries will increase their imports from the developing countries. And with increased export earnings, the more advanced developing countries would become creditworthy for larger amounts of commercial borrowing on more favorable terms, but economic recovery is not enough to solve the problems, especially those of the poorest countries. These countries will continue to be entirely dependent on concessional assistance.

During the 1970s, ODA represented 75 percent of the low-income countries' external capital. In the low-income African countries, ODA was equivalent to more than 40 percent of investment. However, total ODA flows have been virtually stagnant between 1980 and 1982. International cooperation is, therefore, urgently needed to reverse the present trends in resource flows, especially to low-income countries.

IDA is one of the most crucial instruments for the transfer of concessional resources to the low-income countries. The Seventh Replenishment of IDA is now the most urgent issue for which we must find a solution. The lack of progress in the negotiations is a cause for deep concern to the Nordic countries. It seems unlikely that agreement could be reached on a replenishment that, on one hand, would reflect an equitable burden sharing and, on the other, would maintain the real value of IDA-VI.

It is particularly regrettable that the largest donor does not feel able to assume an equitable share of a reasonably large IDA-VII. A major reduction in IDA's resources would impair the ability of IDA to pursue its role at a time when the demand for IDA's assistance is greater than ever. The Nordic countries urge that negotiations now be concentrated on finding a satisfactory compromise at a replenishment level that is closer to the realities of today's resource needs. We stress that agreement should be reached before the end of this year.

Also the Bank's growing resource constraint needs to be tackled. Since the decision on the general capital increase was taken in the late 1970s, new challenges have confronted the Bank. The Bank has the ability to manage a larger lending program and, also, to borrow more. The Nordic countries maintain that a decision should be reached on strengthening the Bank's capital base.

The Nordic countries have expressed their readiness to agree to a selective capital increase of $20 billion. As evidenced at the Development Committee meeting, it does not seem possible, however, to reach a consensus on such a substantial increase. But it would be deeply regrettable if we had to settle for a selective capital increase of only $3 billion. Common ground should be found somewhere between these limits in order to sustain the lending program until the next general capital increase. A compromise agreement together with a flexible interpretation of the "sustainable level of lending" must aim at a rapid resumption of the 5 percent real annual increase in the Bank's lending program. Anything less would represent an unsatisfactory response to the needs of the developing countries.

The Nordic countries welcome President Clausen's announcement that discussions on the next general capital increase will commence early next year. An early agreement is essential in view of the resource needs of the developing countries beyond the next fiscal year.

The system of multilateral development aid is indispensable. IDA and the World Bank are among the most important instruments for channeling multilateral assistance to the developing countries. Only on the basis of substantial resources can the institutions fulfill their roles as efficient promoters of development. IDA especially plays a crucial part in the development of the poorest countries of the world. Its resources are based upon concerted efforts by the donor countries expressed in a multilateral agreement on burden sharing. Such a system imposes a heavy responsibility, especially on the major donors. We must all live up to this responsibility.

DOMINICA: MARY EUGENIA CHARLES

Governor of the Bank and Fund

I am very happy to be afforded the opportunity to address this distinguished gathering of Governors of the Bank and the Fund on the occasion of our Annual Meetings. As is customary, my remarks which are focused on the activities of the Bank are made on behalf of all of the Commonwealth Caribbean countries—Dominica, Barbados, Belize, Bahamas, Guyana, Jamaica, Grenada, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago, and Antigua and Barbuda. I wish, also, to join my fellow Governors in extending a warm welcome to the Government of Malta on its admission to membership in the Bank. I also take pleasure in recognizing the presence of our sister Caribbean country Antigua and Barbuda who is with us today as the newest member of the Bank.

The major theme of this meeting is the process of incipient recovery in the world economy and the efforts which must be made by both developed and developing countries to nurture that recovery so that mutual benefits may be derived. When we met last year, the world economy was in the fourth consecutive year of a recession that had lasted longer, and had proved more intractable, than any other experienced over the previous 40 years.

Now, one year later, there is a mood of cautious optimism. The major industrial countries now appear likely to experience modest rates of growth in 1983 compared with the declines recorded in 1982, and their demand for developing country exports can be expected to show some improvement, but there is still no assurance that the recovery will be sustained or can lead to major improvement in the position of the developing countries. Interest rates which have exacerbated the burden of developing countries' debt have declined since mid-1982 although current levels still are unacceptably high in relation to inflation. Exchange rates are still very volatile and continue to have a deleterious effect on the export earnings and terms of trade of developing countries. Because of the changed balance of payments, prospects for aid programs from oil producing and exporting countries have dwindled. Aid flows from other sources have also been significantly reduced in real terms. This has created severe liquidity constraints, particularly for the smallest developing countries which depend heavily on concessional flows.

It is our belief that the policies of domestic adjustment to the continuing economic crisis which have been pressed on the developing countries have seriously diminished our prospects for growth and economic development. We have seen rising unemployment accompanying falling output, with a consequent decline in the living standards and quality of life in our countries. Major projects for the stimulation of social and economic development have had to be delayed because of an insufficiency in both domestic and foreign financing. Indeed, many of us who have followed the prescription to base our development on strategies of export promotion now find that export revenues have been contracting in light of diminished external demand for our products. It is not unreasonable for us to believe that, in this situation, those who have urged us to adopt an open trading system will themselves adhere to the principles of such a system by eliminating protectionism which we have seen intensifying in recent years, and by the provision of generous amounts of external financing. We hope, therefore, that we have misread those ominous signals which appear to suggest that some of the major industrial countries have become so preoccupied with domestic adjustment considerations that they are unable to contemplate a more liberal response to our needs for development assistance, even though their economies are now more able to provide it.

For this reason, the tendency of one or two major industrial countries to reduce the scope of their contribution to IDA will no doubt endanger the development prospect of developing countries. The need for the completion of funding for the Sixth Replenishment of IDA and agreement on the Seventh Replenishment is as critical now as it ever was. In addition, there is an urgent need to provide the World Bank with a sufficient increase in real resources in order to allow it to perform its traditional role in financing development.

The virulent nature of this malaise of the global system which I have just described in general terms has been fully elaborated in a report commissioned by the Finance Ministers of the Commonwealth at their Annual Meeting in September 1982, which took place on the eve of last year's Annual Meetings of the Bank. This Report provided the basis of a wide-ranging discussion by those Ministers at their recently concluded meeting in Port-of-Spain. We would wish to see an early agreement on making the Report's recommendations part of a relevant agenda for discussion at the highest level of the governments which together comprise our multilateral system.

I shall now turn to a matter of major concern to the countries on whose behalf I am speaking today, namely, the nature of their future relationship with the World Bank. As is well known, the economies of the countries of the Commonwealth Caribbean are small, open, and fragile. Yet, because of minute population and, in spite of tenuous resource bases and highly underdeveloped infrastructures, several of these economies exhibit relatively high per capital incomes. This criterion is used as the basis of operational guidelines for determining by how much, for how long, and, perhaps, even if at all, the Bank should provide direct transfers of financial assistance to our countries. Surely, an institution with the intellectual strength and maturity of the Bank must be capable of developing more discriminating criteria for determining the conditions under which such small countries should have access to its resources. We are concerned about the requirements, for instance, that World Bank financed projects must include provision for consultants' services that, at times, involve costs which are disproportionate for small projects. The Bank should examine whether or not a special technical assistance provision that could be used to offset this problem in the case of small island states would be more appropriate.

We fully understand that one of the principles which drives the Bank is that it should not provide assistance where alternative financing is available on reasonable terms. This rubric, which is the basis of the Bank's graduation policy, now appears likely to be more rigorously and uncritically applied than in the past, largely because some of the major contributors to the Bank's resources are now experiencing aid fatigue in its most debilitating form. We would wish to remind them that the application of the graduation process as presently constituted, during the 1980s will have only a marginal impact on the desired objective of releasing Bank resources.

Although this is a topic which has been a central theme of the statements which have been made by Commonwealth Caribbean countries at the Annual Meetings over the past four years, I feel compelled to reiterate some of our previous arguments since the consideration, which is now being given to the setting in place of a graduation program for three of our countries, appears to indicate that our arguments have not received the attention which they deserve. It will be recalled that we have pointed to the inappropriateness of using gross national product per capita as a measure of development in small, highly open, and vulnerable economies. Indeed, we have noted the absurdity of presuming that the attainment of a GNP per capita of US$2,650 in 1980 terms by such economies is a signal that the financial assistance of the Bank is no longer necessary. Small economies such as ours are subject to fluctuating per capita incomes so that we should not focus exclusively on this criteria as a basis for decision making in respect of graduation. Such a position would imply that our institution has no commitment to the promotion of self-sustaining growth by its smallest members. We are somewhat gratified that the Bank is taking a fresh look at the use of GNP per capita data as a basis for establishing its operational guidelines, but we are deeply concerned that no study of the impact of the implementation of the graduation process on the future progress of very small countries has yet been undertaken.

We wish, therefore, to insist that the Bank undertake a special study of the problems which its very small members experience in mobilizing the external financing required for promoting their development. Such a study should focus specifically on the prospects for such members to attract significant amounts of resources on reasonable terms from the international private markets over the next ten years in light of their development needs. The importance and urgency of such a study derives from the fact that there are now more than 30 developing member countries of the Bank, in Africa, Asia, North and South America, and the Pacific, which had populations of less than one million persons at mid-year 1980, and, indeed, many of these had populations of less than 200,000 people.

I wish now to turn to the problem of access by the smallest countries to the Bank's resources. We appreciate that the Bank must be concerned with the fact that loans and credits under a certain minimum size involve disproportionately high administrative costs. We feel, however, that in any member country, regardless of its size, the Bank must be concerned equally with the imperative of development and must be prepared to contribute optimally to that process. The right of member countries, however small, to have direct access to Bank resources must always be maintained. We are, however, deeply appreciative to the manner in which the Bank has provided assistance to us through our own subregional institution, the Caribbean Development Bank, and we applaud its current efforts to strengthen that Bank's capability to tap the resources of the private international markets. But, as has become increasingly apparent, very small countries often require relatively large amounts of financing to implement infrastructural projects in transportation, communications, and energy. This derives from the need to respond to standards of provision which are externally defined and from the indivisibility of technology. It appears, however, that the Bank's operational guidelines which emphasize the per capita basis of financial allocations boil down to a dictum that the Bank's financial involvement in its smallest member countries must be limited to US$5 million and that such countries should not expect direct assistance more than once in every three or four years. There are two basic problems which derive from this position. The first is that, for a country to be able to execute a large project with Bank assistance, a multidonor consortium must be put together. This frequently requires more careful timing and attention to detail than would otherwise be the case, and there is always the possibility that the arrangements may come unstuck. The second is that other donors may quickly exhaust their capacity to respond to the needs of our countries, and, unless the Bank is prepared to fill this gap, our public investment programs will be retarded.

Last year, many speakers pointed to the need for the Bank to respond innovatively to the problems which the acute international economic crisis imposed on its borrowing members. I note with satisfaction that, during fiscal year 1983, the Bank implemented the Special Assistance Program designed to help borrowing countries restore and maintain their development efforts. We hope that the operational criteria employed in determining what countries and which projects will be eligible for assistance under this program will be both flexible and consistent so that it can have the maximum positive impact on the restoration of growth in its borrowing members. We also sincerely appreciate the reduction of the cost of borrowing from the Bank which was achieved through a significant lowering of the front end fee and the reduction of interest rates during FY 1983. We hope that this trend will continue in FY 1984.

Since 1978, the Bank as organizer of the Caribbean Group for Cooperation in Economic Development, has played a crucial role in assisting the Caribbean countries in reviewing and reformulating their economic strategies in an era of global turbulence, and harnessing donor efforts in support of economic recovery programs. Although a formal meeting of the Group was not held during 1983, we are happy that the Bank continued its untiring efforts to put together informal donors' meetings through which some of our countries received significant amounts of balance of payments support. We believe that, while there is room for improvement in the structure and functioning of the Caribbean Group, it remains an important mechanism for promoting the development of our several countries.

The World Bank has shown an encouraging capacity to respond imaginatively to the problems which have confronted developing countries during the past four years. As we look toward a period of recovery in the world economy, we must be prepared to equip our institution with the resources to enable it to carry out effectively the task ahead. We would wish, therefore, to see an end to the hesitation which currently clouds the negotiations on IDA-VII, which has constricted the resources of IDA-VI. We hope, also, that those major shareholders who are currently temporizing on the issue of the need for an enlargement of the capital base of the Bank to support an expanded lending program will find it possible to contribute at a level which will preserve the role of our institution in the promotion of social and economic development on a global scale.

EGYPT: MAHMOUD SALAH EL DIN HAMED

Governor of the Fund

It is a great honor and pleasure indeed for me to address the Annual Meetings of the Bank and the Fund. Let me begin by extending our hearty welcome to countries which became members of the Bank during the last year.

I would also like to express my appreciation for the excellent statements we had at the beginning of our meetings by the President of the United States and by the Chairman, Mr. Clausen and Mr. de Larosière. They have given a valuable assessment of the state of the world economy and its prospects in the years ahead. They have also outlined the problems that have to be resolved if world recovery is to be sustained and if the development process is to avoid disruption.

After a relatively long period of recession and high rates of inflation, we meet this year with some encouraging indications of incipient recovery in the industrial countries. The level of economic activities in many sectors is picking up. Inflation rates are slowing down and rates of interest have significantly declined from the peak of the preceding period. The most striking feature of the present recovery, however, is its uncertainty. The picture emerging from some of the industrial countries lacks coherence. While some indicators are moving in a positive direction others are still lagging behind. It is unclear to what extent these conditions would give birth to a vigorous recovery. Nor is it clear at the present juncture to what extent recovery will spread to developing countries. These countries continue to be in the grip of the most severe recession they have experienced for a long time. Countries exporting primary products have suffered particularly sharp deterioration in their terms of trade. Middle-income exporters of manufactured products have been hard hit by stagnant demand and protectionism in their major markets. Growth rates have consequently fallen—in most cases implying stagnant or declining per capita income. At the same time deteriorating trade performance and high interest rates have together created enormous debt-servicing problems for many developing countries. External debt of the non-OPEC developing countries, according to the most recent estimates, is more than $600 billion. Some countries are facing a crushing debt service burden that is equal to the totality of their foreign exchange earnings. In a large number of developing countries, the burden is in excess of 50 percent. Many debtor countries find themselves in a situation where the only alternative to default is to reduce investment and consumption to a level that disrupts their growth prospects and imposes real hardships on their peoples. Such a situation is unsustainable both politically and economically. Debtor countries should have other alternatives under which the adjustment process would be less onerous and more equitable.

When we met in Toronto last fall, the international financial system was under a severe test. The International Monetary Fund is to be commended for the role it has played in averting a real crisis. This, however, should not be a reason for complacency. The problem of external indebtedness is far from resolved. There is need for a systematic and comprehensive approach which takes care not only of major debtors but other debtors as well. More important is the obvious linkage between world recovery and the solution of the debt problem. An expanding world recovery will enable developing countries to earn sufficient foreign exchange to service their debts and maintain their development at the same time. . . .

In the area of development assistance there is need for greater involvement by the World Bank. The adjustment process of the early 1970s was facilitated by the ready availability of a large volume of commercial capital on reasonable terms, as well as increased aid flows, a boom in commodity prices, and low real interest rates. As a consequence, developing countries were able to adjust to increased energy costs while maintaining remarkably high rates of growth. But since 1980, these countries have been facing an entirely different situation. There has been little growth in net aid, commercial capital has carried record high real interest costs, trade growth has ceased, and commodity prices have collapsed. Many countries have had to reduce and reorient their investment programs, to curtail current expenditure, and to delay the completion of high-priority development projects. The adjustment process of the 1980s, unlike that of the mid-1970s, has had a pronounced deflationary bias. As all countries strived to achieve external balance through contraction, the process of adjustment has been associated with a vicious downward spiral fueled by mutually reinforced recessionary policies.

The Special Assistance Program introduced by the World Bank in February 1983 represents a positive response to the current crisis. Welcome as it is, the Special Assistance Program falls far short of what the Bank can and should do in the face of global recession. There is hardly a net additionality in the flow of resources. In fact, the current level of commitments by the World Bank will result in a reduction in net disbursements. This is the opposite of what the situation calls for. The commitment level by the World Bank should be adjusted so as to respond more adequately to the needs of the borrowing countries. To do so, its capital base should be significantly augmented. My Delegation urges member countries to agree as soon as possible on a selective increase in Bank capital pursuant to, and in line with, the Eighth General Review of Quotas. It should be of sufficient magnitude to permit an adjustment in the relative position of member countries. At the same time, it should serve to strengthen the lending capacity of the World Bank. For the sake of reaching a consensus, we support a compromise figure of $8 billion. The selective increase in Bank capital will only help in meeting the immediate needs of the borrowing countries. But it will not address the long-term requirements. For this purpose, there is need for a general capital increase. On the basis of current projections such an increase should come into effect by fiscal year 1986.

The global recession has had a particularly adverse impact on the low-income countries. Within this category, sub-Saharan African countries have been most seriously affected. Their exports of tropical products and metals have suffered most in terms of price declines. The slowdown in the flow of official development assistance has been particularly felt since it accounts for a high proportion of domestic investment. We urge donor countries to put into effect as soon as possible the resolutions of the Paris conference of September 1981 on the least developed countries. We also hope that agreement will soon be reached on the Seventh Replenishment of the International Development Association (IDA) so that it comes into effect by fiscal year 1985. In deciding upon the size of the Seventh Replenishment, account should be taken of the increased demand on IDA resources. IDA is called upon to provide support to a vastly increased membership. At the same time it should be in a position to finance the process of structural adjustment as well as an expanded energy program in the poorer countries. We support a Seventh Replenishment of $16 billion.

I would like to conclude this statement by referring to the need for a comprehensive reform of the international monetary and financial system. The experience of the last few years clearly shows that the present system suffers from many shortcomings and inequities. The instability of foreign exchange rates has been partly responsible for the stagnation of trade and capital flows, thereby aggravating recession. The lack of symmetry in surveillance by the International Monetary Fund has placed a disproportionately heavy burden on deficit and weaker countries. At the same time, the major countries whose policies determine the health of the world economy were able to pursue policies without effective Fund surveillance. More often than not these policies were at cross purposes trying to achieve national goals at the expense of others. The net result has been a loss to all and a gain to none. The recent upsurge of protectionism in the industrial countries is hampering the growth of exports from developing countries and frustrating an optimum division of labor between the two groups of countries. The Egyptian Delegation shares the view that time has come to re-examine the goals and instruments of the Bretton Woods system in the light of past experience and present reality. We urge the International Monetary Fund and the World Bank to prepare the ground—both technically and politically—so as to convene as early as possible an international monetary conference.

FIJI: ALLEN GEE
Governor of the Fund

I join colleagues in thanking the President of the United States for his warm words of welcome. I also thank the Bank and Fund for the usual efficient arrangements and fine surroundings for our Meetings this week.

Developments in the world economy and future prospects have been comprehensively covered in the Annual Reports of the Bank and the Fund and the *World Economic Outlook* of the Fund. I shall not cover the same ground but will focus only upon a number of issues that are of major concern to us.

World economic recession persisted in the past year. Sluggish aggregate demand continues to cause stagnation in world trade. Unemployment remains at a socially unacceptably high level. The policies put in place to overcome inflation in some of the industrial countries have been vindicated by the steady deceleration in price increases. In the wake of this welcome trend, restrictive monetary policies have been generally relaxed and nominal interest rates have fallen noticeably although, in real terms, they still remain at historically high levels. These encouraging developments would hopefully provide the desired framework for the revival of investment, improvement of business and consumer confidence, and the promotion of long-term economic growth.

Signs of economic recovery have begun to emerge in the industrial countries. By all accounts, however, the emerging recovery remains fragile. It is critically important to recognize that economic growth will be sustained only if inflationary expectations are neutralized and structural budget deficits in industrial countries are brought under control. From that point of view, the world economy has registered a significant improvement during the last 12 months.

Developing nations have undoubtedly felt the brunt of the ill effects of the world economic recession. Growth in non-oil developing countries has been slowing down since 1978. The external balances of this group of countries have been most severely affected by the economic downturn. While the prices of their exports have plummeted due to weak demand, export volume has also declined as industrial countries protected their domestic producers by taking measures to keep out imports. The ability of developing countries to finance their widening imbalances on external account and to service their escalating indebtedness has been seriously eroded.

Short-term adjustments to cope with the recessionary conditions have been put in place by many developing countries. These efforts have not been made easier by high interest rates and the continuing instability in the international financial and exchange markets. Private lending institutions, which had successfully recycled the surpluses of OPEC countries earlier, are now adopting a cautious attitude toward further lending to developing nations. It is also unfortunate that the relatively richer nations have demonstrated a general reluctance to increasing the flow of development aid in real terms to developing countries at a time when it is most needed.

The problems of the developing countries are obviously complex. Understandably the solution is not a simple one. Without a concerted economic recovery in the industrial countries, the struggle for improved economic livelihood in the developing countries will be a drawn out one. Given the low level of inflation and the downward movement in interest rates, a better mix of monetary and financial policies in selected industrial countries should now be actively pursued.

In the face of increased volatility in the external payment situation and the need to strengthen the economic base of developing countries, the role of the Bank and the Fund in providing financial and technical assistance to the affected members has never been more critical. The demands by developing countries upon the resources of the Bank and the Fund are expected to impose greater strains on these institutions. Two approaches, not mutually exclusive of course, are possible. Either the flow of resources to LDCs should be reduced or the liquidity position of the Fund improved and the resources of the Bank increased. Adopting the first course will mean a deepening of the recession not only in LDCs but also in industrial countries. . . .

The President of the Bank has stated in his opening address that the role which member countries want the Bank to play is in our own hands. It would be most unfortunate if the Bank's ability to achieve its objectives were to be constrained by lack of resources. We would therefore support a large selective capital increase on the order of $20-25 billion. I also feel that the time is opportune to raise, albeit gradually and cautiously, the prescribed gearing ratio from 1:1 to 2:1. Given the Bank's prestige and high rating in the capital markets such a gradual change, I believe, can be implemented without adverse repercussion.

I join my colleagues in making a plea for increased official development assistance especially to the poorest developing countries. At present, ODA constitutes about 0.3 percent of the GNP of industrial countries. It would be reassuring if, in the interest of global cooperation, the ODA target of 0.7 percent of GNP were once again vigorously pursued.

Given economic interdependence among nations, the importance of coordinating economic policies for the social and economic betterment of the people of this globe cannot be overemphasized. The development efforts of developing countries have to be encouraged. . . .

FINLAND: ROLF KULLBERG

Governor of the Fund

I have the honor to make this statement on behalf of the five Nordic countries—Denmark, Finland, Iceland, Norway, and Sweden—on matters relating to the International Monetary Fund.

The world economy is now at a watershed. Either we shall see the tendencies toward recovery and financial stability reinforce each other—gradually creating a process of moderate and sustained expansion—or we shall witness a petering out of the recovery and an intensification of all our recent economic and financial problems.

There is an obvious need to ensure that the recovery is sufficiently strong and sustained. This is the single most important precondition for safeguarding progress in the areas of trade policy, employment, debt management, and development. Unfortunately, considerable uncertainty is attached to the strength and sustainability of the current recovery. First, the IMF forecast of an annual growth rate of roughly 3 percent for the industrial countries is contingent upon demand actually expanding on a broader base than at present. Second, it is based on the assumption that the combination of fiscal and monetary policies will provide both space for and create a climate of expectations that would make a noninflationary expansion possible. In this connection the policy mix in the United States is, of course, of central importance.

These notes of caution need to be struck, given the fragility of the current international environment. It is an environment in which there is room for expansion, but in which each country's contribution has to be carefully tailored to its special circumstances. Forecasts for some major countries, such as the Federal Republic of Germany, Japan, and the United Kingdom, hold out the promise of continuing success in combating inflation and also indicate surpluses in their current accounts. Economies in such circumstances might be considered to be in a position to take a somewhat more expansionary stance without exerting inflationary pressures. Even modest stimulatory measures, taken simultaneously in a number of countries, might reinforce and broaden the basis of a recovery that until now has been quite narrow.

The close interrelation between the recovery in the industrial world, on the one hand, and the international debt problems, on the other, is frequently underlined and rightly so. Without a resumption of economic growth, the debt problems may get out of hand; conversely, unless the debt problems are eased, the recovery cannot be sustained. Various scenarios like the IMF forecast for the evolution of the world economy and the debt situation in the years ahead are informative. They indicate what will be required of domestic and international economic policies to keep the debt problems under control.

A lasting recovery is a necessary, but not a sufficient, condition for an improvement in the debt situation. Thorough structural economic reforms are needed in many developing countries. However, when the world economy is stagnant, only limited steps can be taken to correct the underlying disequilibria. In this context, it is important to ensure that the developing countries have access to sufficient financial resources from both public and private sources so that they may carry out the needed structural adjustment in an orderly fashion. Moreover, and not least, the developing countries must have improved access to markets in the industrial countries.

The growth of protectionism is a very disturbing feature in today's world. It is most unfortunate that one important objective, maintaining employment, has partly been pursued by protectionist measures that in the longer run are bound to be counterproductive. Protectionism, if not resisted, could seriously impair the recovery. Trade barriers that have been erected during the recession tend to remain in place even though growth revives.

When severe debt problems began to threaten the stability of the world financial system, the Fund undertook to play a much more forceful role in many debt rescheduling negotiations. This has led to constructive collaboration between the Fund, governments and central banks on the one hand and commercial banks on the other. A sound and efficient framework for managing the world financial system is needed in these times of great uncertainty. Confidence within the international financial community would assist in assuring adequate private flows to debtor countries. The Nordic countries continue to support the increased efforts of the Fund to help members who are implementing programs of realistic economic adjustment. We also endorse the increased surveillance that the Fund is paying to the debt problems of its members. . . .

In closing, I would like to turn again to the challenges we face in the period ahead. In bringing the world out of recession, achieving compatibility between economic policies of individual countries and the needs of the world economy is extremely important. In this connection the Nordic countries continue to stress the importance of the surveillance function of the Fund. We welcome the recent agreement taken by the leaders of the major industrial nations to consult more closely on policies affecting exchange markets and to promote the much needed exchange market stability. These undertakings have subsequently resulted in some, albeit limited, concrete action. We hope this indicates a shift in attitude toward meaningful cooperation both in the field of exchange rates and monetary and fiscal policy at large in the near future.

FRANCE: JACQUES DELORS

Governor of the Bank

At our previous Annual Meeting, I pointed out that it was imperative to rise to the challenge of the most serious recession of the postwar period, stressing the need to reinforce international cooperation so that we may preserve—and, above all, improve—the stability of the world monetary and financial system, already shaken to its foundations by successive debt crises.

Today, I should have reason for rejoicing: The coordinated action of international institutions, governments, and the banking community has made it possible for the financial system to overcome the gravest risks to its functioning. Second, unquestionable evidence of recovery is building up, particularly in the countries of North America, leading to renewed optimism with respect to world economic growth.

We welcome these positive signs, but we should not ignore the efforts still needed to find the way back onto the path of lasting growth in all countries, and in the developing countries in particular. To this end, we must develop international cooperation within the existing framework; we must also make that cooperation evolve and adapt it to the new pattern emerging in the 1980s.

I. Consolidate and Broaden the Economic Recovery

A number of disquieting uncertainties persist:

—First, while the overall level of economic activity in the industrial countries has improved, the extent of the recovery varies greatly from one country to another. It will take time for some countries, especially in Europe, to find their way back onto the path of growth. The persistence of high interest rates is both a technical and a psychological obstacle to the resumption of investment and to more stable capital flows.

—Second, world trade has not been sufficiently reactivated by the recovery in industrial countries and still has to enter into a new phase of expansion. Yet only the development of international trade and an opening of markets will make it possible for each country in the South, as in the North, to find the support needed to go beyond the necessary adjustment effort and ensure sound and lasting expansion.

—Finally, the current payments imbalances of the non-oil developing countries have, to be sure, been corrected in part thanks to a severe adjustment effort. Nevertheless, their financing requirements remain substantial, while official assistance is no longer increasing. Banks are more cautious and, by and large, concessional flows from major international organizations are insufficient.

To continue the process of rehabilitation, in order once again to obtain margins of maneuver sufficient to encourage production, reactivate investment, and create new jobs: we all agree on these priorities. There is one condition, however, and it is that adjustment must not be achieved at the expense of the future and must not lead to severe political or social destabilization. In other words, the diagnosis is the same, but the therapy must be adapted to the specific circumstances of each country.

These remarks are most relevant to the effort requested of the developing countries. But they apply to the industrial countries as well, in view of the need to preserve the foundations of social solidarity and justice.

This is why France has decided upon a resolute fight against inflation and external disequilibrium, by means of a comprehensive policy encompassing the objective of social justice and the priority to be given to prepare for the future. France is achieving this within the framework of an open economy and is willing to work in closer cooperation with other industrial countries, and first with its partners in the European Community. First results have already been reaped; a good start has been made toward reducing inflation, and foreign trade is on the way to equilibrium, thanks primarily to increased exports. Investment is resuming in selected areas, in line with the structural adaptation of the productive system.

We must also look beyond the immediate task of adjustment, at home and also, given today's fundamental interdependence between all economies, in the international field.

This is why we repeatedly reaffirm the general conditions for a sound and lasting recovery:

—a level of interest rates that permits investment and prevents debt payments from being an unbearable burden;

—financing flows adapted to and sufficient for the world economy;

—a significant improvement in the international monetary system.

These are the topics on which we have been focusing and on which this meeting has to concentrate.

The events of the last few years have demonstrated that nothing solid can be built without vigorous and concerted action in these three directions.

Hence France's untiring effort, side by side with other countries, to accelerate the indispensable strengthening of the major international institutions and the improvement of the world monetary and financial system.

II. Strengthen the International Organizations

This is no easy task. It is further complicated by controversy as to the respective roles to be assigned to, on the one hand, concerted rules of the game and government intervention and, on the other, the improvement of market mechanisms. It also involves—which is hardly surprising—clear oppositions of interests.

Nevertheless, thanks to the sense of responsibility from all sides, small steps have been taken. Today, realism as well as vision command us to increase both the speed and the strength of our progress. . . .

Increasing official development assistance

The marked drop in the developing countries' export receipts and the halving of commercial bank financing enhance the central role of official development assistance, especially for the least developed countries.

The fact is that this assistance has remained at US$35 billion since 1980. In 1982, total public and private resources transferred to the developing countries amounted to US$102 billion, while these countries' debt service burden alone was US$131 billion, nearly one fourth of the value of their exports.

Against this background, the commitment made by the developed countries at UNCTAD VI to make renewed efforts to increase their aid appears particularly important. It is quite true that budgetary constraints reduce the room for maneuver of each of our countries in this area. But we must hold our course: France, for example, devoted 0.74 percent of its GNP to official development assistance in 1982. For the independent states of the Third World alone, and excluding the effort made under our gas agreement with Algeria, the French contribution increased from 0.36 percent of GNP in 1980 to 0.48 percent in 1982. France is determined to intensify its effort despite its current, and temporary, difficulties. It will continue its effort particularly in favor of the least developed countries (LDCs), for which category its contribution will reach 0.15 percent of GNP by 1985.

In this spirit, the President of the French Republic has made an appeal to mobilize assistance from the international community for Africa, which, more than ever, appears to be the continent passed over by development. This action would combine increasing assistance to the sub-Saharan countries with the implementation of concerted and coordinated sectoral strategies by countries or groups of countries. This would bring about a better resource allocation through cooperation at the regional level.

Rethinking the activities of the World Bank

Implementation of the Special Assistance Program is an important first step in this regard. The current financing needs of the developing countries have increased, while their capacity to absorb new projects is reaching its limit in some cases. For this reason, development of this type of assistance, integrated with adjustment programs, can contribute effectively to restore the financial situation of the countries concerned. However, projections of World Bank activity through 1987 show the average share of nonproject lending as not exceeding 7 percent. This figure is clearly inadequate, in view of the magnitude of needs. I would think it most desirable to increase the volume of sector loans more rapidly so as to finance the development of exports and also programs in support of small production units. Experience has shown, moreover, that such loans can be disbursed more rapidly than structural adjustment loans. This consideration should be overriding at a time when priority must be given to speeding up loan disbursements.

It will be necessary to go further in this direction. This is one of the reasons why we are in favor of increasing the annual rate of growth in real terms of new Bank commitments for the period 1984-87 from 4 percent to 6.2 percent. This increase, proposed by the Bank's management, will make it possible to avoid a reduction in net Bank transfers.

I also believe it desirable that the World Bank pursue further the experiments it has undertaken in the area of cofinancing with commercial banks. At a time when private financial flows tend to be diverted from the developing countries, World Bank and International Finance Corporation action can be decisive in increasing commercial bank involvement in the financing of developing countries on terms adapted to their situation.

As in the case of the International Monetary Fund, we have to take the structural problems of the poorest countries into consideration. I have noted in this respect, with some concern, the stagnation in World Bank activities in sub-Saharan Africa over the past three years, despite the broad consensus reached on the priority to be given to Africa. The share of sub-Saharan Africa in Bank lending decreased from 14.9 percent in 1981 to 12.4 percent in 1983. The increase posted by the International Development Association (IDA) fell far short of offsetting the quite considerable decline in Bank lending in these countries. This situation must be corrected urgently and, more generally, the World Bank should take steps to increase its assistance to the low-income countries.

These reorientations, which moreover do not constitute an upheaval, call for resources on a scale matching our ambitions.

The selective increase of the Bank's capital, in itself urgent and valuable, must not hold up the study of a general operation to raise the capital to the level required by the expansion and diversification of the activities of the Bank and its affiliates. Among these, IDA remains, for us, a cause of grave concern.

The Seventh Replenishment of IDA's resources is a matter of particular urgency. From the outset of the negotiations, France has supported a sizable replenishment that would make it possible to meet the requests of new members while increasing assistance to the countries hardest hit by the crisis. We consider that the share of sub-Saharan Africa should stay above the level of one third of the resources provided by the Seventh Replenishment. The importance of IDA lending for the poorest countries is acknowledged by all. It would be unacceptable that the next replenishment would not at least permit maintaining the real value of the assistance the Association extends to those countries. France, for its part, is prepared to make a sizable increase in its annual budgetary contribution to IDA, while attaching great importance to maintaining an equitable distribution of the burden, consistent with the respective economic weight of the contributing countries. The amount of this replenishment ought not, as the outcome of compromise upon compromise, end up below an indispensable minimum. As France sees it, the figure of US$12 billion is precisely this minimum.

III. Improve the International Monetary System

Under the cover of realism, overskepticism and overresignation dominate in the world of those responsible for the functioning of the international monetary system. The opportunities the present situation offers certain countries may also contribute.

Still, no one can deny the adverse consequences of erratic capital movements, of persistently excessive interest rates in the principal capital market, and of unforeseeable and unpredictable exchange rates behavior.

In this unstable environment, European countries are striving to maintain and strengthen a monetary system—the EMS—which guarantees a minimum of stability and predictability to their economies, as a counterpart for implementing the necessary disciplines. This system is certainly not perfect, nor is a full convergence of their economies achieved. But it no doubt deserves better than the exceedingly negative comments made about it in the IMF Annual Report. Unless, perhaps, the Fund's experts reject all gradual solutions, all progressive improvements in exchange arrangements in line with the evolution of the individual economies?

This is not France's approach.

The purpose of the proposal for an International Monetary Conference, put forward by the President of the French Republic was to launch a wide effort of studies and proposals on these questions which are crucial to the world economy. His declaration aroused interest in the industrial countries, as demonstrated by the resolution issued at the Williamsburg summit, and also in the countries of the South, as evidenced by the UNCTAD debates.

We must revert to the spirit of Bretton Woods, within a deeply changed context. What really matters is the frame of mind: we must not resign ourselves to the present disorder and injustice; we must assess the benefits that an improved system would bring about in the psychology of economic agents, on the functioning of exchange and capital markets, and on the financing of the world economy.

Of course, the Conference shall not be held tomorrow. But it symbolizes our aspiration for a more just and more efficient economic order. This prospect should, in the meantime, encourage careful thinking and initiate a progressive movement toward solutions acceptable to all.

GERMANY: GERHARD STOLTENBERG

Alternate Governor of the Fund

The two institutions whose work we are reviewing today can look back on another year of challenge and achievement, a year that has tested and demonstrated their strength. The Fund has assumed a central role in our efforts to reach the twin goals of consolidating the incipient recovery into sustainable growth and of strengthening the stability of the international financial system. Its effective, innovative response to the strains of the past 12 months represents a landmark in its history.

I congratulate Mr. de Larosière on his reappointment as Managing Director of the Fund. We all owe a great deal to the dedication and skill with which he and Mr. Clausen have guided the Fund and the Bank through these difficult times.

For several years, stagnation has fed on itself. By now, however, there is growing evidence that the downward spiral has been reversed. Growth performance and prospects have clearly improved in major industrial economies, though with differentiation among countries. Developing countries, too, should experience a gradual resumption of growth. The external environment which, for years, has made their adjustment task much more difficult should become more hospitable. Faster world economic growth and renewed opportunities for trade will improve the prospects for adjusting through, rather than at the expense of, development.

However, we still face the challenge to complete the transition to lasting growth. In many economies, the immediate prospects remain clouded by internal and external constraints. The feeling of uncertainty is a considerable burden for economic decisions.

To ensure that growth will last, it is crucial that investment should pick up as soon as possible. This underlines the need for stable, credible policies fostering private initiative and enterprise. There are already encouraging signs:

—In major economies, underlying inflation rates have been brought down substantially.

—Increased energy efficiency has brought about a more comfortable balance of energy supply and demand.

—Last but not least, growth in the 1970s, for many countries, was built on ever-mounting external debt. The present recovery, however, emphasizes adjustment.

We should resist excessive pessimism.

In explaining the causes of slow growth and high unemployment, one is easily inclined to look abroad.

No doubt, the severity of the recession has taken us all by surprise. It has thwarted adjustment strategies that would have been appropriate in a more benign external environment, and it has overwhelmed the adjustment efforts of many developing countries.

In the final analysis, however, today's difficulties for most countries are the legacy of domestic policies that would have created friction under any kind of monetary system.

In many countries, inflation had, for too long, been allowed to run loose, budget deficits are absorbing ever larger shares of national savings, bloated bureaucracies have stifled private enterprise, and protectionism has retarded the growth of promising industries.

Discussions within the Fund and the World Bank have revealed substantial agreement in the policy strategy appropriate at the present juncture. This convergence of views is in itself an encouraging sign.

Three elements of this strategy stand out:

—First, the need to consolidate the gains on inflation.

—Second, the need to cut back structural budget deficits. In the Federal Republic, the process of medium-term budget consolidation is firmly on track. The German economy has responded with a clear improvement in performance and prospects. Given the weight of the American economy, the deficits of the U.S. federal budget are also an international concern.

—Third, we must restore to our economies a greater flexibility.

This includes the need to restore the effective working of the price mechanism, which has been impaired by innumerable forms of government intervention and protection. Indeed, as the GATT has recently pointed out, distortion of price incentives is the "common denominator" of many of the structural rigidities inhibiting growth. Greater reliance on the price mechanism and on the unrivaled efficiency of market forces implies firm efforts to hold and roll back protectionism.

The program agreed by the Fund with its members cannot work unless all countries, in particular the world's largest traders, accept their responsibility for opening their markets, especially in the interest of developing countries. . . .

Creditor countries have a vital interest of their own—in economic and political terms—in the ability of debtor countries to solve their difficulties in an orderly way. To open their markets, to work toward sustainable growth, and to pursue policies conducive to a noninflationary decline in interest rates are the most constructive contributions industrial countries can make.

The most important contribution, however, must come from debtor countries themselves: firm policies to strengthen economic efficiency and to bring their foreign debt in line with the capacity of their economies to generate the foreign exchange needed to service that debt.

The conditionality of the Fund should not be seen as a prescription for austerity. It is a prescription for restoring sustainable, non-inflationary growth. Of course, it is a continuing challenge to ensure that conditionality be applied in a flexible way, taking due regard of the particular circumstances of borrowers. There can be no standard set of rigid rules.

The road out of the present debt problems will, no doubt, be a difficult one. It will require prudent and persistent efforts to restore the confidence of lenders in the ability of debtor countries to meet their present and future obligations. Grand designs and sweeping proposals for debt relief cannot do justice to the varied circumstances of individual countries, and they are bound to impair, rather than enhance, the credit of debtor countries.

Orderly adjustment hinges on adequate financing. Official creditors are providing very substantial assistance through a variety of channels, including their financial contributions to the Fund. . . .

Concern over the debt problems of large borrowers, however, should not make us forget the plight of the many less advanced developing countries that remain critically dependent on official assistance. These countries, especially the poorest among them, must be able to rely on continuing and substantial aid flows on concessional terms. . . .

Turning to the World Bank, I wish to express my appreciation of the effective and flexible manner in which the Bank, too, has responded to the needs of its membership. In particular, I welcome the measures taken to accelerate the completion of investment projects, to assist members' development efforts through structural adjustment lending and to promote cofinancing with commercial banks.

As before, Bank policies will have to adapt to changing situations. However, the nature of the Bank as a development institution must be preserved. Its emphasis must remain on project financing.

Moreover, to maintain its standing in capital markets, the Bank must be careful to ensure a sound relationship between its lending and its capital base. Capital adequacy is all the more important at a time when many of the Bank's borrowers are experiencing serious debt problems. To soften the financial guidelines of the Bank cannot substitute for a broadening of the capital base.

I do hope that the negotiations on a selective capital increase will produce a quick and positive result. My Government is prepared to contribute to the increase within the envisaged scope of US$8 billion.

In the longer term, however, the expansion of lending hinges on a general capital increase. Negotiations on a general capital increase should be started as soon as possible.

The slow progress of the IDA-VII replenishment continues to be a source of great concern. The future of IDA as an institution and its basic principles are at stake.

We share a joint responsibility for ensuring the integrity and effective functioning of IDA. The multilateral character of that institution precludes any unilateral action aimed at determining the size of the replenishment or at changing the pattern of burden-sharing to the disadvantage of others.

In working out a mutually agreeable compromise on the volume of replenishment, we need to bear in mind the constraints imposed on national budgets. In my view, the volume of replenishment on which consensus can realistically be expected will have to be more modest than suggested by the management.

Until IDA-VII becomes effective, IDA will have to rely on the contributions for fiscal year 1984. I am glad to inform you that the German contribution of DM 660 million has been appropriated by our Parliament.

I urge the World Bank to continue making every effort—in cooperation with its borrowers—to ensure maximum efficiency in the use of its resources. This should include greater reliance, in the development effort, on the dynamic forces of private initiative and enterprise.

The need for promoting private investment underlines the increased importance of the International Finance Corporation. The capital base of IFC should be commensurate to the size of its task. My Government will participate in a constructive spirit in any deliberations regarding the size and timing of a capital increase for IFC.

In concluding, one more brief remark. I do not think that there are many among us who still share the faith that John Maynard Keynes professed in a superior capacity of government to spark off economic growth. However, Keynes has left us another heritage: a vision of cooperation on a truly worldwide basis that would catalyze growth, development and prosperity throughout the world. That vision is embodied in the Fund and the World Bank that Keynes helped to create. Both institutions have, in their field, set a standard of achievement that others have yet to match.

GREECE: GERASIMOS ARSENIS

Governor of the Bank and Fund

I have the honor of addressing these meetings on behalf of the member states of the European Communities.

Recent Developments

Since last September the world economic environment has become more differentiated. On the one hand, evidence of an economic upturn has grown consistently firmer over the last months in some industrial countries, especially in the United States, where recovery seems to be quite significant, and there are also prospects for a further abatement of inflationary pressures. The emerging recovery should help slow, if not reverse, the rise in unemployment, which has reached exceptionally high levels in many countries. On the other hand, high interest rates are hampering the investment necessary for a sustainable recovery. True, nominal interest rates have declined considerably from their peaks of 1982, but real interest rates remain high by historical standards.

As far as the Community is concerned, recovery is expected to be rather modest, although the prospects are very different from one member state to another.

At the same time developing countries exhibit an unsatisfactory growth record, which is attributable to adverse external developments as well as to domestic factors. The Community is also concerned with the severe impact of these external developments on the payments situation of many developing countries, in particular, the effects of the past sharp deterioration in their terms of trade.

External indebtedness has continued to grow in a number of countries while debt servicing problems have been accentuated. This has been accompanied by a substantial slowdown in the growth of commercial bank lending to certain developing countries. Most of these countries have now recognized that adjustment of their own policies and performance is essential. We welcome the initiatives taken by the International Monetary Fund in providing and helping to mobilize support for these countries, conditional on effective measures of adjustment, and the efforts made by all parties concerned in bringing constructive solutions to individual cases of debt problems. We are also conscious that an orderly solution of debt problems will be greatly helped by an improving world economic environment.

This difficult situation, in both industrial and less developed countries, is further complicated by uncertainties over the future course of world interest rates, and by uncertainties linked to the volatility of the dollar, the recent rise of which has adversely affected the terms of trade of many countries. These developments are heavily influenced by financial policies in the United States.

All these difficulties may threaten the sustainability of the present recovery as well as its capacity to spread its benefits worldwide. The Community is endeavoring, in this context, to pursue policies designed to consolidate its incipient recovery.

Interdependence and Economic Policies

The various manifestations of the present difficulties have once again brought to our attention the growing interdependence of our economies and thus the international dimension of national policies.

We are all aware of the fact that the restoration of sustained and noninflationary growth in the industrial countries is essential to complement and enhance the adjustment efforts of debtor countries. At the same time we cannot underrate the fact that debt servicing problems cause severe strains in the international financial system and that orderly solutions to these problems, and renewed growth in developing countries, will in turn strengthen the recovery in the industrial world.

It has been part of the European Community strategy to bring these issues to the attention of the world community and to underline the responsibility we all share in selecting our policies. In a period of increased uncertainty, the need for a coherent and harmonized approach to international economic policy is greater than ever.

Accordingly, we welcome the declaration by the heads of state at the Williamsburg summit, and in particular the recognition that the principal industrial countries must act together to pursue a balanced set of monetary and budgetary policies in order that the recovery may spread throughout the globe. Where the underlying circumstances have improved, a priority aim of policy should be to strengthen recovery in a noninflationary way and to promote employment.

The cornerstones of international cooperation are effective policy coordination among industrial countries and adherence to our international commitments.

In designing our policies we should take a more global point of view by recognizing the greater interdependence among all economies; in particular, due consideration should be given to international repercussions of domestic economic policies. In the monetary field, the European Monetary System (EMS) has already demonstrated the potential benefits of such concerted efforts. It has encouraged more convergence in EEC member countries' economic policies and in the implementation of orderly adjustments. The introduction of the System has thus brought more monetary stability, and we hope that this stabilizing influence will spread to the exchange rates of other currencies that have close ties to EMS participants. The EEC member states will, of course, play their full role in any discussions that may take place for the improvement of the international monetary system more generally.

Coordinated policies should strive:

—to attain a more appropriate fiscal-monetary policy mix so as to counter inflation and permit a reduction in both nominal and real interest rates;

—to secure orderly conditions in exchange markets through the adoption of compatible economic policies, especially by key currency countries;

—to increase productive investment and to adopt positive adjustment policies that will foster the current recovery;

—to reverse protectionist trends, to relax restrictions, and to create conditions for the enhancement of world trade. In particular, it is necessary for developed countries to improve market access to the exports of developing countries. It is also necessary for the latter group to liberalize their own foreign trade as much as possible;

—to strengthen the ability of multilateral financial institutions to assist member countries;

—and to secure continuing and substantial official aid as well as other financial flows to developing countries and the LLDCs (least developed countries) in particular.

The Community remains firmly committed to an open multilateral trading system, and despite the present international difficulties it will continue to pursue a trade policy that ensures the openness of its markets. . . .

World Bank

The Community favors the World Bank's continuing to engage actively in cofinancing with public and private institutions and to cooperate with the IMF, inter alia, in its structural adjustment programs. The Community welcomes the Special Assistance Program agreed by the World Bank in February 1983, and notes the intention of the Bank management to propose expansion of the Bank's program beginning in 1985.

Member states of the Community have shown their support for the International Development Association by supplementing its resources in the past, and favor an adequate level of Seventh Replenishment to enable the Association satisfactorily to continue its action in support of the poorest countries. The Community therefore urges governments to make every effort to ensure that the IDA Replenishment becomes effective by July 1, 1984.

HUNGARY: JANOS FEKETE

Governor of the Fund

It is a great honor for me to address for the first time the Annual Meetings of the Boards of Governors of the World Bank and the International Monetary Fund in the name of the Hungarian People's Republic.

Allow me first to extend on behalf of my Government a warm welcome to the new members who have joined the World Bank since our last Annual Meetings. I listened with great interest to President Ronald Reagan, to the opening address of our Chairman, to the speeches of Mr. de Larosière and Mr. Clausen, and to the previous speakers. I wish at this time to report on our situation and our cooperation with the two institutions. I would also like to make some comments on the present world economic situation.

For a small country like ours, an active participation in the international division of labor and in the work of international institutions is a vital condition for furthering our economic development. This has been duly reflected in the economic policy of our Government, and our application for membership in these institutions is a logical extension of that policy.

Hungary signed the Articles of Agreement for the Fund and the Bank in May and July of 1982, respectively. I would like to use this occasion to express my sincere thanks that all the Governors participating in the voting procedure voted to approve our application for membership. I would also like to thank the Executive Boards, the managements and staffs of the Bank and the Fund for the cooperation they have shown us, not only during the preparatory talks before our application for membership, but ever since as well.

In 1978-79, the Hungarian Government introduced significant adjustment measures aimed at eliminating the external and internal imbalances which developed after the two energy price explosions, which ended a period of balanced growth in Hungary. These efforts brought favorable results for our external trade balance. Although in 1978 our external trade, settled in convertible currencies, had shown a deficit of $1.2 billion, the year 1979 brought a sharp reversal of this trend, and in 1980-82 we had a further improvement which gave us a growing surplus in our trade balance. The deficit of the budget has been reduced to around 1 percent of our GDP.

At the same period that we in Hungary were fortunately returning to a situation of balance, the payment difficulties of some of our neighbor countries caused a massive withdrawal from Hungary of short-term deposits on the part of numerous banks. We were also unable during this period to get any new medium-term credits. This is the phenomenon called the "regionalization syndrome" by the *Annual Report* of the Bank for International Settlements (BIS).

By 1982-83 further regionalization syndromes had occurred in other parts of the world as well, and it soon became quite evident to the international financial community how dangerously this erroneous theory could develop.

Our initial favorable liquidity position enabled us to resist this pressure and we were able to fulfill our obligations, but we found ourselves confronted by growing liquidity problems. Through the BIS, the National Bank of Hungary requested and was granted short-term bridging facilities from other central banks, amounting to $610 million in several tranches. At about the same time, we concluded our membership negotiations with the Fund, and by December 1982 we had reached an agreement on a first stand-by credit and a compensatory financing facility totaling about $600 million. When the commercial banks saw that a large international cooperative effort had been set in motion in our interest, they also regained their confidence in us, and we were able to establish a number of major credit agreements with them. These agreements also contributed to the improvement of Hungary's liquidity position. We repaid, on time, all the short-term bridging facilities received through the BIS.

Subsequently, fruitful talks with World Bank delegations resulted in the signing of two loan agreements totaling $240 million which will partially finance two Hungarian Government programs. In addition, with the assistance and participation of the World Bank, we obtained supplementary financing under the lead management of the Arab Banking Corporation and the Long-Term Credit Bank of Japan for $200 million, and about 15 billion yen, in the form of World Bank cofinanced "B" loans. These are among the first examples of such loans to be realized under the Bank's new cofinancing policy.

To overcome our difficult situation, which was mainly caused by events beyond Hungary's control, two major preconditions had to be met.

The first element required to solve the liquidity crisis was implementation of necessary internal measures. The Hungarian Government took severe measures aimed at cutting back domestic purchasing power and reducing the budgetary deficit. It is expected that these measures will provide us with considerable convertible currency trade and a current account surplus for this year. To increase this surplus still further will remain a top priority goal of Hungarian economic policy in the coming years.

The second necessary element was the moral and material support of the international financial institutions, other governments, and central and commercial banks.

We are firmly convinced that these collective efforts were crowned with success only because this essential external help was paralleled on our side by the necessary political will, social consensus, and economic policy measures. Our adjustment efforts were aided by valuable advice from the Fund missions, given to us in frank and open consultations and discussions. The same can be said of our relations with the World Bank. Although our discussions concerning methods, approaches, and timing were sometimes heated, we were able in the course of these negotiations to find the elements of cooperation between Hungary and the Bank and the Fund. I think this was made possible because all our negotiations, from the highest level consultations to the discussions with the experts, were characterized by nondiscriminatory, objective points of view. . . .

Naturally, our progress depends largely on external factors arising from the world economic situation.

During recent years, the world economy has been struggling to overcome serious and ever growing problems. Some very large and important industrial countries have succeeded in overcoming inflation by the pursuit of tough anti-inflationary policies. However, because these policies have been implemented mainly with monetary tools and without the necessary accompanying support of fiscal measures, they have required heavy sacrifices in terms of economic growth and labor management. Monetary restrictions have not only reduced the domestic demand of the industrial countries, but have simultaneously narrowed their export markets as well. The high levels attained first by nominal and then by real interest rates, together with high energy prices, have imposed heavy burdens on all oil importing and debtor countries, burdens which are reflected in growing balance of payments disequilibria. Both the developing and the middle-income countries are hard hit by the narrowing of their export possibilities, which is due partly to increasing protectionism and partly to the increased cost of external resources.

It seems safe to predict that if present monetary policies are continued, they will lead a number of countries into serious financial difficulties which will then directly threaten the entire world monetary system.

In my view, in order to avoid this general economic depression, the recessionist policies so far pursued with the primary goal of combating inflation must now be changed. On the occasion of these Annual Meetings of the Boards of Governors, it would be right to recognize and to declare that today's "public enemy number one" for the world economy is depression. The major industrial countries with low inflation rates, high unemployment, and low capacity utilization, the same countries which are responsible for more than half of total world production, could encourage the economic revival by expanding domestic demand. At the same time, however, the fight against inflation cannot be abandoned, either generally, or in certain specific countries. The world has paid too high a price for the results achieved so far, for those results to be endangered now. What we must do, then, is to find new weapons capable of fostering conditions for economic growth consistent with maintaining the struggle with inflation.

In today's world economic environment, one appropriate measure would be to increase the roles of the Bank and the Fund. . . .

We hope that the World Bank will also greatly amplify its role by extending its lending activity.

We consider the new cofinancing system initiated by the World Bank and welcomed by the markets to be a step forward in the right direction, one which makes possible a linkage between the World Bank's resources and the funds of the commercial banks. In this way, the Bank's investment financing capability could be multiplied, aiming primarily at higher productivity, energy conservation, increased agricultural production, and other preferential economic targets.

Hungary would like to further strengthen its relationship with the World Bank and is seriously considering—to the extent permitted by its financial possibilities—expanding its cooperation with World Bank institutions, in line with the various proposals of the Development Committee.

Recent reports inform us of the economic recovery underway in the United States and to a lesser extent in the other major industrial countries. I surely hope that the optimistic forecasts concerning the beginning recovery will be fulfilled and that the coming years will see sustained, noninflationary growth. I feel that I speak in the name of all present at these Meetings when I say that all of us are interested in and waiting for this recovery.

However, I must admit that I do not yet see the economic basis of these optimistic forecasts. I am convinced that without a change in the priorities of economic policy in countries with low rates of inflation, without new efforts to control inflation in the others, and without some new steps in international monetary cooperation, this recovery will be short-lived and may be followed by an even deeper depression. To avoid this should be the primary task of the Governors of the Bank and the Fund, and of all of us who are taking part in these Meetings. Today, all over the world, eyes filled with hope and expectations are directed toward this conference. They are waiting for an encouraging signal, indicating that we can surmount the difficulties that we have to face. I am sure that the governments, the Governors representing them, and the managers of the Fund and the World Bank are well aware of their responsibilities and will act accordingly.

INDIA: MANMOHAN SINGH

Alternate Governor of the Fund

May I join my fellow Governors in offering you my heartiest congratulations on your election as Chairman of our Annual Meetings this year. We also welcome the new members who have joined the World Bank.

The world economy is passing through exceptionally hard and difficult times. Countries of the Third World are the worst victims of the global economic crisis, the making of which they have had no responsibility. The sharp deterioration in the external environment has imposed on these countries most painful adjustments, which have adversely affected their longer-term growth prospects as well as current levels of consumption.

In these times of serious difficulties, the international community is indeed very fortunate that in Mr. de Larosière and Mr. Clausen our two institutions have at the helm of their affairs men of exceptional ability, wisdom, courage, and dedication to the cause of international cooperation. We rejoice at the re-election of Mr. de Larosière for a second term as the Managing Director of the International Monetary Fund. We in India have always regarded him as a sincere friend and well-wisher of the developing world. In Mr. Clausen, the World Bank has an eloquent and able spokesman for the cause of development cooperation. We wish both of them good luck in discharging their onerous responsibilities.

Since our last meeting, a few hopeful signs have emerged on the current world economic scene. Many of the developed countries have been able to bring inflation under control, which is indeed a solid achievement. A sort of recovery is also now under way in some developed countries. However, one should not be lulled into any false sense of complacency to believe that the global economic crisis is over. Indeed, there are a large number of factors in the current situation which are cause for deep anxiety and concern. Thus, although the present expectations are that the industrial countries may achieve a growth rate of about 2 percent in 1983, this will still be well below the normal average for the period following a recession.

It is particularly distressing to note that there is unlikely to be any significant reduction in unemployment rates in the major industrial countries. Unemployment is especially severe among the young new entrants to the labor force. If uncontrolled, current levels of unemployment can erode self-confidence and hope for the future among young people at the very beginning of their productive career. This is a most dangerous development, particularly if we take note of the devastating social, economic, and political consequences of high unemployment in some of the continental countries of Europe in the wake of the Great Depression of the 1930s. Present levels of unemployment can provide a formidable inducement to the growth of protectionism and pursuit of "beggar-my-neighbor" policies which will be destructive to both national and international prosperity. We honestly believe that, while as much as possible should be done to curb inflationary expectations, we must find a more humane and rational mechanism other than mass unemployment to "discipline" the working classes. In this year of the Keynes centennial, all of us—the academic community, national governments, and international agencies—must, therefore, take this up as a new challenging task.

As I have already mentioned, countries of the Third World have been the major victims of the deepest and most severe recession to overtake the world economy since World War II. The sharp deterioration in the external environment has imposed most painful adjustments on developing countries, and has adversely affected both their longer-term growth prospects and their current levels of consumption. The squeeze felt by the financially starved developing countries has been in many ways unprecedented. More recently, there has been some improvement in the external environment implied by lower interest rates and some recovery in primary prices. Even then, on the best estimate, the economic growth of the developing countries in 1983 will still be considerably lower than the average for the 1970s and perhaps smaller than the increase in population.

In addition to the feeble nature of the cyclical recovery, there is the equally serious problem of the sharp deterioration in the medium-term outlook for economic growth in the world economy. The International Monetary Fund has lowered its sights and now envisages, according to its latest central scenario, an average growth rate for all industrial countries during 1984-86 of less than 3 percent per annum. Even if this rate of growth materializes, which itself is problematical, it would not lead to much decline in unemployment. The 1980s thus promise to be a decade of slow growth. Protectionist pressures in developed countries will probably remain strong, notwithstanding pious declarations to the contrary. The developing countries cannot, therefore, rely on the trickle-down effects of growth in the developed countries to sustain the momentum of their own growth.

It is against this somber background, that we must mark out the course of action to be pursued by our two institutions. We need simultaneous action to speed up the pace of recovery in developed countries, to ensure that it is deep and wide enough to materially influence the rate of growth of world trade, and in the meantime also to provide the developing countries enough liquidity and development assistance so that they can sustain a minimum acceptable level of growth even in the face of current uncertainties.

In these matters, the Bank and the Fund have a vital role to play. I venture to think that cooperative international action to sustain and enhance the import capacity of the developing countries during the current difficult situation would, in itself, make a substantial contribution to sustain recovery in the industrial countries, to promote noninflationary growth, and to strengthen confidence in the international financial system. As I said earlier, we are opposed to undue stimulus which could give rise to revival of inflationary expectations. Clearly, development assistance, which seeks to develop the agricultural resources of the developing countries and reduce their dependence on imported sources of energy, can make a material contribution to the stability of the world economy as a whole.

In the time I have at my disposal, I shall therefore briefly outline elements of a concerted global strategy which alone, in our view, can reverse the present unfavorable tide.

First and foremost is the task of greater macroeconomic coordination among the major industrial countries so that both interest rates and exchange rates cease to be as volatile as they have been in recent years. The current level of real interest rates is probably the largest single factor in the weakness of investment throughout the world. In the same manner, although flexible exchange rates may have reduced the need for trade controls, the extreme volatility of exchange rates has given rise to new uncertainties which hamper both investment and trade flows.

No less urgent is the task of providing more effective mechanisms for meeting the pressing liquidity needs of the developing countries. Despite painful and massive adjustments undertaken by these countries, their financing gaps still remain very large. By now, it is obvious that these gaps cannot be filled by the commercial banks or the private capital market. In the course of the last year, several developing countries have had to draw down their reserves. They have, therefore, very little room for maneuverability now. If adequate financing is not forthcoming, the developing countries will be faced with an acute crisis which could lead to a situation of widespread default on private debts. This is a course of action which must be avoided at all costs. The logical corollary of this is that the needed finance must be forthcoming to enable developing countries to pursue orderly patterns of adjustments which do not strain their political, social and economic stability beyond limits. . . .

I now come to issues relating to longer-term finance for development for which the World Bank has a major responsibility. It is a truism that adequate and balanced distribution of long-term finance is necessary to restore confidence in the financial system and to prevent re-emergence of the type of debt crises which have occurred on the world scene in the last two years. We see a continuing role for commercial bank finance, but it is by now obvious that its relative role has to diminish if developing countries are to sustain minimum levels of development with a manageable debt service ratio. It is our firm conviction that events of recent years have greatly added to the urgency of increasing the flow of development assistance, and it is a matter of deep concern that the level of official development assistance from the developed countries is collectively only a little over half the agreed target of 0.7 percent of gross national product. In the past decade, inadequate flows of financial aid from developed countries were partly offset by substantial aid flows from OPEC countries. However, as OPEC surpluses have disappeared, this source can no longer be relied upon to sustain aggregate aid flows at a tolerable level. The responsibility of the developed countries in the wake of their improved balance of payments positions is, therefore, all the greater. Unfortunately, as of now, there is no evidence that the developed countries are taking any steps to reverse the present dismal trend of their aid flows. The overall amount of aid continues to be inadequate and the effectiveness of what is being made available is being eroded by increased importance given to noneconomic strategic and commercial considerations in aid allocations.

Unfortunately, multilateral aid, which can be more efficient and distributed more effectively in accordance with internationally agreed priorities, is also under great strain, as its relative share has declined. This decline has adversely affected institutions like the World Bank, IDA, regional development banks, the International Fund for Agricultural Development and the United Nations Development Programme. It is necessary to reverse this trend. There must be a reaffirmation by the international community of its solemn commitment to a multilateral approach to financial and technical cooperation for development.

The dismal outlook for development assistance is best illustrated by the acute financial difficulties being currently faced by IDA. IDA is the single most important source of concessional assistance and is crucial for the further development of the low-income countries. It has a record of solid achievements, as was well documented in the recent World Bank publication *IDA in Retrospect*. Despite all this, IDA-VI has been stretched out to four years from the original three years, resulting in a significant shortfall on an annual basis. As regards IDA-VII, it is essential that negotiations be completed before the end of 1983, so that it can commence its operations next fiscal year. We earnestly hope that the current difficulties being faced by IDA are a temporary phase and that the international community's conscience will assert itself to provide adequate resources for the Seventh Replenishment of IDA, taking into account the dramatic expansion in its coverage with the change in the representation of China. The Bank management's proposal of $16 billion for IDA-VII is the least that should be striven for. We deeply appreciate the measures taken by other donors to mitigate the adverse effects on IDA's operations, stemming from the nonfulfillment so far by the United States of its obligation. It is also our earnest hope that the United States, which was instrumental in bringing IDA into existence, will not abandon it at a crucial time in history when IDA's services are needed so urgently and so desperately.

As regards World Bank lending, it is absolutely essential that its lending over the period fiscal years 1984-87 should increase at a minimum annual real rate of 6.2 percent, which according to the President's report to the Development Committee is necessary to maintain net disbursement at a reasonable level. The prevailing debt crisis implies that unless institutions like the World Bank expand their role fast enough, the import capacity and hence the development prospects of a large number of developing countries will indeed be grimly squeezed. The World Bank during the past years has provided for planning purposes a 5 percent real rate of growth per annum in lending. The change in the representation of China, additional demands of Lebanon and Zimbabwe, the necessity for more structural adjustment lending, requirements of the development of indigenous energy resources of developing countries, and increased uncertainties regarding concessional bilateral assistance all reinforce the argument for further expansion in Bank lending over and above the level of 5 percent. The growth rate of 6.2 percent in real terms is, in our view, the minimum required and this would be in line with the growth rate in the past except for fiscal year 1983.

We recognize that in order to sustain this order of lending, the World Bank would need additional resources. A reasonable temporary solution to this problem is within our reach. The Eighth General Review of Quotas in the Fund provides, according to past precedents and practices, the basis for a selective capital increase of the World Bank. In the long-term interest of the Bank, we think that the time honored principle of parallelism with the Fund quota increase should be preserved. It is essential that there should be a sizable selective capital increase immediately so that the higher lending levels can be achieved pending a general capital review. We also feel that it would not be too early to think simultaneously in terms of a general capital increase as well. The current increase is due to be subscribed by 1986 and it takes time to negotiate a sizable general capital increase. We have been told that even a 5 percent real growth of Bank lending till 1990 would call for a US$60 billion increase in the Bank's capital. In order to minimize the budgetary impact on the shareholders, we are ready to be flexible about the paid-in portion. What is essential is that a selective capital increase should be implemented immediately and the ground prepared for a general capital increase. We have no doubt that these can be timed and not interfere with IDA-VII negotiations or the increase in the Fund quotas.

We welcome the World Bank's continued involvement in the energy sector, including petroleum. However, the Bank's energy lending program, which is unlikely to exceed US$4 billion a year, leaves a yawning gap in resources required for investment in developing countries for energy estimated by the World Bank itself at an average of approximately US$130 billion per year. While we appreciate that a balance has to be maintained between investment in the energy sector and in other sectors, we believe that the development of energy does call for additional investment from the Bank, and, therefore, a larger overall Bank lending program. In the meantime, the World Bank should continue to explore options which would enhance the flow of investment funds to energy development, including the establishment of an energy affiliate. In this connection, we also note with approval IFC's efforts to substantially step up its activities in the energy field.

We note that the World Bank is making strenuous efforts to secure cofinancing. In principle, there can be no objection to cofinancing from other sources, provided, however, that this does result in additionality of funds and does not substitute for Bank funds. Further, we would again reiterate that cofinancing should not be made a precondition for normal traditional Bank financing. It is worth emphasizing again that cofinancing should be entirely voluntary and should be seen as an arrangement which is of mutual benefit and, therefore, acceptable to the borrower and the lender, whether private or official.

By all accounts, medium-term prospects for growth of developed countries and for the growth of world trade in the 1980s appear to be highly unfavorable as compared with the period 1950-73. To that extent, developed countries can no longer perform the function of the engine of growth for the developing world. We need new mechanisms to stimulate and sustain growth impulses originating from the internal dynamics of the situation in countries of the Third World. South-South cooperation in trade, technological developments, and in the setting up of multinational enterprises characterized by substantial economies of large scale assumes, therefore, a new urgency. It is highly important that lending policies of the Fund and the Bank should be adapted to facilitate the fullest possible utilization of the potential offered by South-South cooperation and collective self-reliance.

I have tried to deal with some pressing urgent issues which require a constructive response from the IMF and the World Bank so as to sustain the momentum of growth in the developing countries and to reduce somewhat the harshness and rigor of the cruel adjustment they are being asked to undergo under current conditions. Practical solutions must be found to the problems I have outlined. But a crisis is also a turning point, and we must examine with an open mind whether more fundamental reforms are not needed so as to enable the Fund and the Bank to cope effectively with the fast changing economic and social conditions in the world. The distinguished group of persons who have led these institutions have made efforts to promote the evolution of these institutions with changes in underlying economic conditions in the world. However, there is a growing feeling in the world that in view of the vast political and economic changes that have taken place since the establishment of the Bretton Woods institutions, a time has come for a new overall examination of the international trade and payments system as a whole. In particular, there are questions relating to the adoption of more effective measures for the reduction of instability, for an improvement of adjustment processes and for more orderly patterns of liquidity provision and financial flows. All these questions demand that there should be a systematic re-examination of the underlying issues with a view to a comprehensive reform of the system. It was for this reason that the Heads of States/Governments of the nonaligned countries at their summit meeting in New Delhi called for an international conference on money and finance for development to consider these issues, and to evolve a more symmetrical and more equitable international system of trade and payments, which would be more responsive to the needs of developed and developing countries alike. I sincerely hope that this proposal will invoke a positive response from our meeting.

I have laid so much emphasis on improving the international economic environment for development not because we want to shift primary responsibility for development to the international community. We have always recognized that the peoples and governments of the developing countries themselves have the basic responsibility for their own development. We are committed to maximum possible self-help and maximum possible self-reliance. The bulk of resources for India's development has, therefore, always been mobilized domestically. Currently, our domestic savings rate is about 23 percent of gross national product and the draft on foreign savings is only about 2 percent. However, in an interdependent world, effectiveness of domestic policies is, we are convinced, greatly affected by developments abroad. It is in this context that I have stressed the importance of promoting a congenial international environment for development. Our belief in the evolution of a cooperative world order is, of course, much deeper and is rooted in India's freedom struggle. Years ago, long before India became independent, Mahatma Gandhi wrote about the India of his dreams, and I quote:

> I do not want my house to be walled in on all sides and my windows to be stuffed. I want the cultures of all lands to be blown about my house as freely as possible. But I refuse to be blown off my feet by any. I refuse to live in other people's houses as an interloper, a beggar or a slave . . . Mine is not a religion of the prison-house. It has room for the least among God's creation. But it is proof against insolence, pride of race, religion or color.

This is the heritage bequeathed to us by Mahatma Gandhi and his great disciple Jawaharlal Nehru. It beckons us to remain steadfast in our deep commitment to international cooperation and understanding for the ushering in of a new world order free from the fear of war, want and exploitation.

INDONESIA: RADIUS PRAWIRO

Governor of the Fund

It is my great pleasure and honor to participate in this Thirty-Eighth Annual Meetings of the World Bank and the International Monetary Fund and to have the opportunity to address you for the first time in my capacity as Governor of the Fund for Indonesia. First of all, I would like to extend my congratulations to the Managing Director of the Fund and the President of the World Bank and their staffs for the excellent arrangements for these Meetings and for the comprehensive and high-quality reports produced. The quality of these reports clearly reflects the concerted efforts undertaken by the Bank and the Fund as manifestation of the important role that they play in the world economy today.

Over the past few years, the world economy has been in the throes of the most pervasive crisis since the Great Depression. Many countries have been caught in a spiral of declining output, employment, and trade accompanied by heightened inflation. The growth of output reached its lowest level in decades, the world trade was stagnant, and the unemployment rate rose to the highest level since World War II. At the same time, the inflation rate soared to an unprecedented level. The brunt of the crisis has fallen most heavily on the developing countries. Their export markets have shrunk and their export prices have slumped, creating difficult external positions which have been further aggravated by high real interest rates, the reluctance of commercial banks to lend, protectionist measures adopted by many developed countries, and increasing debt service payments. Consequently, imports have been drastically cut; investment expenditures—including expenditures for human resources—have been curtailed; and development programs have been suspended with all their consequences.

Against this background, it is gratifying to learn, as is also stated in the Reports of the Bank and the Fund, that there are encouraging signs of economic recovery in some developed countries, particularly in the United States as evidenced by significant increases in their output accompanied by declining inflation rates. If these developments continue, they would further improve business incentives and confidence which will eventually set the stage for a general and sustained upswing in production, trade, and employment. The levels of interest and unemployment rates are, however, still high, and they have, therefore, not led to a significant contribution to the improvement of the world economy. In certain leading industrial countries, budget deficits are also still very high. If these levels persist, the strength of the recovery could be seriously impaired. Large budget deficits will continue to absorb substantial private savings, thereby crowding out private investment and hampering a significant decline in the interest rates. Persistently high levels of interest rates will also continue to bring about further undesirable exchange rate volatility. The world economy therefore remains fragile.

The situation is still uncertain and its favorable impacts have not been widely felt, particularly in the developing countries.

Comprehensive adjustment programs have been undertaken in many developing countries in response to severe problems they have been facing. As a result, the current account deficits have declined; however, a large part of the component has been achieved by curtailing imports, which has been painful and growth inhibiting. Efforts to improve external position through export promotion have been hampered by recession and growing protectionism in industrial countries.

The task before us now is how to maintain the momentum for a general and sustainable recovery. Economic recovery in the developed countries is a necessary but not sufficient condition for a worldwide sustainable economic recovery. In our present world of increasing interdependence, recovery in the developed as well as the developing countries constitutes the twin-engines of growth of the world economy. It is of utmost importance for us to see, therefore, that policies exercised at the national level should not only be conducive to the recovery of the national economy, but should also have favorable international implications, particularly for the developing countries.

In this regard it is imperative for the industrial countries, in their efforts to foster economic recovery, to adopt a better mix of fiscal and monetary policies which could bring down the interest rates, thus helping ease the debt service burden of the developing countries. In addition, it is also important for the developed countries to tackle distortions and structural rigidities in their economies, so as to enable them to remove protectionist measures which have hampered exports of the developing countries.

At the international level, there is a need for closer cooperation—bilateral as well as multilateral—among countries, including closer cooperation between the developed countries of the North and the developing world of the South. It is in this regard that international institutions such as the World Bank and the IMF play an important and decisive role in bringing about a prosperous and equitable world economy.

Developing countries are bouyant markets and have constituted a dynamic outlet for exports of the developed countries in the recent past. This feature will only continue if the developed countries are willing to open their markets for exports from the developing countries. This will not only promote development of the developing countries but also will help expand output and employment in the developed countries, hence strengthening the fledgling recovery. In this regard, intensified collaboration between the Fund and GATT for early removal of protectionist measures should be welcomed and endorsed.

Uncertainty about the recovery in the world economy, reluctance of commercial banks to lend to some developing countries and the high level of interest rates in the world capital markets have placed the Bank and the

Fund in a very central role in assisting member countries, particularly the developing ones, to meet their requirements for adjustment and development of their economies.

This can only be done through significant increases in the resources of the Fund, the Bank, and its affiliates. . . .

The recovery in the industrial countries will no doubt favorably affect the growth of the developing countries, but it is not sufficient to restore growth to a level high enough to bring them to a respectable position in the world community. It is in this context that, while domestic resource mobilization should be enhanced, capital flows to the developing countries, both concessional and nonconcessional, and both public and private, must be stepped up. In this regard, the role of the World Bank and its affiliates should be strengthened, and I would like to associate myself with the agreement reached at the twenty-second meeting of the Development Committee on the need and extent of the increase, both selective and general, in the capital of the Bank and its affiliates. I, therefore, strongly urge the Bank's Executive Board to expedite the preparation of the specifics of a selective capital increase and to consider favorably a general capital increase. I also would like to associate myself with the other agreements reached by the Development Committee on IDA-VII, sub-Saharan Africa, and energy development. Specifically with regard to IDA-VII, based on the experience of my own country which has greatly benefited from this type of facility, I strongly recommend that all member countries fully participate in its Replenishment in order to bring it to a desirable level to meet the needs of members facing serious economic predicaments.

In concluding, I would like to take this opportunity to thank the President of the United States for his kind words of welcome and for the support of the United States to the Bank and the Fund, and to express my gratitude to the Government and people of the United States for the warm hospitality that they have extended to us.

IRAN, ISLAMIC REPUBLIC OF: IRAJ TOUTOUNCHIAN
Governor of the Bank

First, I would like to express, on behalf of the Delegation of the Islamic Republic of Iran, my gratitude and appreciation to the organizers, Board members, and others responsible for arranging this international gathering to consider the problems of member countries. I take this opportunity to welcome those countries which have been admitted recently as members of the World Bank. I hope that someday, members of our two internationally important financial and monetary organizations, which are constituted mainly of developing countries, will find long-term solutions to the existing world economic problems. We also expect that such a magnificent meeting will at least contribute toward exposing to the world the problems of the underdeveloped countries. From such an initiative a comprehensive and correct judgment can be ascertained as to the root causes of the exploitive and oppressive policies faced by the underdeveloped countries.

The current global economic disorder has fundamental underpinnings which are the reflection of many years of hegemonistic economic and political policies of certain countries. As a result, poor countries have become poorer and the rich have acquired more than they deserve. We can observe this reality in the statistics of the gross national products of the rich and poor countries of the world during recent years. According to international economic statistics, the developed countries have enjoyed a positive rate of growth in their gross national product, while simultaneously this rate has shown a negative growth in numerous underdeveloped countries.

The present economic crisis has manifested itself in an inflation rate that is much too high, balance of payments problems, low rates of economic growth, and increased unemployment. Coupled with this is the undeniable fact that the industrial countries are unable to bring about economic stability, arrest the spiraling tendency toward recession, or eliminate the crisis itself. To counteract this inflationary trend, restrictive monetary and fiscal policies have been implemented. The so-called remedy has led to a marked increase in unemployment, deeper recession, as well as an adverse effect on investment and on the level of production. The result of the current crisis in the developing countries has been even more pronounced and has manifested itself in the appearance and formation of particular economies characterized by stagnation, high unemployment, extreme poverty, and a high infant mortality rate. Thus, the economic structure of the developing countries is marked by total dependence on the rich countries and as a result of limitations brought about by such dependence, a special industrial and economic structure, with all its ramifications, has taken shape in the developing nations.

Such ramifications show their effects in the industrial structure imposed on the majority of underdeveloped countries, characterized by the lack of an appropriate interindustrial relationship which appears as a primary obstacle to their growth and development. In other words, the forward and backward linkages between the industries are almost nonexistent. Those industries which have been accorded greater priorities have little linkage to other related industries. Therefore, the industrial structure of these countries lacks the necessary foundation, and most of the value-added is obtained in a single production unit. This is one of the basic factors causing dependence, that is to say, the provision of semifinished goods by the industrial countries to the domestic industries of the developing countries. Even the choice of an appropriate technology based on the domestic abilities of the developing countries becomes by itself a great problem for most of these countries.

Adding to this problem is the fact that there is only a limited number of developing countries that have sufficient foreign exchange reserves, and these feel compelled, under the technological know-how and might of the superpowers, to obtain the most sophisticated industrial processes available, although having no bearing on their domestic industries or their current know-how.

On the other hand, the majority of countries are poor and lack the necessary foreign currency for internal development, design, and planning of appropriate technology. Furthermore, these countries are faced with an acute shortage of skilled and semiskilled manpower during the course of effective utilization by their productive sectors. The consequence is that the industrial and technological development of this group of countries has been stifled, and they are caught in the vicious cycle of borrowing in order to support the importation of intermediate products. This, of course, leads to a steady increase in the deficit in the balance of payments. According to World Bank statistics there have been frequent reductions in the real prices of raw materials, which are the main export items of the developing countries, while at the same time industrial goods, which are the main import items of these countries, are consistently increasing in real values. Added to this is the low level of capital formation in the developing countries. The overall consequence is their urgent need for foreign exchange and thus their dependence on foreign loans and credits. In the face of such needs the mechanism for acquiring foreign currency is itself an added burden. This mechanism imposes an additional burden on these borrowers in the form of foreign debt, including principal and interest. For example, there are some countries whose total foreign debts are more than their gross national product.

In addition to this difficulty, there are some countries whose needs for financial resources have never been seriously considered by the international financial community. At the same time, it is observed that the major part of the available financial resources go to only a select few of the developing nations. The inability of these few countries to service their foreign debt is projected as the current financial crisis in the name of all developing countries. Considering the increasing trends in the accumulation of foreign debts by all countries, it is plain that their economic situation has become increasingly vulnerable. Therefore, it is desirable to evaluate the conditions upon which they enter into foreign debt, either through international organizations or through the world capital and money markets. Due attention to the mechanism by which debts are accumulated and the role of one of the main culprits in this crisis, that of floating interest rates, is of utmost importance.

Floating interest rates make the borrowing countries susceptible to the economic fluctuations of the industrial countries, thereby increasing their financial burden. This is one of the most important factors in the disruption of the process of economic and fiscal planning in the borrowing countries and is a serious impediment in the path of the development of all developing countries.

One of the most important economic changes of the Islamic Republic of Iran in its monetary and banking policies is the ultimate elimination of interest (not profit). Thus, interest rates will be replaced by the internal rate of return on investment, which is the effective factor in the allocation of financial resources. The cost of interest is not only an obstacle to development and economic growth but more importantly it is an instrument of exploitation and is therefore strongly condemned in the Holy Quran. Furthermore, the intermediary role of interest, which has no relationship whatsoever to the profitability of capital, is unnecessary. Therefore, we should duly depend on the rate of return of capital, which is at the forefront of the economic programs of the Islamic Republic of Iran.

In spite of the mammoth problems and difficulties which have appeared in the path of Iranian economic development during the post-revolutionary period, including economic boycott and an imposed war, the Islamic Republic of Iran has been able to overcome these difficulties by the help of God the Almighty and under the Imam Khomeini's leadership and by the sacrifice and sincere devotion of the Muslim people of Iran. The obvious result of this success can be observed in our present political and economic stability. Contrary to what the world has expected, it can be observed that under the political and economic security of our country, valuable steps have been taken toward economic and industrial independence and self-sufficiency.

The achievements of the Islamic Revolution of Iran can be seen and felt in all the economic, social, and political aspects of life. These achievements include, but are not limited to, the unprecedented expansion of the highway and road system, in particular, the rural roads which have been constructed by efforts of the Reconstruction Crusade; the extension of the electricity network; and the establishment of numerous new schools in rural areas. These are but a few of the many steps taken to ensure a lasting infrastructure.

The Islamic Republic has brought about the possibility of realizing the establishment of complete Islamic justice by eliminating economic inequality and devising a better system of distribution of income and health care in the society, measures which will be seriously followed in the future. In the midst of the economic and social stability within our country it can be witnessed that the first five-year development plan of the Islamic Republic of Iran has been devised and is in the process of implementation. The accomplishment of such infrastructural programs will smooth out the path of continuous growth and development in the future. It is clear that the performance of the economic policies of the Islamic Republic of Iran is based on the general policy of "Neither East Nor West" but rather it is based, and will continue to be based, on its own resources and capabilities, aimed at self-reliance.

On the international scene, again in spite of all the difficulties and shortcomings which our nation has encountered during the post-revolutionary period, the Islamic Republic of Iran has honored all its foreign obligations, as is evident by the prompt and timely repayment of all international and financial commitments. Indeed, according to statements by international economic observers, the overall situation is far better today than at the beginning of the imposed war. In addition, in order to help those countries which are in need of financial assistance, Iran has committed itself to reschedule the repayment of those countries' debts to Iran. The efficient use of Iran's foreign exchange has resulted in the considerable increase in its foreign reserves. We are thankful to God Almighty that in this respect no problem presently exists.

As a country of the developing world and as a member of the world community, Iran is bound to think not only about its own problems but to help solve the problems and difficulties of the poorer countries of the world. For the past several years the root causes of underdevelopment have been a prime subject of debate at most international gatherings. In this respect, hundreds of resolutions have been put forward, but the tangible realities of the world indicate that much less success has been achieved in alleviating these difficulties. Regrettably, in many cases the economic situation of the deprived nations has become considerably worse. What we are saying here is not new, but the purpose of reiterating it here is to at least bring up the question of when will the time come for paying due attention to these critical matters? Isn't now the time to confront, constructively, these deep-rooted problems and at last liberate ourselves from the vicious circle of underdevelopment caused by exploitation? While the urgent need for structural changes is emphatically felt, ignoring the realities of the immediate requirements of poor nations is neither desirable nor realistic. Facing these harsh realities calls for decisive and drastic measures by the represented member countries and the international agencies concerned.

One of the most important demands of the countries which are in need of loans from the World Bank and the IMF is a fundamental review of the system for granting loans to these countries. The existing system, which is dogmatically adhered to by the authorities of these two international organizations, does not even approach the minimum requirement necessary to satisfy the basic prerequisite needs of the poor nations. Thus, the conditions for granting loans required by these two international bodies practically become a guarantee for due repayment of other loans extended to developing nations by the financial and capital markets of the world, which are mostly owned by industrial countries. Reciprocally, most financial sources in the developed world make any lendings to the poor countries contingent upon receiving loans and entering into the adjustment programs. Such a mutual relationship, which imposes such an irrational constraint on the shoulders of needy countries, results in an unfair and unbalanced distribution of these resources.

Regretfully, we observe many countries burdened by heavy debt, and perhaps, according to the expert views of the world monetary and banking authorities, they may never have the ability to repay their debts, while a substantial number of the needy countries do not even have the hope of ever obtaining sufficient financial resources for their needs. Another undesirable consequence of this parallel relationship is that the World Bank and the IMF have become a kind of guarantor for repayment of these loans, or at the very least a monitoring agency for maintaining superficially favorable economic conditions in the loan-seeking countries. With respect to this obvious reality—that the interests of the developing countries do not necessarily correspond to the ultimate aims of the capital and financial markets—unfortunately the constructive and creative role that the World Bank and the IMF could play in the economies of the developing and poor countries has been ignored.

The Islamic Republic of Iran calls upon the distinguished representatives present in this world convention to seriously endeavor for a better and more constructive role within the World Bank and the IMF in order to create the necessary means to help and assist the poor countries. One of the ways to achieve this noble aim is to provide more accessible credit for those countries in need. This aim can be achieved by reducing interest rates and establishing easier conditions for obtaining loans. In this connection the World Bank and the IMF can supervise and guide the disruptive elements prevailing in private international markets in a way that will facilitate an easier approach to them by the needy countries. In fact, the principal aim of the adjustment programs must not be limited merely to enabling the poor countries to make prompt and timely repayments of their debts; but their ultimate objectives must be based upon putting forward long-term reconstruction and development programs, paving the way for their economic independence.

With regard to the low level of economic development and growth, and the fact that most poor countries of the world have an urgent need to acquire outside resources for long-term infrastructural investments, reduction of the interest rates appear imperative. Regretfully, the prevailing conditions for offering loans are such that the developing countries are not capable of allocating them to infrastructural projects, but rather are forced to direct them toward short-term, quick-yielding, and nonbasic purposes. Under such conditions the gap between the rate of return on investments and that on the imposed high interest rates widens. Once again, as experience has proved, the result is the ever-increasing indebtedness of these countries.

A cursory glance at the social and economic conditions of the underdeveloped countries manifests the relatively very low level of credit granted in the fields of population, health, food, technical cooperation, education, communication, and even industry by the World Bank. With regard to the importance of infrastructural projects, which are of utmost priority for these countries, the World Bank may employ a preferential system of interest rates in accordance with the degree of infrastructural value of the projects. As a result of the implementation of such a policy, the infrastructural projects in these countries can enjoy a higher priority and can have a greater opportunity for success. In effect this will be a valuable step toward paving the road for their future growth and development. Encouraging long-term interest-free loans to developing countries by increasing the financial resources of IDA is another positive way of achieving this aim. This can be brought about if the participating countries honor their financial commitments to IDA without delay. Allocating 0.7 percent of the GNP of rich countries to make resources available to the poor nations has been discussed in numerous international meetings but as of yet has not been instituted. This should be done without further excuse or delay. . . .

Further, the voting system based on the shares and quotas of the member countries gives a controlling role to those countries with the highest weighted shares and for this very reason the majority of the deprived nations do not have an effective voice in the decisions made in these two international organizations. An urgent reform is called for to remedy this unjust mechanism. In order to prevent any unjust influence in the process of policy formulation and decision making in these organizations, it is essential to promote the degree of collaboration and unity among all developing countries.

In order to reach the target of long-term economic growth and development in developing countries, it is essential that the basis of international cooperation and collaboration among these nations be extended as far as possible. There are numerous grounds for multilateral cooperation in financial and investment undertakings. The exchange of technological knowledge and expansion of trade between these countries can ultimately lead to the creation of a collective self-relying system.

We can also embark on a constructive relationship with the advanced and industrial world based upon mutual respect for each other's sovereignty and noninterference in one another's internal affairs. This can materialize if there is an adherence to the fact that all concerned have an equal status within the framework of humanistic relationships.

IRELAND: ALAN M. DUKES

Governor of the Bank and Fund

While the problems with which we are confronted at these meetings are many and varied, the link that joins them all together is the state of the world economy. I welcome the Fund's assessment, which accords with the consensus among other international forecasting agencies that a recovery is now under way, but it is not yet uniform across countries, nor is its durability assured. The crucial question is whether conscious policy efforts can support and quicken the pace of recovery to a point that will make any real impression on unemployment. At present, the outlook for the labor market in most countries remains grim, even in the medium term; the economic and human implications of this prospect should never be far from our minds.

Many of the factors that contributed to the depth and duration of the recession have yet to be overcome. Uncertainty still prevails. Both nominal and real interest rates remain high. Exchange rates continue to be volatile. The financial problems of many countries remain serious. Protectionism, fed by these and other difficulties, is as threatening as ever. Any one of these factors on its own could form a serious impediment to sustained recovery. Their existence collectively indicates clearly that the conditions are not yet present for bringing recovery to the point where investment and growth will take off and where the numbers of unemployed can be reduced. We must be honest and admit that the gap between aspiration and action in regard to international policy coordination is a major impediment to progress in solving these problems.

I am glad, therefore, that Mr. de Larosière has addressed these difficulties in a frank and open way. Full acceptance of the interdependence between all our economies, and a commitment to act accordingly, are vital if general recovery is to be achieved and sustained. Global and domestic interests must be seen as indivisible.

We in Ireland are fully alive to the need for a clear and coherent international approach. The Irish economy is small and extremely open. We cannot achieve economic recovery and at the same time successfully correct the imbalances in our economy, unless the external environment is favorable.

My Government is resolutely implementing domestic adjustment policies. Taxation has been increased and public expenditure restrained, so as to cut government borrowing. Considerable progress has been made in moderating the excessive growth of nominal incomes.

Our adjustment policies have already produced a major improvement in the external balance and a sharp reduction in inflation. The growth of our exports continues to be impressive, especially against the background of depressed world trade. Despite the considerable costs of external debt servicing, we expect the current account deficit to fall to less than 3 percent of GDP this year. This compares with 8 percent in 1982 and 13 percent in 1981. Inflation has come down from over 20 percent in 1981 to about half that this year.

The policies involved are, however, imposing severe costs on the Irish economy, costs which are being aggravated by events in the world economy. Investment, the basis of our past and future growth, is set to fall for the second year running. Business expectations remain subdued. Unemployment is still rising—it now accounts for about 15 percent of the labor force. If this trend is to be reversed, there must be an upturn in economic activity, particularly in investment. But domestic policies aimed at this can succeed only if there is a rapid improvement in the external environment.

While the immediate plight of many countries is far more serious than ours, we are facing much the same set of circumstances as the vast majority of member countries are today. Most of us have no choice but to pursue restrictive policies in order to reduce budgetary or external imbalances. We have to look to outside influences to improve the environment in which we operate. But since, collectively, we all create that environment for each other, it cannot be improved if all of us, including those in better circumstances, pursue unremitting restriction. Investment is not undertaken for its own sake: it needs the stimulus of expected demand. If policy is generally restrictive, against a background of considerable excess capacity and unused labor resources, it is hard to see where the improved demand expectations are likely to come from. Yet without these expectations, where is the self-sustaining base for recovery?

To my mind, we need a differentiated approach to policy, which takes full account of our close interdependence. I take the view that credible action by those countries with excessive structural budget deficits is desirable, both for its own sake and in order to reduce pressures on interest rates. For these countries there is no alternative to restrictive policies. In countries where satisfactory progress has already been made in reducing both structural budget deficits and external imbalances, however, it is most desirable that the constricting grip of further restriction be avoided, in the light of the persisting sluggishness of international economic activity. In the final analysis, better coordination between the major countries remains the best—if not the only—means of fostering recovery and avoiding an indefinite relapse into recession.

I have mentioned the problems of high interest rates and exchange rate volatility. Their effects have been pervasive and adverse. While a period of high nominal interest rates may have been inevitable at the end of 1970s, the failure of interest rates to decline in line with inflation has created serious problems. Developing countries have been particularly hard hit by the combination of high interest rates, the strong U.S. dollar and commodity prices which declined for a long period. In Europe, we have been faced with the dilemma of imposing historically high interest rates on depressed economies or accepting further currency depreciation, with the attendant risks of renewed inflation. A sustained fall in interest rates and greater stability of exchange rates are urgently required.

In the short term, while all countries have a part to play in helping to achieve this outcome, considerable responsibility devolves on the United States because of its dominant role in financial and currency markets. Looking to the longer term, we have now had sufficient experience with the international system of floating exchange rates to draw some conclusions and to seek to make improvements for the future. Ireland, in common with its partners in the European Community, attaches considerable importance to the steps now being taken to see how the system can be improved. . . .

The immediate crisis has been averted but we all know that the problem is far from being solved. A further decline in international interest rates is an important condition for a relaxation of current strains. But the debtor countries will continue to need adequate external financial support for some time in anticipation of a recovery in the world economy and a revitalization of world trade. . . .

The Fund has understandably held the center of the arena in the past year but the Bank also has shown its flexibility and value, particularly in its program of special assistance and in its innovative approach to cofinancing with other lenders. The opportunities for the Bank will increase as present financial strains ease and as new investment projects come forward. If expansion of its activities requires some increase in the Bank's capital, we should not shirk our responsibilities. Despite our own budgetary problems, the Irish Government has agreed to release in cash, over a number of years, the full amount of our subscription to the latest general capital increase.

We are deeply concerned about the recurring difficulties in the financing of the International Development Association. If these difficulties continue, they will surely call into question the future of the Association itself. Mr. Clausen has by no means exaggerated the problem. The outcome of the current negotiations on the Seventh Replenishment will be crucial. It is disappointing that no progress has been made this week but I hope that a breakthrough will be possible at the next meeting of IDA Deputies in November. In the meantime, Ireland has agreed to participate in the emergency financing plans to tide IDA over its present financial year. I will be introducing in Parliament, at the start of its next session, the legislation authorizing our own special contribution, and I have no doubt that it will command general support, in view of the commendable objectives of IDA and its proven track record.

Whether we are talking about the management of the world economy, the financing of the Fund or Bank or the problems of IDA, the basic issue comes back to interdependence. We need to recapture the spirit that inspired these institutions during the early postwar period of renewal. The year ahead will provide a further test of our resolve to do so.

ISRAEL: MOSHE Y. MANDELBAUM

Governor of the Bank

As has already been noted in our deliberations, following a protracted recession which may yet cast its shadow on economic development for years to come, some signs of economic recovery are now apparent. These signs, however, are confined to a limited number of developed countries, while the economic outlook for the overwhelming majority of developing countries continues to be bleak.

Under these circumstances, we believe that the Bank and the Fund can, and should, play an important role in turning the existing momentum into sustained growth to be shared by all, developed and developing countries alike. Revitalization of the world's economy is a huge task; the Bank and the Fund can contribute to it by expanding international liquidity, combating trade barriers, mobilizing financial resources essential to development programs, and stimulating investment in both the public and the private sectors.

Faced with severe inflationary pressures, Israel has sought to mitigate their ill effects upon the economy through a system based upon indexation of both wages and financial markets. For its exchange rate, as noted in the Fund's *Annual Report 1983*, it has adopted a "crawling peg" system. While this is preferable to the fixed exchange rate approach, it cannot replace the use of appropriate monetary and fiscal measures required to curb inflationary pressures themselves.

In order to reduce inflationary pressures and the current account deficit, in the last two years Israel has undertaken fiscal measures which have led to a decline in excess public domestic demand, from 16 percent to 9 percent of gross domestic product. Recent government decisions on budget cuts should decrease it still further. The reduction in fiscal deficits has been complemented by restrictive monetary measures so that credit to the public has been reduced by 13 percent in real terms since the beginning of the year.

While facing three-digit inflation, Israel continues to maintain a 4 percent level of unemployment, far less than half the world average. Our deep concern for the socioeconomic implications of high unemployment has been and will continue to be the linchpin of our policies. Furthermore, while fixed investments in developed countries declined by some 3 percent last year, they increased in Israel by 5 percent, particularly in the infrastructure of science-based industries, which are playing an increasing role in our exports.

In terms of the world economy, the past decade has been, to say the least, an eventful one. Within a relatively brief time span, major changes have taken place in basic economic interrelationships once regarded as immutable. . . .

The progress which marked the 1960s and the 1970s will, regrettably, be a thing of the past in the developing world as long as the current world economic situation remains basically unchanged. As a consequence, numerous socioeconomic programs that are vital to development and the alleviation of absolute poverty have ground to a halt.

With the contraction of both public and private capital flows, the Bank must assume an even greater role in fostering development, particularly in those regions where economic growth has been negligible, or even negative. It must continue to focus its attention on fostering development of the basic essentials: food, shelter, and employment.

At the same time, we believe the Bank should also continue to expand its activities in energy development, without which many development programs are likely to be severely hampered. While the cost of energy has declined appreciably in recent months, its current price is still ten times what it was a decade ago. Regrettably, less resources, both public and private, are now being directed toward developing alternative sources of energy. Under these circumstances, we believe that the Bank's role in alternative energy development becomes all the more critical.

The bleakness of the economic outlook for most of the developing world is increasing the demands being placed upon the resources of both the Bank and the Fund. It is therefore to be hoped that the implementation of the Eighth General Review of Quotas will proceed on schedule, and that it will be followed without untoward delay by a replenishment of the Bank's resources as well.

In closing, I would like to say that we see it as the duty of the developed countries, and very much in their own best interests, that the Bank and the Fund, so ably led by Mr. Clausen and Mr. de Larosière, be provided with the means necessary to foster sustained growth and financial stability in the world economy.

ITALY: GIOVANNI GORIA

Governor of the Fund

The International Economy

The Annual Report of the IMF, while noting the signs of improvement of the international economic situation, also clearly describes the elements of weakness in the ongoing recovery. In the United States and in Canada, output growth is stemming mainly from consumption and inventory demand, while the recovery in investment activity is lagging; in Japan and in Europe, growth prospects remain modest. In many countries, the recent improvement in external balances stems mainly from the decline in domestic and import demand, thus reflecting only in part an easing of the external constraint. Unemployment everywhere is almost dramatically high, the possibility of significant improvement in the near future is scanty and, in fact, in many instances nonexistent.

Within the context of these elements of weakness in the economic recovery, I wish to discuss a central aspect for the assessment of international monetary conditions in 1983, an aspect that can determine economic effects of varying size and intensity in the United States, in the other industrial countries, and in the developing countries: the high level of real interest rates.

There is no doubt that real interest rates are well above the return on investment and, hence, are creating a strong deflationary impact together with a massive redistribution of resources from productive to financial investment. How many entrepreneurs, even the best among them, are willing to risk their money to buy capital goods when they are convinced that they can make more money by placing their wealth in treasury securities and bank deposits?

I do not want to examine in detail the causes of the present level of interest rates, we know most of them. However, it is certain that the overvaluation of the dollar, which has de facto accompanied high interest rates, has transmitted important, though diversified, effects on all countries. The benefit of a more rapid disinflation in the United States, which is also felt internationally, was achieved at the cost of larger imbalances and in many instances higher inflation in the other countries, which were then forced to adopt more restrictive economic policies than would have otherwise been necessary. Furthermore, an overvalued exchange rate, by increasing import penetration on U.S. markets, generates the risk of protectionism, which can only delay recovery. On another front, the overvaluation of the dollar has also induced a decline in primary product prices relative to those of finished goods, thus worsening the situation of less developed countries. In each of these cases, there is the potential risk of a conflict of interest between the United States on one side and the other industrial countries and developing countries on the other.

The costs of an overvalued dollar are, therefore, not only reflected in the distortions of international trade flows, but also and above all in the effects of exchange rate oscillations on other countries' prices and costs.

The success of U.S. economic policy in reducing inflation can, in a sense, be considered the outcome of an implicit loan extended to the United States by the primary goods producing countries and by those countries whose currencies have depreciated vis-à-vis the dollar. Should the dollar return to more realistic levels, this implicit loan would have to be paid back and the depreciation of the dollar would then rekindle inflationary pressures.

These considerations are not intended to express, in a sterile way, a concern that is strongly felt. Indeed, my own country would not even be the most qualified to do so! I know all too well that the same problems affect, in a very different way, industrial countries and the developing nations. For us, or at least for some of us, the problem is one of maintaining the expectations of growth. For the weaker countries, or at least for many of them, the problem is one of a further, progressive deterioration of living standards. The recollection of the grave problems confronting us leads me to emphasize the need for a commitment on the part of the stronger countries to adopt policies that continue to aim at the reduction of inflation but that, at the same time, lay the ground for a sustainable recovery and avoid further pressures on exchange rates. A first fundamental course of action, where we will all have to test the consistency of our intentions and behavior, is that of international cooperation, which will have to be pursued with greater determination and resolve than in the past. Furthermore, it is important that the countries where inflation has been brought under control do everything in their power, and I mean *everything,* to stimulate economic activity, in particular, investment. In some of these countries, for example, the uncertain prospects of domestic demand growth, and the emergence of large surpluses in current balance of payments point to the opportunity of avoiding too rapid a reduction of public sector deficits.

Finally, it is essential that the United States succeed in adopting a mix of fiscal and monetary policies which, by easing tensions on financial markets, will lead to a strengthening of recovery and reduce the external debt burden of developing countries.

However, beyond the strong commitment to international cooperation, it is essential that each of us plays his own role in terms of domestic economic policies before embarking on the search for an external cause of internal problems. If it is true that the present regime of flexible exchange rates, contrary to widespread expectations, has not dampened the transmission of cyclical fluctuations, it is necessary that countries that have a high degree of openness to foreign transactions adopt economic policies that will enable them to shield their economies from the effects of deflationary impulses of an external origin. I refer, in particular, to the adoption of *incomes policies* which, by reducing the effects of exchange rate movements, make room for an improvement in employment. To those who argue—with some reason—that such policies often result in distortions and inefficiencies in the allocation process, it must be answered that the social and political costs arising from the present unemployment levels are far more severe and dramatic.

Let me say a few more words on the international financial situation. On world markets, the acute tensions of a year ago have somewhat abated, although many countries have had to reschedule their external debt obligations, being unable to meet their commitments. The Fund in this regard has played a central role in restoring stable conditions and confidence in a severely shaken market, on the one hand, by promoting the adoption of severe adjustment programs and, on the other hand, by providing private banks and creditors with a valuable assessment of the economic situation of debtor countries, thus ensuring the maintenance of private financing flows. However, we are still far from a lasting solution to all these problems. Despite the adjustment programs so far introduced, for many developing countries the ability to generate resources through exports is not sufficient to meet the external debt burden, given the present levels of interest rates and the projected growth of world trade. Moreover, the growing perception of sovereign risk by private capital markets will continue for a protracted period to weigh negatively on the ability of LDCs to obtain fresh financing, thereby making the external constraint more stringent. The recovery of economic activity in industrial countries, the decline of interest rates on international markets, and the increased flow of financing to LDCs through official channels, in particular multilateral financial institutions, are the prerequisites for maintaining financial stability in the immediate future and for allowing the recovery to spread to developing countries as well.

The Italian Economy

After two years of stagnation in economic activity, the Italian economy has entered into a phase of recession. Unemployment stands now at over 12 percent of the labor force. At the same time, the progress realized in the adjustment of internal and external imbalances has been far too modest to warrant hopes for a rapid recovery.

If the growth of employment remains our fundamental objective, inflation is the most important impediment: for the current year the inflation rate is expected to be about 15 percent, only marginally lower than a year ago and well above the levels of other industrial countries. The evolution of domestic costs and the various forms of indexation of nominal incomes are still incompatible with a rapid slowdown of inflation. The improvement recorded in the balance of payments current account is mainly a reflection of the fall in domestic and import demand. The external constraint thus continues to mortgage heavily the chances of a recovery of domestic demand.

The central problem of an anti-inflationary policy is how to regain control of the evolution of government spending and to contain the treasury deficit, which will amount this year to about 16 percent of GDP. The Italian Government is currently preparing a series of measures to reduce public expenditure and to raise additional revenue. It is, however, important to underline that the objective of limiting the public sector deficit, which is mainly a problem of domestic origin, is largely affected by developments in international financial conditions. A relevant share of the public sector deficit originates in interest payments on outstanding debt, and domestic interest rate trends are bound to reflect those prevailing on international markets. The Italian Government is committed to the significant reduction of the structural component of the public sector deficit. In this connection, it is worth recalling the role that an effective incomes policy could also play in the containment of public expenditure.

The conduct of monetary policy remains strictly dependent upon the evolution of the treasury financing requirement and the success in reducing inflation. In such circumstances, the monetary authorities aim, on the one hand, at containing the growth of lending to the private sector, and, on the other hand, at maintaining a high propensity to save in financial assets on the part of households, while trying to channel saving toward longer maturity assets. Consistently with such objectives, the decline in interest rates—about 2 percentage points since the beginning of the year—has been kept within the limits of the deceleration of inflation. The possibility of further decline is linked to the evolution of real interest rates on international markets and to the pressure exerted by the treasury financing requirement on the growth of total financial assets.

International Liquidity

The mechanisms for the management of international liquidity also show weaknesses and imbalances; after a period of excessive creation, we seem to be headed now for a crunch. In both instances, the evolution of international liquidity was determined much more by the stance of monetary policy in major countries, reflecting purely domestic considerations, than by the needs of trade and of the international adjustment process. The issue of improving international liquidity management and control remains unresolved. . . .

The Fund and the World Bank should be enabled to perform their fundamental role in preserving world financial stability and promoting structural adjustment. To this end, it is crucial that these institutions command adequate resources. . . .

The balance of payments situations of many Fund members justify, in our opinion, a continuation of the enlarged access policy after the Eighth Review of Quotas. This judgment is strengthened by the good results the Fund-supported adjustment programs are producing in many countries. Furthermore, at a time when private credit flows for balance of payments financing are shrinking, the availability of larger financing from official channels becomes an essential condition for the very viability of those adjustment programs. Therefore, a concerted action by industrial countries to strengthen, over the next years, official assistance to developing countries through both bilateral and multilateral channels of financing, is urgently required. In particular, the capital base of the World Bank and IDA should be rapidly and substantially increased if we want to avoid the curtailment of the real flow of resources through these channels. While keeping in mind financial constraints of donor countries, an acceptable compromise can and must be found to allow international institutions, more specifically those focusing on development issues, to perform their fundamental functions.

Conclusions

Compared with only a few months ago, world economic and financial prospects have improved, lending support to our conviction that we will be able to move the world community toward a new phase of sustained growth. This is the answer we owe to our youth, who more than any others have suffered the consequences of protracted stagnation.

All this, however, will not happen by chance, but only if we are able to bring it about with our decisions, our intelligence, and our awareness of the interdependence of the world economy, in a world such as ours which, in the long run, cannot tolerate the building up of someone's fortune upon someone else's adversity.

JAPAN: HARUO MAYEKAWA

Alternate Governor of the Bank
and Governor of the Fund

The World Economy

Ten years have passed since major currencies departed from the system of fixed exchange rates and oil prices began their huge increase in 1973. We have managed to weather this stormy decade, and now seem, at last, to have reached a position where we can draw on our experiences to chart the way ahead.

Through our experiences during the past ten years, we have learned that no trade-off exists between suppressing inflation and promoting economic growth. Sustainable growth cannot be attained through the continuation of stimulative fiscal and monetary policies. Rather, we need to enhance private sector confidence in economic prospects by pursuing disciplined policies firmly committed to medium- and long-term goals. We have also learned that an oversized public sector, or excessive intervention in private activity by the government, weakens the vitality of the private sector and thereby deprives the economy of its growth potential. Furthermore, with the growing interdependence of the world economy, we have recognized, more than ever, the importance of maintaining a free and multilateral system of trade and finance through international cooperation.

These lessons have guided us in our current efforts to realize sustainable economic growth. We have undertaken to reduce budget deficits and maintain appropriate control over money supply, so that inflation and inflationary expectations may be suppressed and interest rates brought down. Concurrently, we are seeking to invigorate the private sector by reviewing the regulatory role of the government, so that private economic activity may prosper through a more efficient use of market mechanisms. Also, we are resolved to promote international cooperation to enhance stability in the international monetary and financial systems, as well as to resist the tide of protectionism and promote free trade.

The world economy today tells us that these efforts are finally beginning to bear fruit. On the inflation front, substantial gains have been made since last year, especially in the industrialized countries. Even though unemployment remains high in many countries, a trend toward worldwide recovery can be observed, the United States being a forerunner in this respect. Moreover, under current conditions, both the recent fall in oil prices and the upturn in primary commodities markets are expected to contribute to a smooth recovery of the world economy.

Certain progress has also been made on the problem of external indebtedness of the developing countries. The debt problems of certain countries cast dark shadows over last year's Annual Meetings: If mismanaged, they could have posed a serious threat to the stability of the international financial and monetary systems. However, by determined and concerted efforts by debtor and creditor nations, private banks and the International Monetary Fund, the crisis was somehow avoided. This proved both the flexibility and the resilience of our international financial system.

Brighter as the outlook may be, we are still in the early stages of securing sustainable growth. What is most demanded of us now is determined adherence to the basic policies that we have been pursuing, and it is only through such action that we can enhance confidence in prospects for the global economy. Above all, it is important that we conduct our fiscal and monetary policies in a coordinated fashion, so that high interest rates and inflationary expectations do not abort a sustained recovery, nor crush the seeds of a constructive approach to the debt problem. In this respect, the responsibilities are great for any country that has a significant influence on the world economy.

The Japanese Economy

Regarding Japan's economy, high growth in productivity, flexible adjustment in industry, and a balanced relationship between productivity and wages have together provided the basis for a favorable performance. Every year since FY 1975, Japan has achieved growth rates of from 3 to over 5 percent, while annual increases in consumer prices on a monthly basis since 1982 have settled down to around 2 to 3 percent.

On the other hand, extremely large amounts of public debt had to be issued to cope with the economic downturn that followed the oil shocks, and to ensure a smooth transition to a moderate growth path. Thus, every year since FY 1975, the general account budget has had to rely on bond issues for over a quarter of its total revenue. It is expected that by the end of FY 1983, outstanding long-term government debt per capita will reach approximately $4,500, or 12 times the corresponding figure of a decade ago. This is exceptionally high by international standards.

Japan will face growing demands on public finances, reflecting an aging population. Given such projections, it is now paramount that we strengthen our efforts to reduce budget deficits by reconsidering the role of the government and public finance and by conducting a thorough review of expenditures. It is through efforts such as these that we should be able to invigorate the private sector and enhance confidence in economic prospects, the basis for securing sustainable growth. By these actions, Japan hopes to be able to contribute to the development of the world economy.

In accordance with these principles, we have been conducting an overall review of the role of the government in order to realize a streamlined and efficient government, and have been continuing in-depth reviews and retrenchment of expenditures.

Japan's economy, after growing 3.3 percent in real terms in FY 1982, mainly on the strength of domestic demand, is currently maintaining a moderate pace of recovery. Fostered by medium- and long-term efforts for administrative and fiscal reform, together with continuing price stability, lower oil prices, and a world economic recovery, a further improvement in the economic environment is expected to result in the Japanese economy consolidating its sustainable, domestic-demand-oriented gowth. This year's real growth is expected to be around 3.4 percent.

Turning to the balance of payments, Japan's current account swung back into surplus in 1981 after the elimination of its previous large deficit. With the fall in oil prices and the weak yen-dollar rate since last year, the surplus has continued to grow rapidly in recent months. Meanwhile, Japan has been contributing to the smooth development of the world economy by continuing stable exports of long-term capital.

Needless to say, we do not intend to accumulate excessive current account surpluses; the Japanese Government will continue its current efforts to maintain a harmonious economic relationship with the rest of the world. Meanwhile, we expect that sustained, domestic-demand-led growth, as well as the series of measures already taken to further open our markets, will gradually have a visible effect on our imports. In addition, the Government is now considering what further measures can be taken to augment our policy effort along these lines.

I should like to point out that the recent increase in our current account surplus is due mainly to factors beyond our control, such as the fall in oil prices and a strong dollar caused by, inter alia, high interest rates. It is, in this sense, impractical to expect a dramatic reduction of this surplus solely through unilateral efforts by Japan.

The yen's exchange rate vis-à-vis the U.S. dollar is being strongly influenced by such factors as widening interest rate differentials, to the extent that its recent movements do not seem to justly reflect the favorable state of Japan's "fundamentals." This has reduced maneuvering room for monetary policy, in that we must pay due attention to interest rate diffrentials, while conducting policy in a manner consistent with the aim of securing sustainable growth. Japan wishes that the yen appreciates on the strength of its favorable economic performance, not only for reasons of balance of payments adjustments, but also in view of stable prices, higher real income, and greater freedom in economic policy that would accompany a stronger yen.

International Cooperation

An open and multilateral system of trade and a free and stable flow of capital are the two elements in international transactions that are essential to ensuring a sustainable, noninflationary growth of the world economy. The multilateral system of world trade has been basically preserved intact, despite the extremely high levels of unemployment and the stagnation in world trade in recent years.

Nonetheless, the trend toward increased adoption of protectionist trade measures and domestic barriers to trade is ground for serious concern. Now that the outlook for the world economy is brightening, we should all abide by international agreements which call for efforts to avoid the establishment of new protectionist measures, as well as for efforts to ease or dismantle altogether restrictive trade measures—and those domestic measures with comparable protectionary effects—that have been adopted in recent years.

Despite the worldwide trend toward protectionism, Japan has been taking a series of measures to open her markets by unilaterally lowering her tariffs, simplifying import testing procedures, and relaxing standards and certification requirements. Through such measures, we have increased export opportunities for foreign countries selling to Japan.

The promotion of free and stable capital flows contributes to the healthy growth of the world economy by ensuring more efficient international use of resources. Japan's capital transactions vis-à-vis the rest of the world have increased enormously since the full revision of the Foreign Exchange and Foreign Trade Control Law in 1980. We expect that Japanese capital will be utilized even more actively in the future, through both a steady flow of direct investment and fund raising on the Japanese capital and financial markets.

Experiences during the past year have taught us that the only realistic approach to the debt problem is for all concerned to resolve their divergent interests and cooperate in concerted action. Japan recognizes the importance of international cooperation, and has joined in equitable burden sharing, be it for official credit or commercial loans.

Recently, there have been improvements in those factors which have aggravated the debt problem: world trade is recovering, debtor nations' terms of trade are improving, and interest rates are lower. Nevertheless, the huge indebtedness of certain countries still remains as a potential source of disruption in the international financial and monetary systems. A serious and careful approach is still needed in which international cooperation plays a central role. It will still take considerable time before the situation returns to normal.

In this connection, firstly, debtor nations should make appropriate economic adjustments to realize an appreciable reduction in their current account deficits. This could be done in consultation with the International Monetary Fund or other international organizations where necessary. Such efforts are essential to restore confidence in the future resolution of the debt problem.

Secondly, the industrialized countries, for their part, must work to expand export opportunities for debtor countries' products by ensuring sustained growth of their economies and improving access to their domestic markets. The policy efforts to lower interest rates in the industrialized countries are also most important in view of the effect this would have in lightening the burden of debtor countries.

Thirdly, private banks are expected to continue extending credit to debtor countries. They should take a longer perspective in their lending policies, at the same time not neglecting the need for prudent management. It is of utmost importance that we persevere in our comprehensive efforts to realize a step-by-step solution to the debt problem. Japan intends to continue to participate fully in coordinated international actions. . . .

Improving the International Monetary System

Looking back on a decade of experience with floating exchange rates, we believe they have played a positive role in absorbing external shocks and restoring equilibrium to the economy, although not to the extent that was expected in certain circles. Exchange rates have moved to adjust current account imbalances, even though the adjustments have tended to be protracted. Moreover, it would have been impossible to maintain the functions of the foreign exchange market in the face of such large external disturbances as the oil shock under a system of fixed exchange rates.

However, it is also true that the shortcomings of floating rates have become apparent with the marked increase in international capital transactions. These include the disturbing effects of exchange rate volatility on international transactions, and the determination of exchange rates at levels inconsistent with balance of payments adjustments. In particular, the continued prospects of high interest rates in a key currency country have brought these faults into closer focus.

A further convergence of economic policies aimed at non-inflationary, sustainable growth is a fundamental prerequisite for achieving stable exchange rates. In this respect, closer cooperation among major countries following internationally agreed upon arrangements is essential.

We do not believe that a solution capable of supplanting the floating rates system or eliminating its shortcomings can be found given the current international economic environment. A more realistic approach would be to maintain the present system of floating rates and to seek to improve management of the system in response to changing economic conditions. It is hoped that an empirical rule for stabilizing exchange rates will evolve gradually through such a process. Japan welcomes the recent series of international agreements along these lines. We believe that the recent multilateral intervention by Japan, the United States, Germany and others has been a valuable step in that it implements coordinated action in the area of intervention.

Development Finance

Japan has been making strenuous efforts to steadily expand economic cooperation, with a view to assisting the self-help efforts of developing countries, and thereby contribute to the development and stability of the world economy. Our national budget is, on the other hand, in strained circumstances. Consequently, it has become increasingly important for us to identify truly needful projects for the economic development of recipient countries, and to extend our aid in the most efficient way. With these considerations in mind, we will continue our best efforts to strengthen our economic cooperation.

Japan greatly appreciates the work of the World Bank in assisting the development efforts of developing countries. To help accelerate these activities, the capital base of the World Bank should be reinforced. In this context, we sincerely hope that the most important outstanding issue affecting the Bank, the IDA-VII negotiations, will be brought to a conclusion as quickly as possible, and that the volume decided upon will be appropriate to accommodate both the enlarged IDA recipient community and their greater capital requirements.

It is our firm belief that a country's share of capital subscription and its share of concessional fund contributions in all multilateral development banks should be harmonized. Without this principle, it is difficult for us, under the present stringent financial situation at home, to obtain public support and legislative approval for contributions to multilateral development institutions.

It is on these grounds that we wish to emphasize the importance of harmonizing the ranking of our share in IDA with that in the Bank. This harmonization is the precondition for our cooperation in IDA-VII; we are ready to make our IDA-VII contribution corresponding to our ranking in the Bank. For this purpose, we strongly hope that a Special Capital Increase will be instituted at the earliest possible time in accordance with the established policy and practices of the World Bank.

Japan has made a significant contribution to the fund raising of the Bank in the Tokyo market. The Bank's borrowings in the Tokyo market now amount to over $1.3 billion a year. As the Bank depends so heavily on private capital markets, we strongly suggest that it seek closer contact and mutual understanding with the managing authorities of capital markets.

Given the severe economic circumstances prevailing in the world today, it is becoming increasingly important that the Bank facilitate its role as a catalyst by using its restricted capital resources more efficiently. From this point of view, we welcome the new cofinancing scheme recently introduced by the Bank.

The World Bank should not confine its activity to financial aid. It should also emphasize its nonfinancial assistance such as institution structuring, improvement of the ability of borrowing countries to design economic plans, and development of human capital. The outcome of assistance of this nature may not be immediately visible, but it is a key to the promotion of economic development, as the *World Development Report 1983* points out.

Concluding Remarks

Japan recently formulated the "Outlook and Guideline for the Economy in the 1980s," which lays down fundamental guidelines for Japan's economic policy during this decade. The Guideline sets the "construction of a creative yet stable society" as a goal for the Japanese economy and society in the 1980s. To this end, the Guideline stipulates that Japan pursue her critical task of administrative and fiscal reform, proceed in the direction of a new pattern of growth aided by an increasingly sophisticated industrial structure, utilize and support the role of private sector vitality, and promote international cooperation.

As I have suggested in my statement today, our most important task is to learn from our experience in the turbulent 1970s and establish a robust framework for international cooperation. The Guideline, in this spirit, maintains that the 1980s should be a "period for the quest of a stable order" for the world economy.

Compared with last year's Annual Meetings, we are in a better position today as regards inflation, economic recovery, and the debt problem. We are gaining ground in our quest for the reconstitution of a stable world economy.

On the other hand, problems still remain in quenching inflationary expectations, stabilizing exchange rates, containing protectionism, and achieving adjustments in developing economies, to name but a few. Even though the prospects for the world economy are becoming brighter, it is essential in view of current conditions that we persevere in our efforts for gradual improvement. This requires a steadfast commitment to policies which may at times prove unpopular.

I am convinced that, through our efforts in many fields over the coming year, we will be in a position at next year's Meetings to perceive more clearly the outline of a stable world economic order.

KOREA: KYONG-SHIK KANG

Governor of the Bank and Fund

First of all, I would like to join my fellow Governors in welcoming Malta and Antigua and Barbuda as new members of the World Bank.

Last year, the Annual Meetings were held in the midst of a deep worldwide recession and an international financial crisis. There was then widespread concern about a potential world depression. Fortunately, however, the world was able to overcome the challenge and it now seems to have entered a definite recovery phase. The strength of the recovery, nevertheless, remains weak in many parts of the world, and several problems continue to pose serious threats to a sustainable expansion of the world economy.

First and foremost, although many industrial countries profess liberal trade regimes and promise to lower their trade barriers in international gatherings, they are in reality increasingly resorting to protectionist measures, as their industrial activities continue to stagnate and their unemployment levels remain high. Many developing countries are also adopting new protectionist measures in order to cope with their worsening external positions.

Second, continuing high levels of real interest rates and wide fluctuations in the exchange rates of industrial countries are hindering the growth of world trade and the recovery in many countries. At the same time, large fiscal deficits in many industrial countries are rendering policy coordination among them difficult.

Third, the world financial market is continuing its contracting trend, further aggravating the situation. Although the financial crisis that emerged in the summer of last year has been resolved for the moment, its shadow is still hanging over many countries, as their foreign exchange earning capacity is severely limited by the weak pace of the world economic recovery and rising protectionism in industrial countries.

If these problems are not solved in the near future, there is a chance that the economic recovery that has just begun may stall again. Particularly, many developing countries, which depend heavily on the world economy for their growth, will face serious problems. . . .

In fact, Korea is a country that has weathered the world recession relatively unscathed, through close cooperation with the Fund and the World Bank. Since 1979, the Korean Government has carried out structural reforms in various sectors of the economy and consistently pursued an economic stabilization policy. As a result, Korea was able to attain remarkable price stability and a significant improvement in the balance of payments, while maintaining a relatively strong momentum of growth in 1982.

The inflation rate dropped from 21 percent in 1981 to 7 percent in 1982 and is currently running at the low level of 3 percent. The current account deficit was reduced to $2.6 billion in 1982 from $4.7 billion in 1981 and the Government expects that it will be further reduced to about $2 billion this year. The country's GNP also grew by 5.3 percent in 1982, a respectable achievement when we consider the fact that the worldwide recession persisted until year-end.

Sustained growth of the Korean economy and improvement in its balance of payments, however, are highly dependent on the continuous and orderly expansion of the world economy, and this is why the Korean Government is particularly concerned about the current international environment. We believe that policy coordination, particularly among industrial countries, should increase and that cooperation between the Fund and commercial banks should be reinforced in the future, in order to improve the world trade environment and financial order. . . .

In line with the greater role of the Fund, the World Bank's role should similarly be strengthened. As noted earlier, contraction in the international financial market is reducing the access of developing member countries to the commercial market. Therefore, the resources of multilateral organizations, particularly those of the World Bank, should be enlarged through various means, such as increasing their capital base and expanding their cofinancing activities with commercial banks. In the case of the World Bank, a special capital increase, in parallel with the new quotas of the Fund, will surely be a way to attain this objective.

In the Bank's lending policies, the introduction of the Special Assistance Program has been a welcome development for many developing member countries, as the Program will further aid them in their structural adjustment efforts. In view of its usefulness, we hope that its scope will be further enlarged and its period of implementation prolonged in the future.

Lastly, we believe that industrial member countries should pay more attention to the problems of the poorest developing member countries. The plight of these member countries has worsened in recent years, due to the depressed level of international commodity prices and the protectionism in advanced countries.

In this regard, the Korean Government believes that the size of the IDA-VII Replenishment proposed by the Bank management is appropriate. Korea is still a developing country with a considerable current account deficit, but it will continue to do its best to help alleviate the difficulties of these member countries.

Almost every country in the world today is in the process of structural adjustment. Therefore, one is apt to forget the problems of another. However, the more each country becomes selfish, with its policies based more on narrow self-interest than on a global perspective, the more it will become impossible for all of us to successfully overcome the present challenge.

Let us all remember this simple truth and endeavor jointly to resolve the difficult international conditions that beset the world today.

LAO PEOPLE'S DEMOCRATIC REPUBLIC: KIKHAM VONGSAY

Alternate Governor of the Bank and Fund

On behalf of the Lao People's Democratic Republic, I have the honor and the pleasure to address my warm congratulations to His Excellency Miguel Boyer, of Spain, on his important function as Chairman of these Thirty-Eighth Annual Meetings of the Boards of Governors of the World Bank and of the International Monetary Fund. My delegation is convinced that his extensive experience and competence are a guarantee that the work of these Meetings will produce the desired results.

My delegation would also like to take this opportunity to offer a sincere welcome to the delegations of the friendly countries that have become full members of our two institutions. Finally, I would like to express my sincere thanks to the government and people of the host country who have given my delegation a warm welcome and satisfactory facilities and who have organized these Meetings in such an excellent fashion.

My appreciation is also extended to the President of the World Bank and to the Managing Director of the International Monetary Fund and to their respective staffs for their tireless efforts to ensure the success of these Meetings and for the high sense of responsibility they have constantly displayed in the performance of their duties.

As the *World Development Report* and the annual reports of the World Bank and of the International Monetary Fund note, for both the industrial and the developing countries this has been a year marked by serious economic problems: chronic unemployment, prolonged recession, high interest rates, and trade imbalances. In certain countries, unemployment has already reached levels unprecedented since World War II, and is currently averaging 10 percent of the work force in the main industrial countries. This situation has become a matter of growing economic and political concern in many countries and is causing harmful consequences for the economies of the small developing countries and especially those of the least developed and landlocked countries.

The combination of low demand and high unemployment in the industrial countries is bringing about a resurgence of protectionist threats. These threats are surfacing in the context of a slowing down of world trade, whereas it was the growth of this trade that for many years was a significant factor in spurring on the world economy.

The industrial countries' imports have shrunk by about 2 percent in volume in each of the past two years and no more than a slight recovery is expected this year. The high level and variability of interest rates together with the instability of exchange rates in the main industrial countries over the past two years have created difficult problems for those countries and for the rest of the world, especially the developing countries.

As regards the situation in my country, the Lao People's Democratic Republic, the multinational Lao people have concentrated all their efforts on healing the wounds left by the long war of aggression and on rebuilding a new life. Despite the many difficulties left behind by years of devastating warfare and constant efforts by our enemies to undermine our endeavors, we have achieved significant results in several areas, notably in consolidating our country and laying new economic, social, and cultural foundations for our people. These significant successes have been achieved through the resolute action of our people themselves and with the aid of fraternal socialist countries, friendly countries, and international organizations such as the World Bank and the International Monetary Fund. I should like to take this opportunity to express, on behalf of the people and Government of the Lao People's Democratic Republic, our sincere thanks and our profound gratitude for their effective assistance.

The year 1983 was the third year of our Five-Year Plan, the first results of which have been encouraging. In agriculture, the average area cultivated with rice has increased by more than 6 percent per year, with the result that our rice-growing capacity has increased from 700,000 tons in 1976 to 1,154,000 tons in 1981. To achieve self-sufficiency in food, we plan to establish at least a six-month reserve supply of rice starting in 1985.

In forestry, which constitutes one of the main riches of our country, production capacity in 1981 was twice that of 1977, and wood exports have risen by 103 percent.

With regard to industrial output, energy production had increased by a factor of 3.57 in 1981 as compared with 1976.

These significant achievements have, admittedly, permitted only a slight improvement in the standards of living of our people. We are confident that, thanks to the firm determination of our people and with growing assistance from fraternal socialist countries, friendly countries, and international organizations, we shall fully succeed in carrying out the tasks laid down in our Five-Year Plan.

As regards the policies of the two institutions, our delegation fully shares the points of view expressed by a large number of delegations from developing countries. We accordingly wish to make the following points:

We see the necessity for a speedy increase in the resources available to the World Bank and the International Monetary Fund, to enable them to meet international needs.

To improve the economic situation in the industrial countries, these countries ought to take account of common interests as the fundamental basis of action and contribute in an appropriate manner in accordance with their obligations and without any hesitation.

We support the idea of cofinancing as a way of creating additional financial resources for the organization, while at the same time stressing that their lending procedures ought to be simplified.

We address an urgent appeal to the industrial countries not to hold back their contributions to IDA-VI or IDA-VII, both now and in the future, and in particular we call upon the United States of America to complete its contribution to IDA-VI in the agreed amount, namely $3.24 billion.

The subject of assistance with local cost financing is one to which we would suggest that the Bank pay the greatest attention, as a portion of the local costs will have been incurred in foreign exchange; this burden should be gradually shared by means of, for example, a "subsidiary account."

We support the proposal made last year by the African countries calling on the Bank to consider cancelling old debts and refinancing them, as this would alleviate the financing and foreign exchange problems of the developing countries.

Another question worthy of special attention is that our two institutions ought to reconsider the issue of granting loans to a certain member country to which lending has at present been temporarily suspended for political reasons. We feel that a member state that has properly conformed to the rules and regulations of the institution ought to have unconditional access to credit. . . .

In conclusion, my delegation feels that the points just expressed would help to strengthen the role and effectiveness of our two institutions worldwide and I assure you of my full cooperation in working toward the success of these Thirty-Eighth Annual Meetings.

LUXEMBOURG: PIERRE WERNER

Governor of the Fund

The enlightening introductory reports by the Managing Director of the Fund, Mr. de Larosière, and the President of the World Bank, Mr. Clausen, have pointed out that the current international economic and financial situation provides elements both for optimism and concern:

—On the one hand, economic indicators show a significant decrease of the inflation rate in major economies, and a moderate recovery of growth in some important industrial countries, which shows that the strategy recommended by the Fund during these last years has succeeded.

—On the other hand, the number of countries that face critical payments problems has rapidly increased since our last meeting and thus the international monetary and financial system has to sustain an unusual strain.

It is a challenge to the Bretton Woods institutions to propose and induce policies that give countries and policymakers a chance to cope successfully with the new and complicated challenges.

As I just mentioned, today the positive signs for the prospect of a real but moderate economic growth in major countries are more substantial than for some time past, and we can hope for a lasting improvement, under the important qualification, that in decisive areas, the right policies are adopted and implemented. We must, in this context, welcome the commitment of the major industrial nations to fight the threat of spreading protectionist pressures, as well as the growing awareness of the reserve currency countries that they bear a particular responsibility in the international monetary system and in the effort to foster greater stability of exchange rates. According to a U.S. economist, the realization begins to dawn "that money is not a national but a global commodity." The maintenance of liberal trade rules and of free flows of capital are fundamental for the worldwide recovery in general: they are even more important for the developing world and for the smaller industrial countries with particularly open economies. There is a realization that the overshooting of exchange rate movements, which we have experienced in recent years, has contributed to the destabilization of the economies and of capital flows, and thus to the proliferation of non tariff trade barriers. To a certain degree, the larger use of SDRs for the pricing of commodities could be a stabilizing factor.

To illustrate that this is not mere wishful thinking, I can point out more recent developments in the European Monetary System, where the ECU is gradually working its way through to a growing use by the corporate sector for intra-European trade. This trend, although tiny, is there and it will grow.

The fact that the European Monetary System does not provide for privileged positions for individual currencies has proven to be a major factor of discipline in economic, financial and monetary policies. Discussions about a reform of the world monetary system can draw upon the experience of the European Economic Community.

As has been pointed out in the report of Mr. de Larosière and in the different documents issued by the Fund staff in the preparation of these meetings, one of the most important worries is the persisting structural problems in crucial fields of our economies, like the budget deficits, the tax burden, the labor costs, the inadequate industrial equipment, the unemployment level, the rigidity of income policies, and so on. These problems present different characteristics in the various countries and cannot be resolved by uniform recipes. The adjustment process might be more difficult for a given country than for another, given its economic and social structure. My country was particularly hard hit by the world recession in steel production which began in 1974, because steel production represented, in 1974, about 25 percent of the GDP in Luxembourg and about 60 percent of all exports of goods. We have been able to reduce the labor force in the steel industry from 26,200 people, or 17 percent of the active population in 1974, to about 15,600 or 10 percent at present, and we will have to reduce it further in the coming years, and I am particularly proud that we were able to perform the necessary restructuring without undue social hardship and without labor conflicts, and our unemployment rate remains below 2 percent of the active population.

One of the most important concerns in the present crucial phase of an incipient recovery is the problem of the debt burden of an increasing number of countries.

The resulting situation is most challenging for the official agencies, especially for the IMF and the BIS, which have to be congratulated for the effectiveness and the speed of their interventions during the past 12 months. It has been clearly and generally recognized that the maintenance of private financial flows is of paramount importance for the developing world, and thus a real crisis has been avoided. The policy of official lenders should not be directed toward taking over the responsibilities of the banks, but should rather, given the amounts of private credit used, allow the banking system to maintain its existing commitments. . . .

I should like to give now some brief comments on the activities of the World Bank during the last year and the problems facing the developing countries.

In four years of world recession the economies of the least developed countries, which have also the least diversified industries and the smallest margin in social and economic policy reaction capacity, have been dramatically affected by the plunge of world trade figures, depressed commodity prices, extremely high levels of interest rates, a decrease in international investment, and a foreign assistance unable to keep pace.

In cooperation with the IMF, the World Bank responded to this situation by interventions tailored to the situation of each country.

If private banks have ensured a major part of balance of payments financing during the past years and continue to do so, the rules of sound banking management are pressing for a somewhat more prudent approach. In that context, the cofinancing schemes of the World Bank should be developed with private institutions as well as with official lenders. I particularly wish success to the collaboration in this respect between the IBRD and institutions of my country. I should like to underline also the free access of the Bank to the capital market of my country.

With respect to the need for an increased capital base of the Bank, we hope that the general capital increase will be timely, and fulfilled in accordance with the resolution adopted. Within the legal framework, Luxembourg will be as constructive as possible.

Turning finally to IDA, a disruption of flows must be avoided under all circumstances. Therefore a timely conclusion of the Seventh Replenishment exercise is important. The IDA-VII volume should be realistic, and it would, therefore, be difficult to accept that increased needs are met with a decrease of IDA-VII vis-à-vis IDA-VII.

To conclude my remarks, I want to express my belief and my hope that policymakers all over the world will understand that the respect of the principles of free trade and capital flows, as well as solidarity among all nations that govern the Bretton Woods Agreement and its institutions, are essential to face successfully the challenges of economic and social development and of financial stability which are our common goals.

MALAYSIA: TENGKU RAZALEIGH HAMZAH

Governor of the Bank and Fund

When we last met in Toronto, the state of the world economy was dismal. Many nations, especially the developing countries, were reeling from the hardship of the most severe and prolonged global recession since the Great Depression of the 1930s. The industrial countries experienced low and even negative growth since 1980, while the developing countries faced a marked slowdown in growth and exports, a significant deterioration in commodity export prices and their terms of trade, and a severe external debt burden which still overhangs the world financial system today. This year we are meeting in a slightly better environment, although there continues to be uncertainty. Firmer signs of economic recovery have now emerged in the major industrial countries. The question is whether this emergent recovery can be strong enough and sustainable in the medium term to pull us out of the global economic malaise we have been suffering in the last three years. The evidence of declining inflation and interest rates in most major industrial countries this year has given us some hope that the recovery is now firmly on the way.

The developing countries are very much dependent on a sustained noninflationary recovery in the major industrial countries in the next few years to generate the required growth in world trade and in their export earnings. Only then will they be able to promote domestic growth and obtain the needed foreign exchange to service their external debt. Yet the volume of world trade in 1983 is expected to increase by only 1 percent after the virtual stagnation in the past three years. This means that the volume of world trade in 1983 will be no higher than that of 1982.

A high and sustained noninflationary growth in the industrial countries as well as an expansion in world trade will be crucial to the developing countries in the next few years. I believe this situation can only materialize if the major industrial countries coordinate and implement fiscal and monetary policies that will reduce interest rates and keep inflation at a low level and, at the same time, ensure that protectionist trends are substantially reduced. The major industrial countries have a responsibility to assist in the process of world recovery. Perhaps it is now timely for them to embark on prudent programs of expansion and reduce protectionist trade measures so that the world economy can be more firmly established on the path of recovery and growth.

The industrial countries must realize that protectionism needs to be effectively dismantled if the world economy is not to be engulfed in self-strangulation. Yet, despite the many voices of dismay on the evils of protectionism from both the North and the South, protectionist trade measures that are disruptive to growing world trade have increased in recent years. There must be true meaning to the slogans of "interdependence" and "cooperation" if the world as a whole is to move to greater prosperity. The lessons from the recent world recession indicate that demand from the developing countries is an important factor, either in accentuating a downturn in the world business cycle or in minimizing its impact. But demand for capital and other manufactured goods by the developing countries can only be sustained if these countries are able to readily find growing markets for their own exports. Hence, protectionism which hampers the growth of developing country exports will only hurt the industrial countries in the long run. It is in the self-interest of the industrial countries to ensure that the developing countries can achieve more rapid growth with an open world trading system.

Equally important, investment and growth in the developing economies should not be strangled by continuing high interest rates. Given the continuing huge fiscal deficits in many industrial countries, we fear that interest rates in real terms will continue to remain high. One important priority which the industrial world could establish is to make a strong effort in the area of structural adjustment so that fiscal deficits can be reduced to restore the confidence of the financial markets. In this regard, perhaps the major industrial country, the United States, has a special responsibility in the pursuit of the underlying economic and financial stability required to reduce world interest rates. The *World Economic Outlook* tells us that a 1 percent reduction in the Euro-dollar interest rate can help to reduce about US$4 billion in the debt service of developing countries. Thus, the world is looking to the United States to restore fiscal balance, so that the other industrial countries need not maintain high interest rates to protect the exchange rates of their currencies, a move that is more consistent with the current need to stimulate growth and reduce unemployment. In this manner, the debt burden of the developing countries can be reduced and the viability of the world financial system ensured.

The efforts of the world community in the areas I have outlined are important to all developing countries including Malaysia. Although our economy has been well diversified, we could not be fully protected from the adverse impact of the recent global recession and high interest rates. Like all other developing countries, we have to make some painful adjustments in our development programs in order to protect our long-term economic prospects. This shows that even a successful and prudent developing country like Malaysia has been adversely affected by the policies of the industrial countries, and their increasingly protectionist attitude. We only ask that the world economic environment be made more stable so that developing countries can participate equally in world trade which will then enable them to promote growth and create employment opportunities.

The multilateral financial institutions have important roles to play in this respect. These institutions must be strengthened in order to play a more vital role. Unfortunately, in the past few years, there has been a hardening of attitudes on the part of the developed countries, especially the foot-dragging Congress of the United States which, for some reasons of its own, do not wish to see an expansion in the role of the Bank and the IMF. How could the developing countries undertake adjustment programs, if there is no strong support for these institutions in the next few years? I would, therefore, urge these countries to give their full support to the World Bank in terms of providing it with the necessary resources so that its lending performance could increase in real terms. An early agreement should also be reached on a selective capital increase so as to provide the Bank with adequate resources with which it could expand its operations. . . .

In conclusion, I would like to congratulate the Bank and the IMF, particularly the Bank's President, Mr. Clausen, and the IMF's Managing Director, Mr. de Larosière, and their staff for another year of successful operations. I hope the World Bank and the IMF will continue their good work in helping development in the developing countries.

MALTA: WISTIN ABELA

Governor of the Bank and Fund

It is a great pleasure for me to address these Meetings for the first time as Governor of the Fund—and now also of the Bank—for Malta. On behalf of my Government and the people of Malta, I wish to begin by expressing my gratitude for the cordial welcome extended to Malta as a new member of the Bank and to thank all concerned for the help we have received in becoming members. I would also like to say, at this point, that my Government notes with satisfaction the initiative taken earlier this year by the Bank to broaden its cofinancing program with a view to increasing the participation of commercial banks in the Bank's projects in developing countries. Such measures, it is hoped, should boost the flow of private capital to the developing nations and help those countries maintain the momentum of development in the face of the current international economic difficulties.

At the same time, however, I would like to state, for the record, that Malta's joining the Bank does not indicate a change of stance on the part of my Government with respect to certain policies and attitudes of either the Bank or the Fund. I refer, in particular, to the two institutions' tendency, for all practical purposes, to classify countries simply into "rich" and "poor," "developed" and "developing," according to the simple criterion of GNP per capita, without taking into account such factors as resource endowment, lack of technological know-how, size, vulnerability, and openness of the economy to external shocks. Yet such factors constitute major structural constraints on the development process, particularly in small island economies, often frustrating their efforts to restructure their industrial base away from declining sectors toward more stable sectors with a higher technological content. Such countries are inherently unable to effect the structural transformation necessary to attain self-sustaining growth, and consequently must, to a certain extent, remain permanently underdeveloped. Yet, if by the simple GNP per capita standard, they cannot be considered among the poorest, they find themselves treated, by the Fund, on a par with the largest and most advanced industrial countries, while the only type of World Bank aid to which they are entitled is in the sphere of technical assistance.

Having made this point, which I trust will be well taken, I shall turn to the evolving world situation.

Since our Meetings in Toronto last year, the outlook for the world economy seems to have improved somewhat. While the level of industrial activity in most countries remains generally depressed, prospects for 1983 and 1984 are for a modest but significant improvement in the international economic climate. Moreover, firmer evidence of recovery in the industrial world, especially in the United States, suggests that a cyclical upswing is under way. All this is welcome news, of course. But the inevitable question which comes to mind is: Will it last long enough to eliminate the high levels of unemployment still prevailing in the industrialized—and industrializing—countries, and for its effects to sink through to the developing countries, who have borne so large and disproportionate a part of the burden of global adjustment? If it does not, there is a danger that the capital base of many developing countries, painstakingly built over the years in the most adverse circumstances, will be completely eroded with disastrous consequences for employment and future growth prospects in these countries.

Unfortunately, evidence has become available in recent months that the pace of recovery in a number of major economies is already faltering. No doubt, a major factor frustrating this economic reactivation has been the renewed firming of interest rates, notwithstanding the consensus reached in Williamsburg on the importance of lower real interest rates. The consequences to the developing countries of such unbearably high interest rates are too well known. Not only have they stretched the debt service burden of a number of countries to intolerable limits, but they are also choking off the stream of direct foreign investment and resulting employment and export opportunities.

Various international organizations and industrial countries have been hammering on the assertion that the key to recovery is through anti-inflationary measures. Unfortunately, the experience of recent years does not give us much ground for optimism. Even though some success has been achieved in the fight against inflation, it must be remembered that this, in itself, will not guarantee smooth and lasting growth of the world economy. The Fund staff itself has pointed out, for instance, how, in each recent cyclical downswing, unemployment rates in the industrial countries have reached new postwar highs, while in the ensuing upswing, they have receded less than in previous recovery periods. The result has been a secular rise in the unemployment rate in these countries, with consequent slower growth of output all-around. Indeed, it is now widely recognized, both in the Fund and elsewhere, that, apart from cyclical factors, other "systemic" factors were to blame for the depth and duration of the recession from which the world economy now seems to be emerging. Consequently, unless these factors—these "structural imbalances"—in the world economy are dealt with, our respite from recessionary conditions will be, at best, only temporary and incomplete. For we shall have treated only the symptoms, without getting at the underlying causes, of the stagflationary disease that has been sapping the strength of the world economy for so many years. We, in Malta, have never had any illusions about this.

In 1976, as the world began to emerge from what, till then, seemed to be the worst recession since World War II, one of my predecessors, as Governor of the Fund for Malta, warned against the dangers of letting a cyclical recovery in world output and trade divert our attention from the fundamental imbalances of the world economic system, and from the urgent need to pursue the objectives of the new international economic order. Unfortunately, however, the spirit of international cooperation, that is so necessary if we are ever to get to grips with these problems, seems to have fallen victim to the stagflationary years. Witness the meager results of the recent Sixth UNCTAD Conference, the stalemate over the global negotiations on international economic issues at the UN, and the apparent cessation of the North-South dialogue. Witness also the drying up of development aid to the low-income, developing countries. What we have today, instead of more cooperation, is a burgeoning of protectionist measures, some more and some less obvious, many of them initiated by the industrial countries, but spreading, inevitably to the weaker, hard-pressed, developing countries many of which, on account of their small domestic markets, cannot sustain their industries in the absence of export orders. And yet, no international economic conference goes by without everyone expressing dismay at the growth of protectionism. All this illustrates the great division which separates the expression of noble ideals and their active pursuit.

Yet, if the spirit of cooperation has been weakened, the need for it has never been greater. The experience of the past decade has demonstrated that the economic interdependence of nations is not merely a fine idea: it is a fact of life. Currently, this interdependence is being highlighted by the worrisome world debt situation, with its many ramifications. . . .

In conclusion, it is up to us, even if we feel that, in the long run, other more drastic measures will be needed to ensure the smooth functioning and growth of the world economy, to maintain our support for the Bank and the Fund. This we must do not only with words, but also with deeds, if the two institutions are to be able to play fully the role for which they were created.

MEXICO: JESUS SILVA HERZOG

Governor of the Bank and Fund

It is an honor for me to address you today on behalf of Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, Panama, Paraguay, Peru, Spain, Suriname, Trinidad and Tobago, Uruguay, Venezuela, and my own country, Mexico. It is a signal honor and a task that I must needs approach in an objective and realistic manner.

The size and diversity of the financial problems facing the world economy form the backdrop to these Thirty-Eighth Meetings of the Boards of Governors of the World Bank and the International Monetary Fund. A heavy responsibility rests on all of us here today.

Recent years have been characterized by a worsening in the economic situation of the developing countries, more particularly in the countries of Latin America. External disequilibria have increased, as have inflation and external debt, while the level of economic activity has dropped significantly. This has widened social inequalities and added to the difficulty of resuming sustained and effective development in most countries. This process has worsened in recent years. On the external trade front, a dangerous and persistent decline in the rate of growth of exports set in, brought about by the recession in the developed countries and their protectionist policies. The terms of trade worsened.

On the financial front, our countries' need for external resources increased, in large measure as a result of the falling off in trade already referred to and the political decision to accelerate growth. The countries of Latin America and the Caribbean had to replace the foreign exchange earned from exports by recourse to foreign loans. In other words, they replaced commercial flows by capital flows, to which was added the natural growth in existing debt.

At the same time, the major international banks had a high level of liquidity, so that they had excess lendable funds available, which were channeled to the developing countries in an active process of recycling. All of these factors came together to create a situation in which the total external debt of the countries in the region swelled to unprecedented levels of more than $300 billion in 1982. Net payments for interest and amortization absorbed the greater part of the region's export proceeds.

It must be noted that this produced excellent business for the banks, while for the borrowing countries it provided an alternative complementary source of financing for development. The debt burden on these countries is at the moment considerable. The international financial institutions cannot be too ambitious in seeking to bring about a substantial reduction in the rate of growth of external debt. For most developing countries, it will be extremely difficult to generate over the short term the trade surpluses needed to reduce the size of their outstanding debt.

Thus, under present circumstances, with an external debt that is weighing heavily on them and limiting their opportunities for economic recovery, the Latin American countries could face serious difficulties in meeting their financial obligations.

One year ago, the international financial scene was somber, even threatening. A number of encouraging signs have appeared over the past 12 months, even though this period has also seen the emergence of new problems and mistaken attitudes. People are now aware of the problem of external debt; what was yesterday a factor in promoting development has today become one of the obstacles to development.

It has become obvious that this is not a problem involving only the developing countries, or only the banks. It is a problem affecting everyone. It is a worldwide problem. To deny its existence is to deny interdependence. However, this does not imply uniformity. Conditions differ in every country, and each one has to solve its problems as it sees fit.

In this short period of time people have come to recognize that the problem did not arise overnight and likewise that one cannot expect an immediate solution. We have to learn to live with the problem and to accept, each of us, our share of the responsibility. The events of recent months have shown to the pessimists who are always with us that the international financial system is capable of reacting strongly. In a number of cases, we have seen effective coordinated action on the part of the governments of creditor countries, their central banks, the banking industry, multilateral institutions, and the governments of the debtor countries. Major achievements can be brought about, it is clear, when the political will is there. The central and decisive role of the International Monetary Fund in these matters has also been evident.

We are still too close to events to weigh the profound changes that have emerged from last year's financial crisis. We are in a new stage in international financial relations. In the past months, we gained time. We have overcome acute liquidity crises, and the policies adopted by the international financial community have been essentially defensive ones. Now we must start to design a program that will bring us back to normalcy and reactivate the economies of the developing countries.

In this, as in other critical moments in the history of international economic relations, we must break the bonds of inertia, abandon short-sighted attitudes and disregard traditional formulas. As we stand at the crossroads, we must display vision and political will if we are to implement the changes needed to ensure harmonious and sustained growth of the world economy. Against this backdrop, international cooperative agencies play and must continue to play an essential role. The resistance being shown in some circles in certain industrial countries to providing these agencies with sufficient financial resources is a source of concern.

The dramatic and on occasion threatening events of recent months call forth a number of basic comments reflecting the views of the countries of Latin America.

1. There can be no solution without economic growth. The signs of recovery evident in the main industrial countries are certainly encouraging, but they have to be extended to other countries as well. The problem of debt must be resolved through expansion and not through stagnation.

2. Bringing inflation under control is a priority issue. However, some industrial countries have been obliged to make excessive use of monetary policy instruments. Budgetary deficits—which the developing countries are always urged to reduce—remain extremely high. The persistence of high real rates of interest makes the size and servicing of external debt more difficult and impedes recovery.

3. It is undeniable that some countries' growth exceeded their real capabilities, and they had greater recourse to external credit than their potential for absorbing it efficiently. In such cases, an adjustment program is necessary, not at the behest of some international organization, but as an indispensable reaction to economic reality itself. Many countries are doing this.

Countries can accept belt tightening for a time, but they must find ways of adjusting which promote greater dynamism in their economies and ensure sustained development in the medium term. Privation is difficult to sustain indefinitely. Nevertheless, it may prove inexorable if no way is found to facilitate export growth and the resumption of normal functioning by the financial markets. The adjustment effort must be shared. The asymmetry which now prevails represents an additional burden on the developing countries.

4. Solving the external debt problem requires the cooperation of all participants. It also requires fighting for a permanent solution that will avoid recurrent negotiations and uncertainty.

5. In order to pay for and import essential goods and services, a country must export. The connection between financial and trade questions is becoming clearer all the time. A 3 percentage point decline in interest rates and a 10 percent improvement in export prices would be sufficient to completely eliminate the present current account deficits of 20 of the most heavily indebted countries.

There are ample possibilities for facilitating—selectively—the sale of goods produced by the developing countries on the large industrial markets. This is an enormous area for exploration. The industrial reconversion process must be evaluated more closely, as must the recourse to protectionism stemming from the overvaluation of certain currencies.

6. Efforts to renegotiate external debts have multiplied. It would appear that several general observations are applicable:

(a) The time frame of a restructuring is just as important as the maturities being renegotiated. It is ill advised to force too early a return to the market.

(b) It is essential that some new resources be assured so as to prevent the strangulation and paralysis of economic activitiy. There is an exceedingly disturbing and surprising reaction beginning to appear in certain quarters, which are tending to limit the flow of bank credit abroad. At a time when flexibility and continued support are required, it is contradictory and paradoxical to propose solutions in the opposite direction.

(c) The real cost of credit has climbed considerably. One additional percentage point in the financial cost of Latin America's debt involves some $3 billion. Margins and commissions must be reduced, if only to reduce risk.

(d) It is important to maintain the distinction between credit to the public sector and credit to the private sector. The insistence of some creditors that governments assume the commercial risk to private borrowing is inappropriate.

(e) Support is waning for the idea of a debtors' club. However, there are some troubling signs of what might be called a creditors' club.

7. It is necessary to use imaginative means to facilitate the gradual return of the developing countries to the money and capital markets.

8. In the next few years, domestic savings must play a leading and more decisive role in financing the development of our countries. Their economic policies must be more precisely defined. Room for maneuver has shrunk.

9. Our countries have the political will to adopt domestic measures which are appropriate in light of current economic conditions. What is needed is a favorable international climate. It is essential that interdependency be recognized and that we not think the world ends at our borders. It is necessary to increase the transfer of real resources, which, as noted by Minister Galvêas at last year's Meetings in Toronto, facilitates the adjustment process.

At times of widespread economic crisis, particularly when generated by outside causes, it is necessary that agreement be reached that the same conditionality standards cannot be applied as during normal times.

On behalf of the countries I represent, I would like to reiterate our support for the views expressed in the Group of Twenty-Four communiquè. Latin America is acting responsibly. It has reiterated its political will to adopt the domestic measures that are called for under the circumstances and is taking initiatives, such as the forthcoming economic conference, to strengthen its regional cooperation arrangements. We are living in particularly difficult times. Greater international cooperation is required. This idea, however, is not universally shared.

I would like to add a few words about recent developments in Mexico. More than ten months ago we implemented a severe economic adjustment program. It was necessary to do so. We had no alternative. We have had some encouraging success with respect to the fiscal deficit, prices, the external sector, confidence, and fulfilling external obligations. More important, however, is the consistency of our actions. This was essential under the circumstances. We are not satisfied, however. Yet another tough stretch is before us in the next few months. It is now necessary to reinvigorate the economy and provide more jobs. We cannot drop our guard.

The most pressing problems of external debt are being overcome. As I have said, however, we are convinced that the problem is global. Accordingly, solving it requires more than battle on a single front, or in a single country, but in all of them and at all times.

There can be no question but that the flow of external credit in the next few years will be smaller than in the recent past. In the absence of other sources of external resources, growth in the developing countries will of necessity decline. But these countries cannot follow this path for too long if they wish to avoid domestic problems which, in turn, will affect the rest of the world.

This task is the responsibility of the international community as a whole. Lending and borrowing countries alike must make efforts to avert collapse. No one should exclude himself or be excluded, because there are no partial solutions. The interdependency of today's world obliges us to act as one and to restore the foundations for balanced and just development as a prerequisite for world peace and understanding.

NEPAL: PRAKASH CHANDRA LOHANI

Governor of the Bank

I deem it an honor and pleasure to address this distinguished assembly.

I have listened with great interest to the inaugural speech of His Excellency the President of the United States of America, Mr. Ronald Reagan. We applaud him for the support of his Administration to these international institutions and also for his forthright support to the cause of development, especially that of the least developed countries.

I also thank you, Mr. Chairman, and the President of the Bank, Mr. Clausen, and the Managing Director of the Fund, Mr. de Larosière, for the opening statements, which have brought into focus many important issues in the current international economic situation that need to be addressed to eliminate the present malaise and ensure better prospects for the future.

The world economy has gone through a prolonged recession, high inflation and interest rates, unstable exchange rates, a reduced level of international trade and finance, a sharply declined flow of capital to the developing countries, and the mounting balance of payments deficits and debt service burdens of these countries. This has all caused much trouble and human suffering even in the developed countries, but the developing countries have been affected all the more seriously. The development efforts of the developing countries have been negated and the economic progress has been stifled. The growth rate has been continuously falling for the last four years in succession, resulting in declined average per capita income in the developing countries in 1981 and 1982—more so in the low-income countries.

Against this depressing situation, it is heartening to note that the recovery is now under way in the industrial economies. However, to achieve improvement and expansion in the world economy, the recovery in the industrial countries must be transmitted in adequate measures to the developing countries also. Even though signs of recovery are clearly visible in industrial economies, there can be no cause for complacency in pursuing a determined and concerted plan of action on the part of the international community. In this respect, I may stress that new initiatives are needed on the part of both developed and the developing countries to achieve sustained recovery and noninflationary growth. Such initiatives must address the problems faced by the developing countries, particularly, by the low-income countries, and reverse the negative trend that these countries have suffered. This calls for an increased flow of development capital to supplement domestic investments and to enable them to participate fully in the expansion of world output and trade. In this context, the official development assistance has a crucial role to play in the economic growth of the low-income developing countries. Official development assistance has remained an important subject in the agenda of many distinguished international gatherings. The Group of 77, at its meeting in Buenos Aires, and the nonaligned countries, at their recent summit meeting, have urged that the internationally agreed level of official development assistance of 0.7 percent of GNP should be reached as soon as possible by those developed countries which have not yet met the target. We note with profound concern that no tangible progress has so far been achieved in implementing the substantial new program of actions adopted by the UN conference on least developed countries held in Paris in 1981. We hope that the negotiations for IDA-VII, which have been protracted for so long, will be completed by the end of the current calendar year. Availability of IDA funds is crucially important to developing and least developed countries. But it seems that the IDA Replenishment will be settled at a figure smaller than the originally proposed size, which itself is not sufficient to provide more than a modest amount of resources to the low-income countries as against a much bigger requirement. In this connection, I certainly would like to put on record the efforts made by Mr. Clausen and the Bank management to achieve the size of IDA-VII to match the need of the eligible member countries. In this context, it is with a sense of some relief that we note that the international community recognizes that the flow of concessional development assistance to the low-income and geographically handicapped developing countries must be ensured in any eventuality.

The role of the Bank as an international development institution is more pronounced now when it is called upon to support the developing countries with increasingly more resources. Viewed from this standpoint, the proposed lending program of the Bank for the period 1984-87 seems less than satisfactory since it entails a decline in net disbursement and in net transfer. In this context, we consider that the selective capital increase should be substantial so that the lending program of the Bank would accommodate a rate of increase of at least 5 percent a year in real terms. Moreover, to meet the Bank's long-term capital requirements in response to the need of the borrowing members, steps should also be initiated in fiscal year 1984 for the next general capital increase.

We recognize that the International Finance Corporation (IFC) can, and should, play an increasingly important role to encourage investment in the private sector in the developing countries, because we believe that the private sector has a major role to play in the process of economic growth. Therefore, we welcome the initiative of IFC to expand and diversify investment activities in the next five years. Equally significant is the role of IFC as a catalyst to stimulate the flow of capital, technology, and modern management from other private sources as well. Therefore, we strongly support the move to enhance the capital base of IFC. . . .

At this point, I may share with the distinguished participants experience of the Nepalese economy in 1982/83. Due to serious drought, Nepal suffered serious reduction in the output of the agricultural sector, which is the backbone of the economy. Concurrently, foreign exchange earnings dwindled mainly because of the decline in the prices of exportable commodities and the considerable increase in the imports of consumer and development goods. Consequently, the economy in general suffered a serious setback in 1982/83, which manifested itself in stagnated growth, relatively high inflation, depleted foreign exchange reserves, and the reversal in the overall balance of payments from surplus to deficit.

The Government has now undertaken adjustment measures as a part of economic recovery and development strategy. This strategy consists of a number of policy measures designed to promote and sustain a liberal economic environment conducive to growth and stability, in which the private sector will be encouraged to play a vigorous role. The strategy also underscores the priority of expanding and strengthening irrigation facilities to raise productivity of the agriculture sector. In this respect, more resources are needed to implement new irrigation projects with better water management practices.

Water resources constitute the most important natural resource of Nepal. It is well documented in many studies undertaken in the past that if properly harnessed, the rivers of Nepal could provide benefits not only to Nepal but also to our neighbors. As a matter of fact, we have already initiated mutual consultations on some important water resources development projects. Therefore, I would like to stress that both as a vital sector for the growth of the Nepalese economy and as a sector amenable to international cooperation, the development of water resources in Nepal for energy, irrigation, and other beneficial purposes should constitute the most important part of the development credit program of the Bank in Nepal and in the region. Therefore, I urge that besides the normal operation program of the Bank, the proposed energy program should include financing of such viable hydropower projects, which have such distinct and proven comparative advantages, in countries like Nepal.

With regard to institution building, we believe that the distance we have covered in the past three decades of our development efforts is satisfactory. Furthermore, we are confident that Nepal is ready to make headway in bringing a structural change under the dynamic leadership of His Majesty King Birendra. Conscious of the need to balance the cost of government to the economy, His Majesty's Government has taken initiatives to curtail the bureaucratic process, to make all public enterprises performance oriented, and to encourage small investors' participation in profitably run public enterprises. In short, the Government is determined to create an atmosphere in which it is profitable to save, invest, and produce.

We live in a world that is increasingly being characterized by interdependence. This trend is bound to continue in the future. This is why the role and effectiveness of international institutions become a concern to all of us. International institutions like the World Bank and its affiliates and the Fund have the great responsibility of transforming this increasing global interdependence into an economic relationship capable of improving the material conditions of not just a few nations, but of people all over the world. Precisely for this reason, we believe that international economic institutions, with the help and support of the developed countries, must provide increasing focus and attention toward the problems of the developing and least developed countries. I think we would do well at this juncture to remind ourselves of the fact that these institutions played an important role in the reconstruction of the developed countries after World War II. In large measure it was a success, and naturally we feel that the focus should shift to other parts of the world, namely Asia, Africa, and Latin America, where the need for development is an imperative for peace and stability in the world. I believe that this change in focus is needed, and it is this new reality that should be reflected in actual plans and programs of these institutions.

Before I conclude I would like to thank the President of the Bank, Mr. Clausen, the Managing Director of the Fund, Mr. de Larosière, the Executive Directors, and the management and the staff of these institutions for their thoughtful and innovative actions in a difficult international economic environment.

NETHERLANDS: H.O. RUDING

Governor of the Bank

In the past half year, more and more evidence has become available of an incipient recovery of the world economy. The resumption of economic growth is particularly strong in the United States, but signs of it are also visible elsewhere, although in some countries it is in a very early stage. The cause of this recovery, which comes after many years of recession, can be discerned clearly. The reduction of inflation to very low levels in several major industrial nations in combination with recent monetary expansion, has given rise to a new growth of real demand. The recovery can therefore be said to be founded upon the achievement of low inflation rates.

The question arises whether this incipient economic growth will be sustainable. Although several economies with near price stability are well placed to embark on further expansion of activity, such a sustained growth cannot as yet be taken for granted. For there are several risks that threaten to slow the recovery down.

The first of these risks is the danger of a rekindling of inflation. New inflation would erode expenditure, disturb the general equilibrium of markets, and thereby eventually cause a new contraction of economic activity. At the same time, however, inflation rates are still too high in many countries, especially in the developing world. Moreover, inflationary expectations, although diminished, are still present nearly everywhere. Furthermore, the considerable expansion of the money supply in low-inflation countries during the past twelve months might, unless it is curbed in due time, eventually rekindle inflation and inflationary expectations. For all these reasons it seems to be a matter of great importance that monetary expansion be kept moderate.

A second risk is that investment growth will be crowded out, or rather kept out, by high budget deficits. At present, these deficits absorb a very large part of available savings and push up long-term real interest rates to very high levels. In this way they tend to depress private investment, much to the harm of future economic growth. An additional disadvantage of large budget deficits is that interest payments on the public debt are rising and will take an ever larger share of public expenditure. It must be feared that public investment will suffer from such an unfortunate development, not only at the present time but also in the years to come, and that this will tend to lower the rate of economic growth in the long term. It is in the interest of durable economic recovery that the efforts to bring these deficits down be continued and intensified.

A third threat to sustained economic growth is formed by exchange rate instability. Whereas in the 1970s we faced a continued depreciation of the U.S. dollar, this situation has now been reversed. Since the end of 1980 we have been experiencing a major appreciation of the U.S. dollar. In both periods the fluctuations attending these exchange rate developments have produced reactions in the other industrial countries of the OECD area. For, as we all know, this instability might hamper international trade and foreign investment, and may give rise to calls for more protectionist trade policies.

One of the reactions to exchange rate instability was the request, which was particularly addressed to the United States, for a more active intervention policy, in order to dampen the fluctuations and curb the persistent rise of the U.S. dollar exchange rate. In this connection, a study was undertaken by a group of experts last year regarding the effects of official interventions. As some of us may have expected, this study showed that, although market interventions may not be without effect in the short run, for the achievement of exchange rate stability in the long run they are not of much help if they are not supported by appropriate changes in monetary and budgetary policy.

Long-term exchange rate stability can only be achieved by coordinating our national monetary and budgetary policies on a sound basis. It is to be expected that as long as countries keep pursuing their domestic economic policies as though the effects of these policies were of no consequence internationally, exchange rate stability may remain a nearly unattainable goal. Of course this is especially true for the major industrial countries. On the other hand, however, it will be necessary for the smaller countries to adjust their domestic policies toward achieving both internal and external equilibrium. Thus the responsibilities for the appropriate policies lie with all actors in the international economic scene. . . .

In order to attain exchange rate stability, however, it may be useful to discuss the major policy issues in other forums as well, in particular in the meetings of the Ministers of the Group of Ten and their Deputies. These meetings could be intensified, and some could be reserved solely for discussions on the subject of policy coordination with the aim of achieving exchange rate stability. An interesting thought in this connection could be the idea, which is being developed in the latest *Annual Report*, to examine whether exchange rate stability and the results of the monetary policy could be improved by using the exchange rate as an indicator. Although I consider the context of the meetings of the Group of Ten particularly suited for this purpose, I feel that we should be open to other constructive suggestions or proposals. As a last remark on this particular subject, I would like to stress that no amount of discussions and consultations on a multilateral level will lessen the importance of the requirement that governments take the international consequences of their domestic policies into consideration in formulating their economic policies. Should this willingness not exist, all discussions and consultations will prove to be of little avail. . . .

The economic recovery in the industrial world, if it takes hold, will no doubt have positive effects on economic growth in developing countries. Even so, the economic situation of many developing countries will remain highly worrisome. Much depends on the successful outcome of the adjustment programs currently being undertaken by many developing countries. Indeed, the recession has laid bare the distortions in economic and financial policies in many countries. Developing and industrial countries alike will first have to pursue policies that create the conditions for a recovery of growth before they can fully profit from external impulses. Of course, we should not forget that there are many differences among developing countries, and that the problems of the poorer developing countries are so deep-seated that a solution of their problems will require specific measures and additional support.

In my view, two factors will to a great extent determine whether the declining trend in incomes in the developing countries can be reversed: first, the adjustment policies undertaken by these countries themselves and, second, the availability of external funds to support these needed policy reforms.

I have already explained what kind of measures in my opinion are called for. I now want to discuss the contribution to be made by the World Bank in this respect.

As to the first factor, it is important to note from recent World Bank publications that among the developing countries some have weathered the economic setbacks better than others, owing to policy changes made at an early stage. Several of them belong to the category of low-income countries, which shows that no country, whatever its level of economic development, is totally without defense against external setbacks.

This year's *World Development Report* deals extensively with the improvement of management in development. I think that the subject was well chosen and I endorse most of the conclusions. Moreover, I have an impression that developing countries themselves do realize the vital importance of improving policies to make their economies more effective and efficient. In an increasing number of countries, adjustment programs are already being launched and, knowing how much austerity measures in my country and in other industrial countries hurt, I appreciate the courage it takes to carry out such programs in countries less well-off than my own country.

Moreover the lessons of the report can only be implemented if they are adapted to the specific situations of individual countries.

The second factor important for economic growth will be the availability of adequate funds to facilitate the required policy changes. I have already touched upon the uncertainty concerning the future levels of commercial lending. Moreover, those types of financing are not suitable for all developing countries. Part of the needed funds will have to be provided by the multilateral development institutions. In particular, the concessional funds of these institutions have an important role to play, since so many low-income developing countries are not in a position to cope with the debt service burden of large flows of nonconcessional resources. Lending by multilateral development institutions should be clearly directed at sound economic projects and programs, and should not be seen as a substitute for lending by commercial banks.

The contribution of the World Bank is not confined to the financial area. Equally important is its nonfinancial role as a platform for policy dialogue. The Bank acts as a "confidence builder" for other participants in the international system. It has a catalytic role to play in mobilizing resources for development. In this connection the Bank's present efforts to attract cofinancing resources of all three kinds are highly endorsed by me. As to cofinancing, I am glad to express my Government's intention to sign shortly a cofinancing agreement. I agree with the view that the Bank's role as a policy adviser cannot be separated from the contributions made by its actual transfer of resources. And this brings me to the central issue of this part of my speech: the funding of the Bank and its affiliates. I will start with the Bank.

The main topic for the Bank is the role it has to play in the world economy and the financial basis required to do so. Therefore, a thorough discussion on the evolution of the task and functions of the Bank in the longer term and the capital requirements connected with these should start as soon as possible.

In the meantime the Bank should be given the necessary flexibility in responding to the situation of its member countries in the coming years. Consultations are now taking place about a selective capital increase following the quota increase of the Fund. I strongly support the idea of a selective capital increase that has as its primary objective the adjustment of the relative positions of those member countries whose capital shares are now most out of line with their positions in the Fund. It seems that many of us feel that only a limited selective capital increase is feasible. I could go along with such a position, but only provided that serious negotiations for a general capital increase be started right away. The medium-term funding of the Bank should be based on a timely general capital increase, not merely a special capital increase.

Such negotiations should then take place against the background of a discussion of the future role of the Bank, in which the growing role of the nonproject component of Bank lending as it has now evolved should also be critically evaluated. In this connection I want to express my appreciation for the flexibility shown by the Bank in tackling the financial consequences of present economic developments in many developing countries. The adoption of the Special Assistance Program is a good example. However, the Bank's flexibility and support for structural adjustment should not make us forget that it is the Bank's project orientation that should remain the main focus of its activities. In this connection, it would be very helpful to develop a policy framework for the types of financing that are unrelated to identifiable projects. It would increase the necessary transparency of the Bank's activities.

Let me now turn to the International Development Association. I think we may now be cautiously optimistic about the further implementation of IDA-VI. We sincerely hope that the U.S. Congress will shortly approve the remaining portion of the U.S.participation.

IDA-VII, however, poses a much more serious problem. The worrisome situation of many IDA recipient countries can only be overcome by adopting appropriate economic policies, supported by an upsurge in the world economy and provided that sufficient concessional resources come forward. The policy dialogue of IDA can only be implemented if IDA is entrusted with sufficient funds, especially for those low-income countries not having adequate access to international capital markets.

IDA Deputies have until now convened five times to discuss a number of policy options for IDA-VII. On the most central items of volume and burden-sharing, wide differences still exist. For that reason I think it is time to examine seriously and urgently the possibilities of putting IDA on a more realistic footing with respect both to the sources and the allocation of funds, and to its relation to other development institutions. Basically, there are two possibilities. Either we make the political choice to adapt IDA to the present changed circumstances in an orderly manner or, by ignoring those problems, we run the risk of a slow demise of the institution.

Whatever the future volume of concessional funds will be, it is clear that in financing economic growth the share of private capital will become more important for an increasing number of countries. This is a positive development, for it shows the increasing self-reliance of developing countries. One source of private capital which is particularly valuable is private direct investment. The advantages of private investment are now, I am glad to say, widely recognized among developing countries.

In my opinion, the International Finance Corporation should be allowed to expand its role in stimulating private investment. Last year the staff of IFC presented proposals for a new five-year program which were discussed informally. My Government welcomes these proposals to expand the investment program of IFC during fiscal year 1984/88 and accordingly raise its capital by $750 million. We are looking forward to the formal discussion which is scheduled for this fall, and we hope that real progress can be made here, since this is an area where there is fairly widespread agreement on the course of action to take.

Last year, my Government commended the Bank and its President for reopening the debate on a multilateral investment insurance scheme. I do think that this topic, difficult and controversial though it may be, remains worth considering. Even if continued discussion will not lead to an early agreement, it may at least succeed in bringing our views closer together on an issue on which agreement might be beneficial to all of us.

I will conclude my speech by expressing my faith in the future of the Bank as a dynamic, expert, and vigorous institution serving us all. My Government will continue to contribute to this end. Ample proof for our support is our policy of providing the Bank access to the Dutch capital market. It is true that this implies competition for my own Government. However, we value competition, and we value the Bank. That is why the Bank's borrowings in Dutch guilders in the last fiscal year could amount to almost 2 billion guilders or more than 8 percent of the Bank's total borrowing. This has made the guilder the fifth most important currency of the Bank's recent borrowing.

NEW ZEALAND: R.D. MULDOON

Governor of the Fund

It is usual at meetings such as these for Governors to address the immediate issues of the world economic situation, to discuss the matters affecting the current operations of the Bank and the Fund, and to touch on the relevance of these questions to their own individual countries. I intend to depart from this traditional practice. I do so because I believe there are broader, more fundamental issues which face us today; issues which go to the very roots of the long-term preservation of the world trade and payments system, and which also bear importantly on the structure of our international economic institutions.

The present international economic arrangements had their origins in an immediate post-war world which was far different from that which we face today. There were fewer sovereign states, even fewer dominated world affairs, and the largest of these, the United States, generated only a small proportion of its national income by trade with the rest of the world. It was thus not surprising that much of the economic analysis of the 1950s and 1960s was conducted on the basis of models derived from the case of the so-called closed economies. It was perhaps also not surprising that we thought we could compartmentalize the international economy into three separate components; general balance of payments adjustment under the oversight of the Fund, project loans and other aid through the World Bank and its affiliates, and trade issues within the preserve of the GATT.

Times have changed. The domestic management of individual economies is now acknowledged to be much more complicated than was thought in the relatively stable days of Keynesianism or simplistically supposed in the early days of monetarism. Domestic economic policy dilemmas have become more complex and for many countries trade-offs between various economic objectives have deteriorated. Slow growth, high unemployment, persistent inflation, and external deficits seem too often to be incurred simultaneously. Associated with these difficulties have been the particular shocks of the

1970s and early 1980s; the oil price changes, the deep and lengthy worldwide recession, and the terms of trade decline experienced by most developing countries. Since most economies, including even the United States, have become much more open in recent decades, these shocks have reverberated around the world to an extent never envisaged at Bretton Woods.

As a consequence of this mix of problems, international debt has expanded greatly, to such an extent indeed that many debtor nations and most major commercial banks have overextended themselves. International liquidity is now contracting, despite the urgent and pressing economic problems faced by many countries. To put the matter simply, what all this amounts to is that there has been an enormous upsurge in economic and financial interdependence among a now much larger number of nation states than existed in the 1940s and 1950s.

What should we do about this extraordinary and fundamental change in the international structural situation? First, let me make it abundantly clear that I believe the international institutions, and especially the Bank and the Fund, have done a remarkable job in avoiding a collapse of the international trade and payments system. With the help of the BIS they have conducted a first-class holding operation. Unfortunately, it cannot be said to be any more than this given the fact that problems are still responded to in an ad hoc manner, and given the uncertainties with respect to confirmation of the Fund quota increase, the role of the General Arrangements to Borrow, and the availability of large-scale borrowed resources for the Fund. We are still responding to problems on a case-by-case basis, moving from crisis to crisis. What is clearly needed is a more comprehensive, integrated approach. We must acknowledge that we have on our hands some fundamental structural problems which will not be solved either in the short run or by a series of ad hoc and necessarily partial solutions. I am sure our inability to focus adequately on the present scale of our interdependence and the interrelated nature of the international economic difficulties is partly the result of the separation of the finance, aid, and trade issues into different forums. We have a diverse range of discussion groups and a variety of unlinked international institutional arrangements, but the problems of inadequate international liquidity, enormous debt burdens, exchange rate and interest rate instability, extensive protectionism, a slowdown in aid flows, and uncertainties about the appropriate macroeconomic policy responses to external shocks are not unrelated issues. Indeed, they are inextricably interwoven, one with the other, and they demand a wide-ranging reappraisal. What I am calling for is thus nothing short of a fundamental review of the world's trade and payments systems. This is not just a question of domestic and international economic policy, it is also a political issue, and it demands a political response in an appropriate political forum. I have been greatly heartened by the extent to which this view has spread internationally since I first raised it more than a year ago. The Williamsburg summit revealed the first glimmerings of hope that the major nations of the world may work toward a new international conference on these issues, and the Commonwealth finance ministers' meeting held last week in Trinidad endorsed the concept with enthusiasm.

The present economic recovery, far from providing an excuse for delaying progress, amply confirms the points I am making. On the one hand, it provides a more suitable backdrop than prevailed a year ago because, first, adaptability is better facilitated in an environment of some growth and, second, the sort of process I am talking about will take quite some time. On the other hand, the slowness with which the recovery is seeping through from the United States to the rest of the world illustrates the urgent need to open up the financial and trade bottlenecks that are now being encountered. This would be as much in the interest of the United States, itself now a more open economy, as it would be in the interest of the world in general and the developing countries in particular. The only way I see of promoting conditions conducive to a long-term, sustainable, and genuinely internationally based recovery is to acknowledge the existence of the structural problems to which I have referred, to formulate an integrated agenda of them, and to set in train the necessary political processes to enable us to carry out a fundamental review of the world's trade and payments system. The basic fear that the major industrial countries have, and which they are even afraid to express publicly, is that a major conference—a new Bretton Woods, as it has been labeled—would, on a one-country one-vote basis, produce decisions that would be politically impossible for them to accept.

The solution to that problem is simple. The detailed work should be done by working parties based on the grouping system of the Bank and the Fund. We accept that in our deliberations here; we would accept it as we seek a new mandate to bring these institutions of the 1940s into the 1980s and the twenty-first century. If we fail to do this we run a high risk of the recovery being aborted or, in any case, of it not being shared by those who need it most desperately. The view that we need a new international conference on these matters is widespread. I hope that it will be expressed by those Governors who agree with the proposal. I believe we can capitalize on this concept and work steadily toward a constructive and unified repair and rebuilding of the world trade and payments system. For every country represented here, rich and poor alike, this proposal is simply enlightened self interest. We will do this, or something like it, eventually. Let us do it now, while there is still time, and before we are forced to do it, as was the case at Bretton Woods, after a disastrous worldwide depression that spared no one.

PAKISTAN: GHULAM ISHAQ KHAN

Governor of the Bank

Let me at the outset join my colleagues in extending a warm welcome to the new members of the World Bank. May I also take this opportunity to express our appreciation for President Reagan's inaugural address, which was highly encouraging for its unambiguous commitment of support for our institutions, and for the remarkably candid and forceful opening statements of the President of the World Bank and the Managing Director of the Fund, which, as always, have helped in focusing attention on the central issues that must engage our attention.

Economic recovery is by now widely recognized as taking effect in a number of industrial countries, notably in the United States. It is a welcome development as it signifies a break in the gloomy economic climate which we have been lamenting in this forum in several previous meetings.

The recovery is, however, neither universal in character nor broad-based in its composition or assured of durability. As Mr. de Larosière has pointed out, it is still limited geographically, and fixed investment, which is the decisive element in determining long-term growth and productivity, remains weak. As to the crucial question of durability, I agree with Mr. Clausen that it would depend upon the actions of the leaders of both industrial and developing countries whether the recovery will be short-lived or sustained.

It also needs to be noted that the developing countries, carrying a disproportionate burden of the impact of world recession since 1976, find their position continuing to deteriorate even in this recovery phase:

—The growth of real output in the non-oil developing countries slowed down further in 1982 to about 1.5 percent for the group as a whole, signifying negative growth in per capita GNP. Even for 1983, there are no prospects that positive growth in per capita incomes would be attained. Thus, for three consecutive years there will be zero or negative growth in per capita incomes in these countries.

—The flow of resources to developing countries has continued to decline. Private bank lending has virtually dried up in terms of net transfer of additional resources. In real terms, ODA flows to developing countries are estimated to have remained unchanged in 1983 at about the same level as in 1980. With only 30 percent of the bilateral concessional aid going to the low-income countries, the main reliance of these countries was on concessional assistance from multilateral agencies. The continued delay in the decision on IDA replenishment and the possibility of a reduced IDA lending program are thus a matter of vital concern to IDA's traditional recipients.

—The denial of trading opportunities to the developing countries, particularly in items where they have the greatest comparative advantage, not only persists but has grown in recent years. Despite the recovery, there are no signs of an early rollback in the tide of protectionism. Combination of high interest rates and reduced access to shrinking trade opportunities is making the already difficult debt problem almost intractable.

Looking at the global picture, it appears that the suffering of the various groups of developing countries has been in direct proportion to their exposure and their linkage to the world economy. The experience is likely to be a deterrent for developing countries seeking to orient their policies toward a more open and competitive system with close linkage to the outside world. Unless there are visible signs that positive leadership is likely to be exercised toward managing the world economy along a more stable and progressive path, I am afraid the tendency toward inward-looking approaches would grow, despite their high cost in terms of loss of competitive efficiency.

The task ahead for all of us is to sustain and strengthen the process of recovery and to extend its coverage both to the industrial nations, still suffering from a decline in their economic activity and unprecedented high levels of unemployment, and to the developing world, still reeling under the influence of an apparently interminable crisis. The mutually supporting role of the economies of the industrial nations and the Third World, which is by now well recognized, needs to be courageously harnessed in the present situation to set in motion a forceful and widely shared upswing in global economic activity.

This requires leadership and bold new initiatives. Those who wield leading influence on the world economy have the obligation to exercise this leadership in a positive manner. The economic power enjoyed by the industrial nations must be used boldly for the collective good of the world community but not by resisting change and reducing all reforms to their lowest common denominator.

The major industrial nations have often given an impression in recent years of acting more as individual national entities, seeking solutions to their own problems, rather than collectively providing leadership in managing the world economic system for the common advantage of all its participants. Some of the policies, which apparently provide easy answers to the problems of one or two countries, may in the global context have negative consequences. The response to the prolonged recession in recent years took the form of curtailment of internal demand combined with growing protectionism. The result was a decline in world trade which in turn magnified the problem of adjustment. Similarly, persistent large fiscal deficits are exerting upward pressure on interest rates, thereby discouraging fixed investments. While the developing countries are being advised to rely on the market mechanism, the present high interest rates are creating special difficulties for them in meeting their requirements of investment finance from the market.

The situation calls for concerted action by both the developing countries and the industrial nations. There is no denying the need for internal adjustments to the new realities by developing countries. This is indeed well under way. They have been able to reduce their trade deficit in 1983 to a projected level of about $40 billion—a reduction to half of the level of two years ago. This reduction has largely been brought about by the curtailment of imports as export opportunities continued to decline and the terms of trade continued to worsen during this period.

The adjustment process in the developing countries must, however, be seen in the perspective of definite limits to social and political tolerance of the systems. These economies and societies are living organisms still developing to acquire cohesion and integration of diverse elements. Adjustment is not a mechanical process. It touches the very core of the social fabric. Beyond a certain level it may prove counterproductive by causing a breakdown in the continuity of change. At times the limits set by the utter poverty of the masses in the low-income countries to the speed with which an adjustment program can be implemented appear to be ignored.

For an orderly adjustment process to be implemented within realistic limits of sociopolitical tolerance, it would be essential to improve the international economic climate and support the adjustment programs with adequate resource transfers. This will require forceful action for opening up greater trading opportunities and strengthening the institutional framework for the transfer of resources to developing countries.

The World Bank and its affiliates and the Fund constitute the core of the world financial system. These institutions have traditionally made major contributions in ameliorating the situation during crises. It is essential that we strengthen these institutions and enable them to effectively respond to the challenge which lies ahead. However, as things stand, both institutions are threatened by a resources constraint which may paralyze their effectiveness at the most critical juncture. Hamstrung by a paucity of funds, they may well be reduced to an advisory role and may not be able to support the orderly and expeditious implementation of domestic structural adjustment programs. Any institution which is long on advice and short on resources may get a respectful hearing but would hardly be in a position to have its advice acted upon in real earnest. . . .

Similarly the World Bank's institutional role in managing an orderly transfer of nonconcessional resources to the developing countries is being subjected to limitations on its capital increase. The Bank assistance, as distinct from IDA, is of a nonconcessional nature, imposing minimal cost on the rich nations. Its lending program is an important element in the stable growth of market loans. It is not a substitute for market lending but a strong encouraging factor. It is gratifying to note that most members agreed in the

Development Committee to a selective capital increase for the World Bank of over $8 billion; however, more important than the selective capital increase is the need for early finalization of proposals for a general capital increase which would enable the Bank to sustain 5 to 6 percent per annum real growth in its lending program during the 1980s.

In the context of World Bank assistance to low-income developing countries, IDA plays the most significant role. Despite the fact that the urgency of concluding IDA-VII negotiations by the end of this year has been unanimously accepted, it is a matter of considerable regret that no progress has been made in the replenishment negotiations so far. The early replenishment of IDA at a level commensurate with the increased requirement of low-income developing countries for concessional assistance constitutes an acid test of the affluent nations' professions of willingness and determination to meaningfully assist the weakest elements in the world community in their development efforts.

It would indeed be a great pity if the world community acts in a shortsighted manner and seeks to curtail the role and effectiveness of the Bank and the Fund at precisely the time when their assistance is most needed. While the major burden of adjustment should continue to be borne by the developing countries themselves, they must be assured of at least minimum support from the international institutions. Impediments in the way of such support could have highly disturbing consequences.

PAPUA NEW GUINEA: NOREO BEANGKE

Governor of the Bank

I wish first of all to thank the U.S. authorities and the city of Washington for their warm hospitality and for the excellent organization of our meetings. I also wish to welcome Malta and Antigua and Barbuda who have become members of the World Bank during the past year.

We in Papua New Guinea are heartened by the indications of a modest economic recovery in the industrial world. However, we are cautiously optimistic about these early signals.

The Government of Papua New Guinea as a small open economy will continue to adhere to its policies to stabilize the effects of fluctuating commodity and metal prices. Like all developing countries, we were affected by the downward swing in commodity prices and by the shock of oil price increases. To cope with this situation, with the prospects of static government revenue and with the need to safely meet forward loan estimates and to be assured of the capacity in later years to repay our debts, the Government has undertaken a fiscal adjustment program.

This program, which began with the 1983 budget, featured no growth in public expenditure and a reduction in recurrent government expenditure. It emphasized improvement in the efficiency of internal revenue collection and reduction of commercial borrowing for general budget purposes. To date these aims are being met with expenditure and revenue targets on track and cost-cutting programs on line.

This adjustment is to continue in 1984 with a further reduction in real terms in public expenditure and a further scaling down of overseas commercial borrowing.

At the same time, the Government is aware of the pitfalls of reducing its investment plans. Efforts continue to be made to make modest provision for new development expenditure in our National Public Expenditure Plan. The Government is continuing to provide the funding necessary to ensure timely and planned implementation of on-going projects.

The efforts of World Bank and IMF staff over the past year in Papua New Guinea are appreciated. The Bank has responded to our country-specific needs and has tailored its lending operations to our requirements.

As Mr. Clausen stated, the Bank has progressed and been innovative over the past year. The efforts on the part of the Bank to ease administrative and documentation requirements, to react to the institutional needs of our implementing agencies, and to increase disbursements through the Special Assistance Program are applauded.

The Government, in addition, welcomed the productive and healthy exchange of views with this year's IMF mission and looks forward to continuing this dialogue.

We in Papua New Guinea are conscious of the pressures on our international economic institutions. It is our belief that the needs of the developing world will continue to be served by the World Bank Group and the Fund and that the innovations required will be the common goal of all member countries.

PARAGUAY: CESAR ROMEO ACOSTA

Governor of the Bank

We are attending these Thirty-Eighth joint Annual Meetings at a difficult time for the global economy, which is grappling with the most devastating recession in world history. This recession is attributable in large measure to shortcomings and disequilibria in international economic relations, inequality, political and social problems, violence, poverty, corruption, and disorder.

The Paraguayan Delegation is pleased to note the efforts being made by the World Bank and its affiliates to streamline their institutional machinery to provide member countries, more particularly the weakest among them, with ongoing and more effective technical, economic, and financial cooperation, attuned to current economic conditions.

We are convinced that present circumstances require a more intensive dialogue to identify points of convergence and bring about satisfactory agreements that will be reflected in emergency measures to reactivate output, investment and exports, increase employment, and curb inflation. This will enable us to meet the obligations we have to thousands of men, women, and children seeking greater security, well-being and hopes for the future.

While there have been some indications of economic recovery in the industrial countries, the problems continue unabated in the less developed countries. Their terms of trade have deteriorated as a consequence of persistent application of severe protectionist measures by the industrial countries. At the same time, high real interest rates on international financial markets have had a negative impact, expressed in higher payment obligations, lower exports, a substantial decline in imports of capital goods, a falling off in investment, and growing unemployment. These factors have aggravated our countries' payments problems, at a time when we are already suffering from the effects of the reversal in net capital flows and the reduced availability of loans carrying maturities and interest rates conducive to development.

We are making these comments not with the objective of assigning sole blame to the industrial countries for all the problems we see around us. The problems also have their roots in the developing countries themselves, whose "own efforts" justify a number of questions when examined closely: we find such factors as budgetary deficits, discretionary public spending, constantly swelling external debt, corruption, and unwise policies that work against prosperity.

Thus there is an imperative and pressing need for a dialogue to improve trade practices, lower protectionist barriers, and reduce financing costs that cut earnings, prevent countries from meeting their external obligations, and hold back social and economic development.

Our countries are passing through a critical phase with the highest rate of unemployment ever recorded. According to the World Bank's Annual Report, there are 32 million people without work, and this high rate of unemployment can only be gradually reduced if the developed countries expand their commercial frontiers, and apply urgent measures on the investment, financing, and external debt fronts.

The present situation requires speedy restoration of the external purchasing power of the developing countries. There is thus an urgent need—and this should be accorded priority—to reformulate commercial and financial arrangements with a view to reversing adverse terms of trade and eliminating restrictive monetary policies applied on increasingly hard terms in conjunction with restrictive trade practices.

We appreciate the true value of the efforts made by the World Bank and its affiliates during the fiscal year ended June 30, 1983. The symptoms of recovery apparent in some of the leading countries hold out hope for the developing countries.

Paraguay feels that it should make special mention of the efforts of the World Bank, the IMF, and the United States, among others, in providing assistance to the countries making adjustments to their economies. However, in view of the transitional and limited nature of these adjustment programs, they can never be sufficient to resolve current problems, but they can help to alleviate them or prevent them from getting any worse.

Paraguay has been, and continues to be, severely affected by the worldwide economic recession; it has also suffered the devastating effects of the most severe and prolonged flooding in its history. The floods left cities, farms, crops, and livestock under water. Enormous efforts were needed to rescue, settle, provide for, and assist thousands of flood victims. Its effects continue to reverberate throughout the economy due to the forced abandonment of extensive crop and livestock areas and the loss of present and future crops.

The Paraguayan economy has been severely affected not only by the continuing world economic recession but also by the high rate of inflation in neighboring countries and the reduced demand for goods and services in connection with binational hydroelectric projects. Paraguay's gross domestic product (GDP) fell by 2 percent, compared with an 8.5 percent increase in 1981. The external trade balance was again unfavorable and the current deficit amounted to US$562 million. The balance of payments showed a deficit of US$71.5 million in 1982 after having recorded a sizable surplus for more than a decade. The year 1982 also produced a significant budgetary deficit, which was financed by drawing down official deposits, reducing the financial assets of the National Treasury, and allowing the floating debt to increase.

The consumer price index rose by 5.1 percent in 1982. This figure was below the 13 percent rate recorded in 1981. The wage index rose by 3.8 percent in 1982, compared with a 20 percent increase in 1981. As the minimum wage remained unchanged in 1982, the rise in the wage index was due mainly to higher wages paid by state corporations.

The monetary assets of the public and private sectors, representing currency in circulation and savings deposits, rose by 4.1 percent in 1982, a slower rate of growth than the 7 percent recorded in 1981. In absolute figures, the increases were ₲ 6,223 million in 1982 and ₲ 9,903 million in 1981. Currency in circulation amounted to ₲ 66,426 million and savings deposits in banks and the savings and loan system (building societies) amounted to ₲ 90,352 million, so that total monetary assets stood at ₲ 156,778 million on December 31, 1982.

Net financing provided by the financial system to the public and private sectors rose by ₲ 14,291 million, an increase of 8.8 percent, in 1982, well below the 18.4 percent increase recorded in 1981. Total lending and discounting amounted to ₲ 176,431 million as of December 31, 1982. Demand for credit for the private sector rose more slowly in 1982 as a result of the decline in domestic production and the reduced level of business activity. Public credit also increased moderately. The Central Government made use mainly of monetary savings from the National Treasury to meet its budgetary needs. State corporations required a level of net additional financing close to the amount of increase for 1981.

External trade showed a negative balance of US$251.7 million in 1982, 20 percent higher than the deficit of US$210.6 million recorded in 1981. Exports rose by 11.7 percent and imports by 14.9 percent. The 1982 deficit was the highest foreign trade deficit recorded in any one year. In 1982, exports totaled US$329.8 million and imports US$581.5 million.

The exchange rate system was changed in 1982 to deal with the adverse balance of payments situation. The measures adopted by the Banco Central del Paraguay were coordinated with the Government's economic and financial policy and were intended to promote exports and reduce imports. This action was complemented by monetary and fiscal measures.

A uniform exchange rate of ₲ 126 to US$1 had been maintained unchanged since 1960 and the values of other foreign currencies were fixed in relation to this basic exchange rate. Exchange houses began operations in 1973, and were authorized to freely establish the values of foreign exchange in accordance with market forces, while exchange transactions effected through the banks remained unchanged at ₲ 126 to the dollar.

To promote balance of payments equilibrium, in addition to exchange control measures, the Banco Central del Paraguay introduced a system of differential exchange rates in 1982 to encourage exports and restrain imports.

The 1982 balance of payments deficit of US$71.5 million was caused by the difficult situation in the external sector, after positive balances had been recorded each year between 1970 and 1981.

Net international reserves held by the Central Bank fell by US$78.1 million in 1982, bringing the balance to US$635.9 million, a decline of 10.9 percent. Available reserves fell by US$90 million in 1982. Gold holdings rose by US$1.6 million and the credit balance with the IMF rose by US$10.4 million.

Debt payments in 1982 amounted to US$111.9 million, a 2 percent increase over 1981. The public sector repaid a total of US$85.8 million, up 9 percent compared with the previous year. The private sector paid back US$26.1 million, a 15 percent drop compared with the US$30.8 million paid in 1981. It should also be mentioned that 1982 saw the repayment of seven external loans aggregating US$16.1 million, made up of three loans from the

United States Government, two from European banks, one from the Inter-American Development Bank, and one from the Bank of America.

The performance of the Paraguayan economy in the current year, 1983, has been characterized by an estimated 2 percent decline in GDP. Total production of cotton, soybeans, tobacco, maize, and rice is also down.

Domestic prices started to rise in the first half of 1983, reaching an annual rate of 14.3 percent in July, compared with an annualized 6.4 percent in July of 1982. Domestic prices may rise even more sharply in the remainder of 1983 as a result of monetary expansion.

The minimum wage was raised by 10 percent on July 1, 1983 and the projected higher rate of price increases in the second half of the year may give rise to problems.

Public credit financed by the Banco Central del Paraguay rose by 58 percent in the first half of 1983, to a total of Ǥ 20,253 million as of June 30, 1983, compared with Ǥ 12,831 million on December 31, 1982. The bulk of this increase came from net additional financing provided to the Central Government.

Total bank lending to the private sector fell from Ǥ 120,824 million in December 1982 to Ǥ 118,839 million in June 1983, a 2.3 percent drop. In the comparable period in 1982, net bank lending had increased by 6.6 percent.

Of the non-banking financial intermediaries, only the Fondo Ganadero (Livestock Fund) increased its portfolio by a substantial amount (15.8 percent). Lending by other agencies rose modestly, and there was even a drop of Ǥ 338 million in the level of net lending extended by the savings and loan associations.

With regard to money supply, currency in circulation in the first half of 1983 rose by 7.1 percent and savings deposits with banks by 14.3 percent. Savings held by savings and loan associations also rose by 3.6 percent. The total increase in money supply, including currency in circulation and savings deposits, was Ǥ 15,237 million, an increase of 9.6 percent, making a grand total of Ǥ 173,775 million as of June 30, 1983.

The external sector showed signs of weakening in the first half of 1983, with declining export earnings, lower income from the binational agencies, a sharp drop in short- and long-term external capital inflows, and a decline in income from other sources.

Foreign exchange income received by banks totaled US$369.5 million, 47 percent less than the US$691.4 million earned in the first half of 1982, reflecting the factors listed in the previous paragraph.

Total payments for imports, short- and long-term official and private capital remittances and external payments for other purposes also fell, from US$728.6 million to US$342.1 million.

After ten years of sustained increase, reserves declined in 1983 as a result of the heavy demand for external payments and reduced income. In the first half of 1983, the Banco Central del Paraguay's net foreign exchange holdings fell by 7 percent or US$39.3 million. At June 30, 1983, net reserves stood at US$528.0 million.

External debt totaled US$1,203.5 million in June 1983. The rise in external debt is responsible for the increase in amortization and interest payments, which will amount to US$150 million in 1983. The servicing of external debt is exerting a growing pressure on the balance of payments.

Paraguay and Argentina have recently reaffirmed their desire to proceed, with renewed vigor, with construction of the binational hydroelectric dam at Yacyretá, which is projected to have an installed capacity of 4,050,000 kw. This project will undoubtedly stimulate development in the interior of the continent, where large numbers of low-income individuals live.

We are also pleased to inform you that the first of the 18 turbines, with a capacity of 700,000 kw, will shortly come into service at the binational hydroelectric dam at Itaipú. This joint Paraguayan-Brazilian project, which is scheduled to have an installed capacity of 12.6 million kw, will be one of the largest integration projects ever tackled anywhere in the world.

As is apparent from my remarks, Paraguay's economy has suffered setbacks since 1981 as the result of external factors, mainly the direct influence of unfavorable economic conditions in its neighboring countries and the worldwide recession.

Both the Government and the private sector are making firm and resolute efforts to overcome these difficulties. The Government is pursuing the goals of establishing, organizing, and improving production and expanding trade in order to correct these disequilibria. The quality of life of our people is good. Extreme poverty is not a feature of our society. Our immense land resources are waiting only for financial cooperation in the volume required for efficient exploitation.

Our true development is based on the balance of energy emanating from freedom and a political system in which relations between the State and entrepreneurs come together in common objectives of healthy levels of investment for the furtherance of development. We do not believe in the Marxist-Leninist controversy with the democracies on the subject of underdevelopment but in prior and concrete analysis of our problems to find a correct and efficient answer in the light of the guiding principles laid down in the constitution and laws of my country.

In conclusion, I wish to express our thanks and congratulations to the officers of the World Bank, and in particular its President, Mr. A.W. Clausen, not only for the kind consideration we have received at all times, but also for the successful manner in which they have conducted the affairs of the Bank and its affiliates, fully justifying our approval of the 1983 annual report. At the same time, we wish to express our hope that they will go on to achieve further successes for the benefit of all nations everywhere.

SOLOMON ISLANDS: BARTHOLOMEW ULUFA'ALU

Governor of the Bank

Let me take a few moments of your time to describe a custom of my country. In our Melanesian society we attribute power and influence to certain "big men." These "big men" do not have this authority by inheritance. It accumulates to them by a subtle process of respect and recognition of their capabilities. With this political power, there also accumulates economic power. But there is no legal title to these assets. To keep their pre-eminence and remain leaders, they must perform to the satisfaction of their communities. We are traditionally democratic, individualistic, and socially responsible. President Reagan, please note.

One of the things we expect our "big men" to do is to help the younger male members of the family to acquire wives. The "big man" will contribute to the price of the bride to be paid by his young male relatives. In this way he secures their continuing allegiance and enables them to acquire healthy, desirable brides, capable of bearing many children. Statistics tell us that 52 percent of these children will be girls. In due course they will be married, and the family will receive a "bride price" for them. A substantial share of this incoming transfer of assets will find its way to the "big man" who, for sound reasons of enlightened self-interest, started the process off.

The first moral of my story is plain to see. The investment by the "big man" in helping his junior kinsmen to get started in life, is repaid many times over. But there is also a second lesson. If you want to go on being a leader, you have to behave like one. If you do not measure up to the reasonable expectations of your supporters, do not be surprised to wake up one morning and find they have transferred their allegiance elsewhere.

I believe this is highly pertinent to our current problems in both the Bank and the Fund. We have extremely grave difficulties in both institutions, which have been explained and exposed with admirable clarity and feeling by the President of the Bank, the Managing Director of the Fund, and by my fellow Governors, here and in other forums. The problem is not lack of data, or the need of further analysis. Nor is there much room for disagreement about how to remedy matters. Indeed, among practical men concerned with international economic affairs, there is far more agreement on what needs to be done than you would think from listening to government spokesmen putting out the party line. . . .

Just as Fund borrowing would *not* bid up interest rates or drain capital from markets which annually fund such requirements a hundred times over, in the same way, an adequate replenishment of IDA and a solid capital increase for the Bank would not overburden the developed economies. On all these points, I believe the economic arguments are overwhelmingly on our side. In private, our friends in the industrial countries will concede this.

Why do they not do so in public? Because, as has been so well put by Mr Clausen (and Mr. de Larosière), the political will is lacking. That is no excuse and it is a cop-out. There is a challenge to any responsible government to take all steps necessary to create this missing political will. How? By rhetoric, of which this speech is a tiny part? By calling on the "magic of the marketplace"? I wish someone would explain to me the magic of the marketplace. In the marketplaces I know, it is the big guys and the fast talkers who do well, and the little guys who get taken for a ride, even though they do not realize it until too late.

We do need good publicity. We need to perform well, work hard, and be honest with ourselves. We need the developed countries to understand how totally our destinies are interwoven and that we are not sitting around waiting for handouts. We are working. We are building nations and communities. We want to be part of that beautiful world President Reagan described so eloquently here on Tuesday. But if any of us, rich or poor, is going to get there, we all have to get there together. And, to go back to my opening remarks, if the "big men" do not behave more like responsible leaders of the community, their support will melt away and they will be alone in this glittering palace—until the roof falls in and the bats take over. We shall be elsewhere.

SOUTH AFRICA: OWEN P.F. HORWOOD

Governor of the Fund

May I begin by congratulating Mr. de Larosière on his reappointment as Managing Director of the Fund and by expressing my appreciation of the distinguished way in which both he and Mr. Clausen have continued to discharge their demanding responsibilities at the helm of the Fund and the World Bank.

The wisdom of the founding fathers of the Fund and the Bank in setting up these twin institutions at Bretton Woods has never been more evident than during the past year. In a remarkable cooperative effort with the Bank for International Settlements, the leading central banks and the international banking community in general, the Fund and the Bank have been eminently successful in defusing and containing the stresses and strains arising from the debt crisis during this troubled period.

As Governors of the Fund and the Bank, we should not, however, delude ourselves that the international debt problems have now been resolved. They certainly have not. It is one thing to arrange debt rescheduling and bridging finance for debt-ridden countries and to reach agreement with them on "performance criteria" and "adjustment programs." It is a different matter for these countries to *implement* these programs, *and to keep on* *implementing them*, when they involve harsh restrictive measures, austerity, low growth, high unemployment, and sharp declines in living standards. At best, the way out of the present debt debacle is going to be long and difficult. And it would be naive to ignore the possibility that domestic sociopolitical resistance in debtor countries or other unfavorable developments might lead to further defaulting and an intensification of the debt crisis. In Toronto last year, we may have been too alarmed at the situation. This year in Washington we are perhaps too complacent about it.

Fortunately, there are encouraging signs that some countries at least are on the way to economic recovery. It is true that the world economy in general is still confronted by serious problems. Developing countries, in particular, are struggling to cope with the adverse effects of the world recession. But this cannot obscure the success achieved by the United States, the United Kingdom and several other major industrial countries in curbing inflation. In my view, this is the most significant economic development of the past two years.

The market-oriented monetary and fiscal policies employed by these countries have yielded excellent results in the form of greatly reduced price and wage inflation and the restoration of confidence in at least certain currencies. To crown it all, the recovery in the U.S. economy is clearly under way, and the ideal of sustained, noninflationary growth in the period ahead now stands a reasonable chance of being achieved by those countries which have applied appropriate financial discipline.

By contrast, those countries which adopted unduly expansionary policies and tried to spend and borrow themselves out of the recession, have only added to their own difficulties. They now find themselves in the worst of all worlds—inflation, balance of payments deficits, debt problems, unemployment, and with little prospect of meaningful real growth for some time to come. Most of the initial fruits of any recovery they might experience will have to go to their creditors.

The conclusion I would draw from this is that the way to economic recovery does not lie in a return to the old inflationary ways of excessive national and international money creation, high government spending and artificially low interest rates, but in persisting with appropriate conservative fiscal and monetary policies. The price which has had to be paid for the gains of enhanced price stability—in the form of low growth and high unemployment in the short run—has been well worthwhile. A foundation has now been laid for economic recovery in the years immediately ahead.

As I indicated earlier, however, we are not out of the woods yet. I trust, therefore, that the problems and delays being experienced by both the Fund and the Bank Group in obtaining the increase in resources necessary for them to continue performing their important tasks will soon be overcome. . . .

From an analysis of the Annual Reports of the Fund and the Bank, two facts about recent economic developments in my own country stand out clearly. The first is that, like all other countries classified by the Fund as "non-oil developing countries," South Africa has been adversely affected during the past three years by the world recession. In addition, we have had to cope with a sharp decline in the gold price and, more recently, also with the effects of the most severe drought in decades. And the second point is that, by taking early corrective fiscal and monetary action, South Africa has adjusted well and in a timely manner to these adverse developments and has avoided any semblance of overborrowing. Whereas the aggregate current account deficit of the "non-oil developing countries" is projected to amount to $68 billion in 1983, South Africa has succeeded during the past year in transforming a current deficit into a substantial surplus. At the same time, we have reversed the declining tendency shown during the preceding year by both the net foreign reserves and the exchange value of the South African rand. We have also managed to reduce our rate of inflation. Moreover, we have no foreign debt problem. Indeed, our total public and private sector foreign interest payments as a percentage of total exports amounted to only 5.9 percent during 1982.

Part of our short-term financing requirements during this period of adjustment were obtained from the Fund. Despite additional government spending necessitated by the drought and other unforeseen developments, we have continued to meet the "performance criteria" agreed upon with the Fund. Moreover, in view of the improvement in our balance of payments, we have not drawn the full amount to which we were entitled and have, in fact, already made a modest prepayment.

In adjusting to the world recession, South Africa has not lost sight of the need to address the more fundamental, long-term issues of development in our part of the world. To this end, the South African Government has been giving serious attention, in cooperation with other governments in southern Africa, to the development of the less developed parts of the region.

A major step in this connection was taken in June this year with the formal signing of the Articles of Agreement of the Development Bank of Southern Africa. This new institution started its operations on September 1, 1983. It is bound to have a significant impact on economic cooperation and development in southern Africa. South Africa has pledged an amount of R 1,500 million to the Bank in concessionary funds over the first five years of its operation, which will enable the Bank to raise and utilize substantial amounts of capital market funds for development purposes. It is overseen by the Council of Governors in which all member governments are represented and managed by a professional staff under the direction of its Board of Directors selected by the Council from the top echelons of the southern African business community.

While due recognition will be given to the role that industry can play in the development process, the Bank's development philosophy will reflect the insight gained in so many parts of the world, and recently confirmed so clearly in the report of the World Bank on development in sub-Saharan Africa, that rural development and the strengthening of the food producing capacity of developing countries must form a cornerstone of development policy.

Although its original membership is limited to South Africa and those countries which have recently gained their independence from South Africa, the door has been left open for other countries in the region to join the Bank as members, or to participate in other ways in its operations. I believe that the Development Bank of Southern Africa will prove to be an effective instrument in realizing in southern Africa some of the priorities set for the developing countries in the 1982-83 Report of the Development Committee, viz ". . . increasing levels of domestic savings and investments, greater efficiency in the use of capital, strengthening of general economic management and greater emphasis on agriculture. . . ."

To conclude, I am encouraged by the increased sense of realism that has emerged from this year's meetings. The serious debt problems and other economic difficulties of recent years have had a sobering effect on economic thought and policy. They have underlined the folly of financial permissiveness and the virtues of financial discipline. And under the leadership of some of the main industrial countries, progress is now being made in the quest for noninflationary economic growth. But there is many a slip twixt cup and lip, and a new debt crisis could easily flare up again. Each individual country would therefore be wise to take whatever further steps might be necessary to put its own house in order, and not to view the current provision of additional financing facilities as a substitute for appropriate fiscal and monetary restraint.

SRI LANKA: RONNIE DE MEL

Governor of the Bank and Fund

I consider it a privilege to address this distinguished assembly for the seventh consecutive time. Across the world, the casualty rate of finance ministers is high. We belong to a high-risk profession, with the risks proportionately higher in developing countries. Those of us who have been able to maintain some continuity are somewhat fortunate because this implies a certain continuity of direction of national policies. Since most of the speakers have already discussed in detail, the present world economic situation and the outlook for developing countries, I shall restrict my observations on the subject to the minimum. In the last few years the world has witnessed the biggest recession since the 1930s. The entire picture has been one of gloom. We are glad that a faint glimmer of light has now begun to appear on the distant horizon. At the moment it seems to be confined to a few of the developed countries. We hope that it will gradually spread to the developing world as well.

President Reagan, addressing the United Nations two days ago, said that we must try to keep faith with the dreams that created the United Nations. Here at our Annual Meetings, we too must endeavor to keep faith with the dreams of our founders at Bretton Woods and try to rekindle the spirit that inspired them for the benefit of all mankind. On behalf of Sri Lanka, I would like to thank the U.S. Government, Mr. Clausen, Mr. de Larosière, and the staff of the Bank and Fund for the excellent arrangements they have made. I also welcome the new members of the World Bank.

Material progress is not the sole purpose of human existence. But, at the same time, without material progress, all other possibilities of enriching human experience falter and fade away. Poverty is an affront to the dignity of man and to the conscience of the international community. The World Development Report has warned us that more than 600 million people will remain below the poverty line in the developing countries in the year 2,000 unless appropriate corrective measures are taken, and taken now. Devising those measures and ensuring that they are followed through to final fulfillment is the responsibility of all of us gathered here today—the member countries, the Fund, and the Bank.

I hope that we will keep that fact uppermost in our minds, as we deal with the technical intricacies of international finance.

As a rule, unfortunately, our recent Annual Meetings have been the occasion for exchanging views on economic gloom. We take time off for the pleasant diversions that are traditional adjuncts of our deliberations, but then return to the theme of gloom, or even doom.

There is something of a change this year. Some industrial countries have begun to see themselves emerging from the throes of recession. We share their satisfaction at what has been achieved. We would like to share their hope that the early signs of recovery will grow strong and will last, but it would be highly premature to assume that the world economy has finally returned to a course of self-sustained growth and development.

Undoubtedly, the restoration of growth in industrial countries is an important component of global recovery. It is only one component. The fact of interdependence in the world today dictates that, without positive international action to arrest the grave deterioration of economic conditions in the developing world, growth in industrial countries will itself be aborted. We will all then return to where we started.

American legislation to increase the resources of the International Monetary Fund was recently described from an American perspective as a "Jobs

Bill." Some 40 percent of U.S. exports go to developing country markets. International trade cannot flourish today unless potential markets are themselves strong and unless it is realized that exports have to be balanced by imports in a sustainable trading system.

These realities are not evident in the working of the international system, hence the recurrence of inequalities, inadequacies, and insecurities in the world economy. Although almost every country in the world is committed in principle to the expansion of trade as a facet of international recovery, this principle has not been evident in practice. In 1982, for the first time in nearly four decades, the volume and value of world trade contracted by 2 percent and 6 percent, respectively. These cold statistics imply a potential for human disaster that can affect developed and developing countries alike.

In 1982, the combined imports of developing countries fell by 8 percent. The per capita income of many countries in Africa, Latin America, and several other areas fell for the second successive year. It has been estimated that more than 300,000 U.S. jobs have been lost as a result of declines in Latin American growth and imports. In developing countries, the consequences of curtailed imports meant less development, slower industrialization, higher unemployment and, overall, greater poverty.

Even to maintain this reduced level of imports in the face of a falling real value of their export earnings, developing countries had no alternative but to borrow. In 1982, the external debt of non-oil developing countries rose by 10 percent to $612 billion. Debt service payments now preempt one fifth of their gross export earnings. As a result of lowering their performance and expectations in response to external factors, these countries have become even more impoverished than before. While this process of poverty unfolds, the trade in armaments and death flourishes. The total foreign debt of non-oil developing countries, as I just noted, is $612 billion. Global expenditure on armaments, meanwhile, in a single year is $850 billion. This disconcerting comparison reinforces the need for a global and integrated approach to our problems and our tasks. There will surely be more world security and stability if a portion of the resources now spent on defense and destruction were to be diverted to development and the decline of poverty in the Third World.

The crucial role that the Bank and the Fund must play in restoring and maintaining global international growth is acknowledged. What is not acknowledged is the extent to which, and the manner in which, the resources of these institutions could be made appropriate to their current tasks.

It has now become clear that the Fund's eighth quota increase is far short of the needs of the present and of the immediate future. There are grave doubts that even this modest increase will be achieved in full or in time. It is also evident that the resources of the enlarged General Arrangements to Borrow will not be immediately available. Must we wait until the world financial system goes into complete chaos, a situation out of which none of us will emerge unscathed, a situation which we must surely try our utmost to avert? Recent announcements by European central banks of their difficulties in matching Saudi Arabia in lending to the Fund have created an acute financial stringency which might push the Fund to curtail its crucial role, at the very time it is most expected to underpin the international financial system. At the same time, we see inadequately conceived and shortsighted efforts to reduce access of developing countries to Fund resources, thus transferring the massive burden of international adjustment to the very nations that can least afford to bear this burden. How can they bear this burden, when a large majority of their people live well below the poverty line, when recession has drastically reduced their export incomes, when inflation raises their import costs, when their access to world financial markets is diminishing, when their recent thrusts at export expansion and diversification come up against protectionist barriers, and when the traditional support by the World Bank and the IMF, already eroded by inflation, *is going* to be further reduced?

The situation so far as the World Bank is concerned is equally disconcerting. While the IMF was to provide shorter-term balance of payments assistance, the Bank was expected to support the longer-term structural and development-oriented adjustment of the developing countries. Its resources too have been gradually eroded, at a time when official development assistance has spiraled downward. IDA, the World Bank arm that helps the poorest countries, like Sri Lanka, has become emasculated, owing to diminishing support from industrial countries. General and selective capital increases of the Bank are now overdue; and the failure to agree on these issues at the Development Committee is most distressing.

Some of our Third World colleagues have been so disappointed with the outcome of the recent Interim Committee and Development Committee meetings that they have deemed our gathering this year as the beginning of a "parting of ways" between industrial and developing countries. I would not like to be so pessimistic, as realism, not pessimism, is the answer to our problems. We should reconfirm our commitments to the principles of Bretton Woods, remold and refashion our institutions and our procedures to suit present-day requirements, and try to rebuild the international financial and trading system on principles of freedom, equity, and justice. We must follow a practical and pragmatic approach in the present situation:

(1) we must adopt immediate short-term initiatives to strengthen the Fund and the Bank, including IDA;

(2) we must think in terms of longer-term action for a reform or improvement of the international monetary and financial system.

We should not, however, sacrifice our immediate objectives in the search for longer-term solutions to world problems; at the same time, we must keep our long-term perspectives clearly in mind.

With a view to longer-term reform or improvement of the system, the Finance Ministers of the Commonwealth, which includes a number of very poor developing countries, at their meeting held last year in London, commissioned a study. A report entitled "Towards a New Bretton Woods" was presented to our meeting held last week in Trinidad and Tobago. The Finance Ministers of the Commonwealth commend this report for very serious consideration by the international community.

We agree that a new Bretton Woods-type conference on international reform will not prove very constructive immediately. First, we need to study problems in greater depth and come up with solutions which are acceptable to the larger community of nations. Second, we should wait and see whether the current euphoria of world recovery led by the resurgence of economic activity in certain industrial countries, will be borne out by reality and will spread to the developing world as well. We have serious reservations on the current forecasts, and we are inclined to believe that we are reading too much into the rather fragile recovery observed in a handful of industrial countries. Also, we have doubts whether such a recovery will spread its wings across the globe because of rigidities that have emerged in the international economic mechanism in the form of protectionism and the massive debt overhang.

We would, therefore strongly recommend that we take short-term measures to sustain whatever signs of world recovery that are there, while undertaking fundamental long-term studies and evaluations, which would hopefully lead us to a restructuring of the international financial system at a more appropriate time in the near future.

In the short run, we must preserve and protect the pivotal role of the Fund and the Bank in the world economy. These are the only institutions we have to engineer positive global economic adjustment.

The role of the Bank and the Fund has already diminished in terms of world trade and payments imbalances. The commercial banks, which filled the void and promoted world trade in recent times, have tended to recoil from the magnitude of the debt crisis. We do not think that the Bank and the Fund can fill this void. But they can critically underpin continued commercial bank exposure in developing countries, by providing the minimum critical support to these countries, in support of adjustment policies, thereby restoring confidence in the international system. Reducing access of developing countries at a time like this is a most inappropriate signal to the international community. It is also a signal to developing countries that they will have to adjust more. What more can these poor countries, already battered mercilessly by years of world recession, do, other than condemn their people to starvation and abject poverty? This aspect should be paramount in short-term as well as long-term solutions to the world's economic problems.

As specific short-term measures, we should bear in mind the need to preserve and enhance the role of the Bank and the Fund. . . .

Further, in a world where aid flows are diminishing alarmingly, we must reaffirm our support to the Bank through meaningful capital increases in real terms. Above all, we must stand by our commitment to IDA, which helps the poorest of the poor. We do not know what countries like Sri Lanka would have done without IDA. Internationally, we need an immediate standstill on protectionism in industrial countries, and a commitment to roll back such measures when recovery progresses. We also need a commitment by industrial nations to harmonize their domestic policies, to reduce fiscal deficits, and to ease interest rates.

As for long-term measures, we should commission further studies which will examine the measures necessary for the reform of the international economic system, so that the rich and poor countries, the industrial and developing countries, might be provided with a more harmonious and equitable environment to develop and grow in peace and cordiality. Initially, let us set up a permanent working group of people with a truly international outlook on world problems to undertake this preliminary work. And let us once again commit ourselves to the principles of international cooperation which our founding fathers enunciated 40 years ago at Bretton Woods.

We live in dangerous times. The search for international peace and harmony continues, but more and more it seems to be an elusive search. Perhaps this is because we have been approaching the wrong causes in our attempt to formulate solutions to these problems. The close relationship between development and peace has often been stated, but not adequately explored or followed up. An impoverished population is potentially an unstable population. Suffering breeds bitterness, bitterness breeds anger, and anger leads to violence. Balanced world development, therefore, lies at the heart of international peace and security.

The tasks of today are more complex, more compelling, and more demanding than the tasks of yesterday and yesteryear. If we do not fulfill the tasks of today, with single-minded dedication to human needs, who knows? Perhaps, then, we will not deserve a tomorrow.

THAILAND: SOMMAI HOONTRAKOOL

Governor of the Bank

It gives me great pleasure to address the joint Annual Meetings of the Boards of Governors of the Bank and the Fund. At the outset, may I congratulate you, Mr. Chairman, on your most prestigious assignment. I sincerely hope that your profound experience and personal influence will guide the deliberation of this assembly to a constructive and fruitful dialogue.

It is encouraging to see that the world economic recovery which was previously anticipated to materialize in 1982 has now begun to emerge. This is attributable mainly to the success of major industrial countries in keeping inflation under control. Nevertheless, the growth of private investment remains on a modest scale and the serious problem of unemployment still prevails. For economic growth to be sustained, it is important that the adoption of a policy stance in leading industrial countries be well coordinated and that further efforts be directed toward structural adjustments, particularly in the areas of the labor market and budget deficits.

There are worrying signs, however, that the protracted fiscal imbalances of the United States, the strengthening of the U.S. Dollar, and rising interest rates could impede the long-awaited recovery. Should this recovery turn out to be short-lived, the plight of developing countries will be intensified further. Even if this pessimism were to be set aside, the current outlook facing these countries is still not much more encouraging. The protectionist attitudes and policies of industrial countries, together with the commodity price slump, have sharply reduced export earnings and have exerted further strains on the current account deficits and the deteriorating external debt burden situation of developing countries, particularly the non-oil exporters.

In the period ahead, credits from the international banking circle will be scarcer, as sovereign debts have become much less attractive with sporadic debt reschedulings. This alarming development is most harmful to the already fragile international financial system. . . .

The Bank's role also needs to be stressed. The *World Development Report 1983* is another notable achievement of the Bank staff in an attempt to identify development issues and provide prognoses for them. I fully agree with the Report that correct policies and the efficient management of resources are prerequisites to countries' economic development. For that reason, many developing countries, including Thailand, have undertaken structural adjustment of their economies. However, the emphasis on pricing mechanisms is rather controversial, particularly when applied to state enterprises. The provision of rail transport or port facilities by the government, for instance, is primarily intended to facilitate economic and social development rather than income generation. Where public services involve externality of consumption, reliance on pricing mechanisms could conflict with countries' equity and redistribution goals. Hence, the Bank should be more cautious and flexible in the application of pricing mechanisms in its project designs.

I congratulate the Bank's management for another year of successful operations of the World Bank, particularly in policy-oriented activities such as the Special Assistance Program and new "B" loan cofinancing scheme with commercial banks in which Thailand was the first recipient of the "B" loan and a beneficiary of the Special Program. More serious thought, however, should be given to the Bank's lending level, which under current planning assumptions would virtually lead to a stagnation in the Bank's lending in real terms and a decline in net disbursements due to capital constraint. The Bank has failed to address properly and reasonably the financing needs of its members. I strongly urge that a timely and sufficient capital increase be made to enable the Bank to sustain a real growth in its lending of at least 5 percent per annum. Along this line, I also support the management proposal for more than doubling the net investment of IFC for the five-year period beginning 1984, which would enable IFC to expand its investment, particularly in low-income countries and energy programs.

Thailand stresses the importance and the need for the timely Seventh Replenishment of IDA to meet the urgent needs of the poorest and weakest members of the world community. I wish to reaffirm my country's support for the $16 billion replenishment proposed by the management.

The Bank and the Fund play a critical role in financing trade and development. I believe that the true spirit of international cooperation of Bretton Woods is still alive among our members. We should not let frustrations caused by domestic misgivings and misconceptions of the role of these institutions deter us from the appropriate course in pursuit of our common goals for the economic and social development of our member countries. Trade and development can only grow together under an appropriate mix of domestic and external policies which are conducive to the flow of trade and the transfer of real resources.

TRINIDAD AND TOBAGO: C.A. JACELON

Governor of the Bank and Fund

I speak on matters related to Fund activities. I speak not only on behalf of my own country, Trinidad and Tobago, but have the honor to speak also on behalf of the other countries of the Commonwealth Caribbean, namely, Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Lucia, and St. Vincent and the Grenadines. I would first of all like to extend a warm welcome to Malta on its admission to membership in the World Bank, and to thank members for their expression of welcome to Antigua and Barbuda, the latest member of our subregional group to join these important financial institutions.

This year's Annual Meetings take place in a global economic setting which is not fundamentally different from that of recent years although some evidence of an economic upturn is emerging in some industrial countries. The extensive economic analyses undertaken this year by the Fund in the World Economic Outlook, by the Bank in the World Development Report and by UNCTAD in the Trade and Development Report, have all portrayed a less than satisfactory performance.

I will not dwell at length on the economic performance of the major industrial countries; suffice it to say that the policies pursued by those countries have struck at the very roots of global economic interdependence and growth. Let me briefly summarize the scenario:

—We have witnessed the longest and deepest recession since the 1930s and though some signs of recovery are emerging it is too early to conclude that a strong, durable and sustainable recovery is on the way.

—Growth in world trade declined by 2½ percent in 1982 after having stagnated in 1981. Rising protectionism and the intensification of inward-looking policies in the developed countries, together with depressed commodity prices, are taking a severe toll on the purchasing power of developing countries.

—Aid flows have not shown any appreciable increase in nominal terms and in fact have declined in real terms. At present, such flows amount to about 0.35 percent of gross domestic product, that is, to only half of the internationally agreed target.

—Volatility in, and the seeming misalignment of, exchange rates have had a deleterious impact on the performance of developing countries.

—The external debt of developing countries amounted to well over $600 billion in 1982 and external debt service to over $100 billion, which is equivalent on average to about 20 percent of export earnings.

On the positive side of this scenario there is the abatement of inflation and the incipient economic recovery in the industrial world during the last year. We must not be unmindful, however, that inherent in the process of recovery is the possibility of the re-emergence of inflationary forces. Further, unless the success on the inflation front is accompanied by more appropriate levels of nominal and real interest rates, the recovery process will be jeopardized.

During the same period, the vulnerability of developing countries to those factors over which they have little or no control has been brought into sharp focus. This vulnerability has been manifested in unduly large current account deficits which have become costly and very difficult to finance. Even in the case of the petroleum-based economies, the recent decline in oil prices as well as in production levels has resulted in a marked erosion of their financial position and they have been forced to cut back on their development programs. Their ability to sustain the substantial flow of financial assistance to other developing countries has also been impaired. The limited ability of the international banking system to alleviate the financial problems of developing countries was increasingly apparent during the past year. This, together with the stagnation of aid flows, has had an adverse impact on growth and on employment in developing countries. Growth rates have declined to a point where for the first time in three decades per capita income growth has been negative. The burden of adjustment is therefore being borne by those least able to do so, namely, the developing countries. It is clear that the basic asymmetry in the international adjustment process is being compounded.

In this situation, and in view of the high degree of interdependence of the world economy, the modest economic recovery now emerging must be put on a firm and sustained footing. We should not be lulled into complacency because of the initial signs of recovery in some of the industrial countries. We note with some concern that business investments in industrial countries are recovering very sluggishly and could be further retarded if the high rates of interest were to persist.

The interdependence of the world economy is too often overlooked; developing countries will derive only limited benefits from the recovery process if there is too great a reliance on the "trickle down" effect. Much more is required. Nor should it be forgotten that the stimulation of growth in the developing countries will itself facilitate the growth process in the developed countries.

The existing exchange rate system has resulted in extreme fluctuations in the major international currencies. Such volatility in the rates has seriously impaired the functioning of the world economy and in particular the performance of developing countries. . . .

The world economy has lurched from crisis to crisis. Indeed, we are in the throes of yet another crisis which cannot be effectively dealt with by ad hoc measures. The challenge which faces us is to rekindle and expand that spirit of international cooperation without which world recovery will remain elusive. If only we can muster the necessary political commitment to forge this spirit, temporary solutions will give way to lasting and durable ones. We should then be able to build an economic order based on principles of equity and justice. This would require the active participation of developing countries in the decision-making process. The convening of an international monetary conference will be an important and essential step in this direction.

In this context, at the recent meeting of Commonwealth Finance Ministers held in Port of Spain last week, the Ministers, including those from the countries on whose behalf I now speak, considered the report "Towards a New Bretton Woods—Challenges for the World Financial and Trading System." This report had been called for at the previous meeting of Commonwealth Finance Ministers against a background of what they considered the urgent need, in view of the vast politico-economic changes which had taken place since the establishment of the Bretton Woods institutions, for a new overall examination of the Commonwealth trade and payments system as a whole, and of the role of the international economic institutions in particular. Indeed, they felt that the short-term issues identified in the report should be taken up by us at these meetings and requested further that the Chairman of the meeting, the Prime Minister and Minister of Finance and

Planning of Trinidad and Tobago, convey to the Commonwealth Heads of Government at their forthcoming meeting in November in New Delhi, the essence of the discussions in Port of Spain. In our view, the necessary preparation for the international monetary conference to which I have just referred and which is envisaged by the report should commence immediately.

UNITED KINGDOM: NIGEL LAWSON

Governor of the Fund

It is 22 years since I first had the privilege of attending the Annual Meetings of the Bank and Fund—although on that occasion, in Vienna, I held the very different responsibility of a financial journalist.

Last year's Annual Meetings in Toronto, when the United Kingdom was represented by my distinguished predecessor, Sir Geoffrey Howe, coincided with the low point of the recession for the world economy as a whole. Deep concern was then expressed about the prospects of recovery, and there was some hesitation over the right strategies for national economies. And the first major outbreak of the debt problem had just occurred.

Since then we have experienced an eventful and troublesome year, for governments and peoples alike, and for the institutions in which we meet today. Debt problems have multiplied, and we are still far from seeing a clear way through all of them. The course of exchange rates and interest rates has been unsettled, and present levels, particularly interest rate levels, cannot be regarded as satisfactory. The economic and political strains of adjustment have inevitably proved painful. Impatient voices are heard demanding new approaches, new systems, new institutions.

But despite all that there has been undoubted progress, particularly on the all-important struggle against inflation; and recovery is now clearly under way. We are not yet out of the wood, but we are moving forward again. It is a good time to take stock of how best to make further progress and tackle the problems which remain.

That is our common purpose at these Meetings. An occasion such as this is one in which the finance ministers who bear many of the political burdens of painful adjustments can share their experiences and perhaps even fortify each other thereby. So it may be helpful if I spend a few minutes describing out recent experience in the United Kingdom, where a clear adjustment strategy was adopted four years ago, has since been steadily pursued, and is showing good results.

U.K. economy

In the United Kingdom we have, during these past four years, followed a three-part strategy. We have exercised steady downward pressure on monetary conditions. Despite the recession, we have reduced our budget deficit significantly as a percentage of gross domestic product. And we have introduced reforms to remove structural rigidities in the economy, abolishing a whole raft of controls, on pay, prices and dividends, on industrial development and consumer credit, and perhaps most important of all, on foreign exchange transactions.

What results has the strategy brought? First, inflation has been reduced dramatically. It has fallen from a rate of around 15 percent for much of the 1970s to around 5 percent now. The long upward trend of rising inflation rates from one cycle to another has been decisively broken. Second, we have secured renewed economic growth. Despite unfavorable world trade conditions which have a particularly sharp impact on the United Kingdom, our economy has been growing at an average annual rate of around 2½-3 percent since the trough of the recession in the first half of 1981. This compares favorably with our long-run prerecession trend. And unemployment, although still tragically high, is starting to level off.

Some observers in the United Kingdom used to argue that such a recovery was impossible without government stimulus. So far from that being the case, economic recovery in the United Kingdom can now be seen to have started in the immediate wake of my predecessor's courageously tough budget of 1981.

Now the critics argue that the recovery is not sustainable; that it is unbalanced; and that inflation is bound to rise again. I shall briefly explain why I believe they are wrong on all counts.

It is true that the recovery so far has been primarily based on increased personal spending and the end of destocking. But that is not a cause for concern, for all recoveries have that characteristic in the early stages. That is a well-established cyclical pattern. What is significant is that on this occasion the familiar first stages of an end to destocking, a rise in spending on consumer durables, and an acceleration of house-building came about without any government stimulus to demand: they resulted instead from lower interest rates, increased confidence and above all low inflation, which in turn have been the result of responsible monetary and fiscal policy.

It would now be normal for the emphasis of the recovery to switch from the personal sector to the company sector, in the form of increased capital investment and positive stockbuilding. The pattern—in no way unusual or surprising—that investment follows consumption increases should be encouraged by the very substantial increase in company sector profitability which we have seen over the past year. Certainly, there are no signs, in the forward indicators, that the U.K. recovery is coming to an end. Quite the contrary.

Provided that monetary control is maintained—and it will be—and that inflationary expectations continue to improve, and providing we can continue to hold down our budget deficit and avoid unnecessary pressure on interest rates, which are still too high, we will see the recovery spread more widely throughout the economy.

As for the critics' concern that U.K. inflation would rise with economic recovery, the fact is that there is no sign so far of reemerging inflationary pressure even though, as I have explained, the recovery has already been under way for two years. Of course, there will be temporary variations caused by special factors, but there is no sign in the inflation figures, when we strip out the volatile impact of changes in housing costs (themselves the result of changing interest rates) and seasonal food prices, of any change in the underlying trend. The growth of labor costs per unit of output continues to be low, helped by substantial increases in productivity.

The wider strategy

I think it worthwhile to set out these facts from this rostrum, for there is an important conclusion to be drawn from all this, and it applies, I believe, not only to the United Kingdom.

It was one of the characteristics of the cycles of the 1960s and 1970s that many observers underestimated the continuing strength of recovery. Indeed, one of the reasons for accelerating world inflation during the 1960s and 1970s was that, at the stage of the cycle which the United Kingdom has now reached, governments worried about the strength of recovery and were persuaded to stimulate the level of demand. Because that stimulus was in addition to the already powerful forces of recovery, the result was excessive inflationary pressure.

The lesson of that experience is one which we should all heed. It is important that we all recognize that powerful forces arising from lower inflation, lower interest rates, and lower labor costs can both start and sustain recovery; and that the factors which are most likely to damage recovery would be an excessive expansion of demand by mistaken monetary and fiscal policies, bringing about their own inevitable reverse, and in particular an unsustainable structural budget deficit that puts damaging pressure on interest rates.

Let us also remember that high interest rates bear particularly heavily on developing and debtor countries; and that protectionist forces are inevitably strengthened when exchange rates are determined more by capital flows than by trade flows.

So let me now draw some specific conclusions from our U.K. experience.

First, the strategy works: our experience demonstrates that it is possible for governments to reduce and control inflation through appropriate monetary and fiscal policies; and that financial discipline does *not* stifle growth—on the contrary, it helps to create the conditions for healthy and sustainable growth.

Second, perseverance is necessary, and it is important for the government to convey its determination to persevere; this is not easy, because it takes time before benefits are seen, and it may take additional time to see the benefits convincingly, even after they have begun to take effect. But it is crucial to demonstrate to the markets that there is, and will remain in place, a firm medium-term financial strategy.

Third, although conditions in different countries may vary, I am convinced of the need to have monetary and fiscal policy operating in harmony. Otherwise, there will be risk of severe strain, especially if public sector borrowing so pre-empts flows of savings that monetary restraint can be achieved only at the cost of very high real interest rates.

Fourth, while no country can insulate itself against the rest of the world economy, the more firmly engaged any country is in a sound financial strategy, the better it will be able to withstand external shocks or weaknesses.

Fifth, liberalizing industry, cultivating competition, and giving free rein to market forces helps recovery. This applies across, as well as within, national frontiers: liberalization of trade and payments contribute importantly to the development of world trade and economic activity.

Sixth, our general election result earlier this year has demonstrated that, despite all the inescapable pains of adjustment, a government which steadfastly pursues this strategy, and which clearly explains to the people the need for the policies it is carrying out, has no cause to fear that it is exceeding the bounds of the politically possible.

I make no apology for having dwelt at some length on the U.K. experience. At repeated international meetings finance ministers have agreed that the successful pursuit of a firm anti-inflationary strategy is the only sound basis for recovery. . . .

Debt

The Fund's main concern over the past year—and that of the World Bank too—has been with countries facing debt problems. The growth of such problems in the last 18 months has been dramatic because a number of factors came together at the same time. A combination of world recession and sharply reduced commodity prices has limited export earnings by debtors. Very high dollar interest rates, applying to borrowing of which an increasing amount had become short term, have magnified their problems.

Both elements in this squeeze have already eased a little, and should ease still further as world economic recovery continues, and particularly if the relative burden of dollar interest rates can be reduced. Because of this, it is important not to overstate the problem, while remaining mindful of the risks.

On the other hand, it is abundantly plain with hindsight that the scale of reliance on borrowing by some countries had by 1981 become greatly excessive, reflecting the overambitious quest to maintain unsustainable growth rates in a deteriorating world environment.

Balancing these various factors, the Fund has produced, in its latest survey of the world economic outlook, a careful assessment of the risks and possibilities in both directions. I do not dissent from it. My own view is that our joint efforts to sustain world recovery and maintain the attack on inflation will help, but that there is an unavoidable, urgent, and continuing need for adjustment by the major debtors.

There can be no escaping the need for adjustment, and the Fund has served us all well in holding firmly to this basic requirement. I should also like to add a word of appreciation, indeed congratulation, to those of our colleagues who have displayed the determination and political will to move quickly and decisively in the right direction.

If adjustment is crucial, so also is the provision of some time for its effects to be achieved. I believe we have developed a sensible emergency strategy, with the Fund playing a central role in working out necessary programs of adjustment, which unlock Fund assistance, and in turn some mobilization of new commercial lending. But I suggest we should now begin thinking further into the future.

Three issues might be worth pursuing.

First, many of the arrangements that are being made create the prospect of a very considerable hump of debt maturities a few years ahead. If—and I emphasize this basic requirement yet again—if the course of adjustment is satisfactory, it seems to me that it would be right for the borrowers and lenders concerned to think in terms of trying to reshape maturities for a further period ahead, on a longer time-scale. Much will depend on the degree of confidence in the borrower, and on world prospects generally; much may also depend on the evolution of interest rates and international flows of funds generally. In the main, however, we are dealing with countries that have considerable potential resources, if they can be effectively mobilized.

Second, it is very likely that the pattern of international flows of funds in the next decade will differ sharply from what we have seen in the last decade. We are already well past the peak period of accumulation of surplus wealth by the major oil-producing countries. We may well be moving into a period in which the current deficits that are the natural condition of most of those countries in the developing stage will have as their counterpart the more traditional surpluses of industrial countries, whose capital formation and distribution are very different. There is food for reflection here for commercial banks, but particularly also for the borrowing countries themselves. I suggest in particular that many of them ought to look again at their attitudes toward private investment and to reflect on the advantages they could draw from encouraging long-term flows in that form, rather than the short-term borrowing of which they have had such uncomfortable recent experience, and which may in any case be less freely available.

Finally, as the world economy recovers strength, we need to give increasing attention to ways of strengthening the role of the World Bank and to means of association between it and private investment. No country should delude itself that massive increases of official assistance are likely—or indeed would be helpful in securing sustainable growth. But there is some scope for a stronger role here. . . .

World Bank /IDA financing

The World Bank, too, cannot perform its role without adequate funds, and a selective capital increase is now required in order to help raise the level of lending which the Bank can sustain. I have accordingly suggested that an increase of around $8 billion might be appropriate, provided that the details are settled in a satisfactory way, taking account of adjustments in the relative positions of shareholders.

But we must recognize that an increase in World Bank lending will not help the poorer countries whose creditworthiness precludes substantial borrowing from commercial banks. For them, the International Development Association (IDA) is crucial. The United Kingdom has always been a strong supporter of IDA, which we regard as a highly efficient means of channeling resources to the poorest countries. We are prepared to play our part, with due regard to our relative economic capacity, in securing a Seventh Replenishment of adequate size. I hope that all countries will be willing similarly to play their part, and I would particularly like to appeal to our United States colleagues, as IDA's originators and generous supporters, to consider whether there is more that they can do to contribute to a satisfactory agreement. Their role in the final settlement will be crucial.

International monetary system

I would like, in conclusion, to add a word on the perennial question of the overall working of the international monetary system. The international financial institutions represented here have served us well over the past years, developing to match changing circumstances and meet new needs. Provided that we continue to equip them with adequate resources, I am convinced that this will remain the case.

They have shown resilience and adaptability in confronting the difficult issues arising in a period of transition from one of high inflation. The past few years have in a very practical sense been a period of evolution in which all our countries have shared, in particular through participation, in the operational decisions of the Fund.

In the wake of the second oil price increases, the international community has reached a general agreement on the stance of policy which can best provide the basis for sustainable noninflationary growth. This strategic consensus provides a framework in which we can consider what further improvements to the operation of the monetary system might be sensible.

It is right that there should be continuing exploration and debate about specific aspects of the system. The recent Commonwealth Study Group report represents a thoughtful contribution to that debate. And I welcome the decision of the Group of Ten to carry out further work to identify areas where progressive improvements might be sought.

But I would just add this. Let us remember that it was inflationary domestic policies that precipitated the breakdown of the original Bretton Woods arrangements, not the other way about. When things go wrong, there is a temptation to blame the system. This is a temptation to assume that all problems that are not cyclical must be systemic and can be solved only by changes to the international system. But none of us can in fact duck responsibility for the way we conduct our domestic economic and financial policies. That in the end is still what this discussion is really all about.

Conclusion

It was for that reason that I began my remarks today with an account of our recent experience in the United Kingdom and suggested some conclusions about the roots of our current recovery which might have wider relevance and applicability. It was for that reason too that, in discussing current debt problems and putting forward some suggestions for their handling in the medium and longer term, I have stressed the cardinal importance of appropriate adjustment programs. And it is precisely because both the Bank and the Fund play a key role in encouraging the adoption of such policies and helping countries see them through, that I have today emphasized the importance of ensuring that both institutions continue to have the resources they need to do their job, supporting and sustaining a soundly based recovery in national economies, and hence in the world economy. If we do not fail them, I am confident that they will not fail us.

UNITED STATES: DONALD T. REGAN

Governor of the Bank and Fund

As President Reagan said to you yesterday, we are very pleased to welcome all of you once again to another Annual Meeting of the World Bank and the International Monetary Fund.

Given the pace of life in our time, we often lose sight of the progress being made. Are there problems? Of course. But in the larger sweep of history, mankind has moved farther and faster than our ancestors would have imagined. And our century has seen a veritable explosion of advancement with the prospects of a better way of life for millions.

"History," Edmund Burke once wrote, "is a pact between the dead, the living and yet unborn." Our great challenge is to ensure that our pact with the coming generations is a viable one—that we are providing for the future, not mortgaging the future. That is what makes this time in history so crucial.

The last time we met in Washington—in 1981—the world was in the throes of a deep recession. I think you will agree that the mood of these meetings was one of gloom, if not despair. Few saw the way out of recession. At last year's meetings in Toronto, we could see glimmerings of a recovery, but a new problem—the international debt crisis—had captured our attention. All of us were deeply concerned about the strains in the international monetary system that had emerged, and the threat they could pose to the world economy.

Now, one year later, we find ourselves in a much more positive atmosphere. Problems are still with us, and we should guard against complacency. Additional steps are clearly needed before the debt problem can be resolved, and we must turn the emerging recovery into sustained, noninflationary growth throughout the world.

But we have made a turn for the better, and the prospects for world economic prosperity are greater now than they have been for quite some time.

Let us look in more detail at the reasons why.

The first reason is that the global recession is over. It may take some time for the recovery and its benefits to spread throughout the world, but make no mistake—the long-awaited economic recovery is taking place right now.

Led by the strength of the U.S. recovery, most other industrial economies are also turning up. This year will witness the first solid growth in the industrial world in three years. We believe that next year will see even stronger growth. And this growth will greatly benefit the developing countries, providing growing export markets to the rest of the world. Our imports from the non-oil developing countries rose some 10 percent in the first half of this year, providing an important boost to their foreign exchange earnings.

We are in the midst of an historic transitional phase now, and it is by no means over. We are seeing low inflation and significantly lower interest rates. So rather than another traditional cycle of recession-to-recovery, I think we are witnessing a more fundamental change—moving us onto a solid, new foundation that can sustain real growth and improve the standard of living throughout the world. We are seeing important signs that the world economy is moving successfully through these new—and in some cases—uncharted waters.

One sign is the fact that we and many other nations are altering our approach to economic policy—by being willing to forgo short-term expediency and face up to the difficult choices necessary for long-term stability.

Another key sign is the fundamental difference between this recovery and earlier recoveries regarding inflation. During the 1974-75 recession, the industrial world never saw aggregate inflation rates fall below 8 percent. But at the start of the current recovery, inflation in the industrial world had receded to the 5 to 5-½ percent range. This important difference is reflected dramatically in the fact that, for the first time in years, the U.S. economy came out of a recession with a lower rate of inflation than we had when emerging from the previous recession. For most of the postwar period, the inflation rate rocketed upward. That spiral at last has been broken.

With increasing inflation and interest rates, we in the United States had no choice but to adjust—just as many other nations throughout the world are in the process of adjusting their economies in order to achieve more sustainable balance of payments positions.

This brings me to a third important sign pointing toward a solid and sustained global economic recovery—the noteworthy progress that has been made toward adjustment by many developing countries. We have seen country after country begin to stand up to the challenges posed by the low commodity prices, by the recession in the industrial world, by the large debt burdens, and by the shortcomings of their own earlier policies. Their efforts have begun to show significant results. The progress some countries have made in overcoming their economic problems is, indeed, remarkable. Many of my fellow Governors sitting in this room have played critical roles in the process. They—and their countries—have both my respect and admiration for what they have accomplished in the most difficult of circumstances.

From my discussions over the past few days, it is clear that many of you are worried about the durability of the recovery in the United States. Some believe that the recovery will falter next year. And some have argued that high interest rates will stifle private investment.

Both of these issues are based on concerns about our budget deficit: concerns that I believe can be allayed. There is no question that our deficit is higher than we or anyone else wants it, and we are working to get it down in the only sensible way—by cutting spending. We have just recently revised downward our estimate for the federal deficit as a share of GNP in calendar year 1983 from 6.3 percent to 5.5 percent. As we cut expenditures further and the economy expands, the deficit will decline further.

And what about interest rates? In light of the slight rise in interest rates earlier this summer, there is a tendency to forget that rates are now roughly half of their peak levels in 1981. We have made major progress on this front, although there is obviously a lot more work to be done.

As far as the prospect that interest rates will stifle investment, the supposed negative effects of interest rates have not been evident in investment data. During the past recession, investment held up better than during normal downturns, despite high nominal and real interest rates. And more recent evidence suggests that private investment growth will be coming on earlier in this recovery than is historically normal. If we were to reduce sharply our fiscal deficit by raising taxes—as some have suggested—this would, indeed, stifle the recovery.

Why this strength in investment? The explanation lies in the Administration's tax reform measures. The ability of corporations to generate internal funding for investment has been significantly strengthened by the tax changes, and incentives to invest have been improved. In addition, the equity boom that began last summer has provided a substantial new source of corporate finance.

There are, however, clouds still remaining on the horizon. We must guard against a number of dangers if our forecasts are to become reality. One of these is more overspending by our Federal Government. We must work with Congress to control excessive outlays. Another danger, as President Reagan pointed out yesterday, is protectionism. The recession, with its painful increase in unemployment, contributed heavily to those voices arguing for trade barriers to protect domestic industries. But there is a strange irony here: as the recession recedes, the calls for protectionism grow stronger. It would be tragic indeed if protectionism, fueled by a desire to safeguard employment, were permitted to destroy the very recovery which is now providing millions of new jobs.

A third danger is the temptation to pursue lax monetary policy in an effort to maximize short-term gains. We have been burned so many times on this one that I hope we can all resist the temptation this time. . . .

Let me turn now to the World Bank. Regaining the momentum for sustained economic growth in the developing world poses a difficult challenge. But it can be done. The spreading recovery in the industrial world can provide the external framework for renewed growth, while outward-oriented, free market policies can provide the necessary international environment.

Sound and disciplined domestic economic policies are, by far, the most important contributions any country can make to its own development.

Given an environment which is characterized by sound monetary, fiscal, and trade policies, and in which work, saving, and investment are encouraged, World Bank lending operations can play a vital role in acting as a financial catalyst in the development process. This catalytic role must be firmly focused on the importance of stimulating private investment. That is why we continue to have serious reservations about the appropriateness of lending scarce Bank or IDA resources for projects, such as energy development and production projects, which are clearly capable of attracting alternative financing.

In the year ahead, a number of important aspects of the Bank's operations will receive careful attention. These include strengthened collaboration with the IMF, the negotiation of a Selective Capital Increase, the Seventh Replenishment of IDA, the IFC's programming and capital requirements, and discussions concerning the possible establishment of a Multilateral Investment Insurance Agency. We look forward to working constructively with other members on all these matters.

I would like to note in particular, and with encouragement, President Clausen's forthright endorsement of a new five-year program for the International Finance Corporation. The IFC is the kind of institution that is especially effective in combining the important catalytic features of official assistance with the creative potential of private business.

If I could leave you with only one thought this morning, it would be this: We, as a family of nations, have been through a tough and turbulent period together. I think we have weathered the storm and are entering a new period of economic vigor and growth. But there is a lot of work to be done.

One of our American public figures of the early part of this century was William Jennings Bryan. He wrote: "Destiny is not a matter of chance. It is a matter of choice. It is not a thing to be waited for. It is a thing to be achieved." That statement was true then. It was true when the IMF and the World Bank were created. And it is true today.

Some believe that the U.S. position on IMF and World Bank issues at this meeting reflect a lack of support for these institutions. Nothing could be further from the truth.

I believe we all share the same vision of our destiny—a destiny of economic prosperity throughout the world. We may differ on the most appropriate way to achieve that goal, but that should not obscure the fact that we do have a common goal.

Four decades ago, former Secretary of the Treasury, Henry Morgenthau, made the closing address to the Conference at Bretton Woods that created these institutions. He said then:

> "There is a curious notion that the protection of national interest and the development of international cooperation are conflicting philosophies—that somehow or other, men of different nations cannot work together without sacrificing the interests of their particular nation. . . . [But] we have come to recognize that the wisest and most effective way to protect our national interests is through international cooperation—that is to say, through united effort for the attainment of common goals. This has been the great lesson taught by the war, and is, I think, the great lesson of contemporary life. . . ."

Many centuries before Mr. Morgenthau, a Greek mathematician discerned the vast power of the fulcrum. That man, Archimedes, said, "Give me a standing place and I will move the world." In a sense these two great institutions are here to provide nations a "standing place" and a fulcrum to be used to strengthen their own economies. But like the "standing place" and the fulcrum of Archimedes, they are only tools. In the long run, the true power will come from our own efforts and from the dynamism of the marketplace.

VANUATU: JOHN A. HOWARD

Alternate Governor of the Bank and Fund

I bring with me the sincere regrets of the Governor for Vanuatu of the Fund and the Bank for being unable to attend this year's Annual Meetings. He was looking forward very much to being here, but due to the dissolution of Parliament and impending elections, he felt obliged to remain behind. Next, I should like to extend congratulations—first, to the management and staff of the Bank and the Fund for their excellent organization of these Meetings—and, second, to Mr. de Larosière on his appointment as Managing Director of the Fund for a second five-year term. It is substantially due to his personal effort and commitment, and to the changes in the Fund's role under his leadership, that some of the problems which we have addressed in this forum in recent years now appear to be a little less threatening or daunting.

But it is now the time to occupy ourselves with the present and the future, rather than to hark back to the past. Prospects are, in several respects, rather more promising than at any time over the last decade or more. The path which we follow over the next 12 months will determine whether or not the opportunities which exist for a lasting, noninflationary recovery are firmly grasped, or whether they are frittered away.

Let us not concern ourselves too much if that recovery is only moderate and gradual. Temptations, indeed demands, to force the pace will doubtless arise. But to succumb to those temptations or to those demands would risk not only aborting the takeoff, but would risk pitching us back into the protracted syndrome from which we are only just emerging. The challenge, therefore, is to ensure that the recent improvement is durable—and that it is one in which all countries, both developed and developing, will be able to share and participate. Let this be our collective central goal, and let us not be diverted from it.

Thus far, the more encouraging outlook has been based on the strong gains made by two or three leading industrial countries, and, if the recovery is to proceed smoothly, it is appropriate that the economic revival should be led by the major economies which have been successful in controlling inflation and which are relatively free of external constraints. This then raises the question of the means by which the revival in these countries can or should be achieved. Certainly, external demand cannot, and should not, be relied upon because of the adjustment policies—most of them involving substantial reductions in imports—which many developing countries are being obliged to undertake. In our view, therefore, the engine for revival must be gradually rising domestic demand. This, in turn, would provide an impetus to developing countries' exports, assist their adjustment process, and contribute to a wider recovery.

Such a solution is not, of course, quite so simple. First, there is a major risk that sustained expansion in the industrial countries will be restricted by a high level of real interest rates, which will not only inhibit domestic spending but will also exacerbate the debt service burden of the large debtor countries. We believe that the main factor contributing to keeping interest rates high is prospectively large and rising structural public sector deficits. Noninflationary and sustained recovery may not be possible, therefore, unless these deficits are substantially reduced, and apparent contradictions between monetary and fiscal policies are eliminated.

Second, we must raise the question as to whether sufficient external financing flows will be available to enable the developing countries, not only to bridge their external financing gaps in the short term, but also to support their adjustment programs—so that they may take their rightful place in the emerging recovery process. The outlook here is not at all promising. As we all know, the liquidity position of the Fund is under considerable strain and sovereign lending by the commercial banks is being scaled down.

Aside from the short-term financing problems is the task of ensuring that developing countries receive the capital resources required to finance their development efforts. Official flows seem unlikely to rise significantly: indeed, they may well fall. Yet in the absence of higher flows, especially of concessionary aid, the adjustment burden for some developing countries will barely be manageable. Simply to suggest that available resources should be allocated and employed as effectively and as efficiently as possible is hardly a recipe for an improvement in their lot. . . .

I now turn to IDA matters. We view with deep concern the situation in which lower appropriations for IDA-VI have resulted in a substantial reduction in IDA's operational program and a delay in the start of negotiations for IDA-VII. In 1983, the level of IDA commitments in nominal terms was slightly below the commitment authority envisaged in the 1983 budget—and considerably lower in real terms. The commitment authority program for 1984 is lower still, and the IDA-VI replenishment period has been stretched to four years instead of three. We urge that every effort be made to ensure that IDA-VII becomes effective by July 1 next year. Again, compromises will doubtless be necessary. So far as the amount for IDA-VII is concerned, a number of figures have been proposed or mentioned. We would hope that every avenue be explored to ensure that the amount for IDA-VII is increased beyond that for IDA-VI in real terms. If there has to be some trade-off, so to speak, for example, in the form of slightly shortened maturities, then this would not be unacceptable to us.

In the context of IDA-VII, I should like to say a few words about IDA eligibility criteria. With the number of small country members of the Bank and the Fund increasing—many of them with special features and problems—we have some reservations about the use of per capita income as the principal criterion for IDA eligibility. In our view, the stage has been reached where the multilateral lending organizations should be giving consideration to building up a more broadly-based measure to determine IDA eligibility. In small countries, per capita income figures are, in any case, very often misleading. Taking our own case as an example, the estimates made by a number of international organizations show that Vanuatu's per capita income lies anywhere between US$350 and US$650. Moreover, the figures are distorted by the dominance of a single major urban center where activity tends to be concentrated. More significantly, 90 percent of the population lives at or below the subsistence level. In such a country—of which surely there are several—per capita income can hardly represent a realistic criterion. We therefore urge that a fresh look be taken at the criteria for IDA eligibility.

In conclusion, we had hoped that this week would have provided an occasion not only for welcoming the improvement in some areas—to which reference has consistently been made over the past few days—but also for grasping the opportunity to transmit to those whom we represent and for whose livelihoods we are responsible, some rather more positive signals. It is regrettable that we have been unable to do so. The initial liquidity position of the Fund, the lack of support for an SDR allocation and the slow progress on IDA-VII could well give to many, and certainly to the most needy, the opposite message—that things could get worse before they get better. If so, I fear we may have wasted an opportunity.

VENEZUELA: MARITZA IZAGUIRRE PORRAS

Governor of the Bank
and Alternate Governor of the Fund

I am pleased to address these Meetings of Governors of the World Bank and its affiliates, the International Development Association and the International Finance Corporation, and the International Monetary Fund, on behalf of Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, the Philippines, Spain, Suriname, Uruguay, and my own country, Venezuela. Venezuela is honored to be making this statement this year, the bicentennial of the birth of the Liberator Simón Bolívar, a reflection of the tradition of liberty and unity of the Latin American countries. I should also like to note our pleasure at the appointment of Mr. Miguel Boyer, Minister of Economy and Finance of Spain, as Chairman of these Meetings. We extend cordial greetings to Mr. A. W. Clausen, President of the World Bank, and to Mr. J. de Larosière, Managing Director of the International Monetary Fund. A warm welcome as well to all the Governors and delegations gathered here, as well as to

Antigua and Barbuda, and Malta, the new members of the Bank, and to Guinea and Maldives, the new members of the International Finance Corporation.

The countries I represent are attending these Meetings in full awareness of the fact that there are three key issues before them for examination. The first is the need to take this opportunity to appraise the current economic situation of Latin America, not only in the context of its own regional characteristics but also in the framework of the discouraging world economic outlook in the short and medium term. The second issue involves the feeling of urgency now associated with the search for suitable and realistic means of resolving the difficult financial situation the three institutions of the World Bank Group are experiencing, so that it will be possible to expand their lending, investment, and technical assistance programs. The third important issue which merits examination is the prompt creation of mechanisms whereby the institutions of the World Bank Group will be able to carry out their respective institutional responsibilities not only effectively in the short and medium term, but also in accordance with a broader vision or strategy which redefines the role to be played by the World Bank Group in the developing world.

As regards the economic situation of Latin America, our countries are concerned by the fact that the prevailing recessionary tendencies became more pronounced in 1982 because, among other reasons, the crisis of the international economy had a severe impact on trade between the Latin American countries and the rest of the world, kept real interest rates at extremely high levels, and led to a pronounced decline in net capital inflows for the first time in many years. The confluence of these exogenous factors and the accumulation in Latin American countries of limitations or rigidities inherent to their own productive structures, as well as the vulnerability of a development model which called for considerable dependency on inflows of external resources to maintain the investment effort, provoked an unprecedented economic crisis which, while affecting different countries in different ways, is not only widespread but has also posed the greatest economic challenge to the region in this century.

We in Latin America believe that this state of affairs stems from actions or omissions at the global level, the effects and implications of which must be equitably shared among the developed countries and the developing countries alike. In other words, it is now evident that in the past three years our countries have been absorbing a disproportionate and excessive share of the international economy's adjustment burden, as evidenced in the region by widespread economic stagnation, declining investment, accelerating inflationary tendencies, a deterioration in real wages, and increases in unemployment and underemployment.

The cost of adjustment has been exceedingly high. In many countries, maximum limits have already been reached as regards domestic tolerance for orthodox adjustment policies which offer no better prospects for national development in the medium term. Accordingly, we fully agree with the remarks to the Development Committee of Mr. Clausen, President of the World Bank, to the effect that domestic adjustment programs must be supported, in a complementary manner, by sizable inflows of external resources. It should be added that the responsibility of the multilateral institutions is even greater than in the past as a result of the dramatic contraction in international commercial bank financing and the even more discouraging prospects for official development assistance, which in real terms is expected to increase in the next few years by an average of only 2 to 3 percent per year. All in all, in the absence of more rapid recovery in the industrial world, and short of obtaining a suitable volume of external resources, and increasing the autonomous dynamism of the regional economy, the situation in Latin America will continue to deteriorate over the next few years.

The adjustment programs associated with the external debt problem have so far been focused primarily on the settlement of that debt. In our opinion, it is essential that these programs take into account principally the national interest of the debtor countries, as expressed in their legitimate and urgent requirements to speed up economic growth, achieve better income distribution, and meet the basic needs of large segments of the population who are living in abject poverty and total destitution. This integral approach acknowledges the mutual nature of the interests involved and is based as well on the necessity for the international commercial banking community to assume its proper responsibility in overcoming the current international financial difficulties. For Latin America this question is fundamental in that resources from international commercial banks increased from 40 percent to 80 percent of the region's total debt in just a few years. This should be a predominant consideration in the design and structuring of debt refinancing arrangements and of adjustment programs themselves. In addition, it will be essential that these programs be applied gradually, so that the economic system can gradually assimilate their effects and generate the anticipated results within the time frames and with the characteristics forecast. Attempting to make sudden adjustments in excessively short periods of time may not only provoke undesirable economic and social reactions which alter national life, but in many cases may, in the short and medium term, cause a deterioration and aggravation of the situation it was intended to eliminate or correct.

In using the approach I have just referred to, which in the final analysis constitutes an effort to reconcile dealing with the debt problem and promoting development, it will be necessary for all the parties involved—creditors, developed countries, debtors, and international organizations—to show renewed willingness to undertake a common effort, make sacrifices in common, and find a permanent solution. The developing countries know they will have to make this sacrifice; the industrial countries will, it is hoped, act with understanding and in a spirit of reciprocity so as to make this endeavor as successful and equitable as possible, in the conviction that overcoming the current world economic crisis and future prosperity is a task which concerns and must benefit all countries.

Turning to the Bank specifically, we are aware that the resources currently available to it would not make it possible to cover adequately the potential requirements of the developing world beginning in 1986, and that expansion of its operations requires a sizable increase in loanable funds. In this regard, we are pleased that one of the basic issues under discussion at these Meetings is the financing of the Bank and the approval of an agreement under which a prompt and sizable increase in its capital is made possible. Specifically, we support a selective capital increase in the amount of US$20 billion as well as a general increase in Bank capital effective 1986, which would permit a suitable expansion of annual lending programs. Likewise, we believe it is of the utmost importance to extend the World Bank Special Assistance Program beyond the previously approved two-year period ending in February 1985, so as to be able to increase the volume of disbursements and maintain reasonable investment levels. While Latin America has continued to receive significant gross disbursements from the World Bank—which will exceed US$2 billion in fiscal year 1983 for the first time—and while net disbursements have continued to rise, a disturbing trend has been observed in the past three years, with net transfers stagnating at about US$600 million. The extension and expansion of the Special Assistance Program therefore merits our strongest endorsement. We hence support the recommendations of the Twenty-Eighth Meeting of the Ministers of the Group of Twenty-Four, in particular those concerning the lack of additionality in the Bank's Special Assistance Program, the need to decrease its conditionality, and the importance of having the Development Committee continue to function as an important political forum promoting consensus on matters relating to the transfer of real resources.

Coordination between the World Bank and the International Monetary Fund assumes particular importance for those countries which have entered into stabilization agreements with the Fund and at the same time wish to avail themselves of the opportunities under the Bank's Special Assistance Program, which in many cases is not possible because of the financial commitments entered into with the Fund. This is an area of cooperation between the two organizations which should be examined closely to prevent affecting investment programs any more than absolutely necessary.

Turning to another topic, we wish to express our thanks for all the Bank's efforts over the past fiscal year in seeking novel ways of raising money on the capital markets at the lowest possible cost. By making use of swap arrangements, the Bank was able to reduce the cost of its medium- and long-term borrowings by 100 basis points (1 percent). The short-term borrowing program using discountable promissory notes has also had a favorable impact on the cost of resources to the Bank and to the borrowing countries. The limitations inherent in this type of indebtedness clearly suggest the need to proceed with caution and to bear constantly in mind the possibilities that may be available on the medium- and long-term markets. The greater financial flexibility provided by the short-term borrowing program thus needs to be harmonized with the nature of the World Bank as a long-term development agency, and to reinforce the specific character of the institution.

Even though it is still premature to assess the new forms of cofinancing, particularly as regards their impact on additionality of resources, it is apparent that in the two cases in which these procedures were recently employed—Thailand and Hungary—certain benefits were obtained in the form of longer maturities. All in all, however, we feel that cofinancing must remain an option to be decided by the borrowing countries themselves, and we should avoid a situation where the World Bank would indicate the need for this type of financing in certain sectors, programs, or projects.

Our countries also wish to stress the importance they attach to stepping up financial assistance not tied to specific projects, such as program lending and structural adjustment lending. The same applies to sectoral lending (especially lending for energy, agriculture, and industry), supplementary lending to support projects already under way, and lending designed to promote export activities, together with more intensive use of revolving funds. On the subject of structural adjustment lending, we again express our concern at the growing conditionality attached to such loans and take this opportunity to remind those present that flexibility was one of the objectives sought with this new lending instrument. Nowadays it is sometimes difficult to establish the difference between a structural adjustment loan and an arrangement with the IMF, on account of a number of requirements which have introduced unnecessary rigidity into these operations.

Our countries support a successful Seventh Replenishment of the resources of the International Development Association (IDA), consonant with the growing financial needs of the lowest-income countries that benefit from these resources. The timely provision of these funds, and the forthcoming selective capital increase for the Bank, should receive the highest priority at these Meetings.

The lending and investment programs that the International Finance Corporation has set for the period 1985-89 merit our support. The Corporation's catalyzing and multiplying role becomes more evident and more important with each day that passes. We therefore support the capital increase that has been proposed for IFC.

We also wish to stress two basic principles to which our countries assign particular importance. The first of these is that there should be no discrimination or delay in approving loans on political grounds or on account of the economic system adopted by any of our member countries. The second is that the dialogue on economic policies can only be valid and fruitful to the extent that the Bank does not try to impose any specific pattern or uniform model of development, when faced with differing economic and cultural situations, reflecting the choices freely made by the member countries.

Finally, for reasons set forth at last year's Meetings, we remain opposed to the possibility of setting up a multilateral investment insurance agency within the Bank.

Our position on the Bank's graduation procedures is also well known. We would repeat that this concept is nowhere mentioned in the Bank's Articles of Agreement and is clearly inequitable. The Bank has shown a measure of understanding on this score, as the graduation process has currently been suspended in view of the economic situation prevailing worldwide. Our countries stress their position that this procedure, applied in an automatic fashion and on the basis of questionable technical criteria, should be eliminated.

I wish to emphasize that, although the countries I represent attach great importance to cooperation within the international financial community in these difficult economic times, they have not lost sight of the fact that it is only through their own efforts that they can ultimately overcome the problems facing them at this time. The countries I represent accordingly feel that, in addition to the adjustment process on which they have already embarked, intraregional cooperation and trade with other developing countries offer opportunities that must be utilized. The economic conference of Latin America and the Caribbean that is to be held in Quito, Ecuador, early next year will be particularly important in this context, as it will provide an opportunity to pursue major regional initiatives for financial and trade cooperation, as well as cooperation in the areas of food production, energy, and transportation.

The present Meetings are taking place at a time when many of our countries are experiencing an acute liquidity crisis which we are confident we can overcome. To achieve this, we must have the wholehearted cooperation of the multilateral financial agencies and ongoing studies of the impact of these adjustments on medium- and long-term development prospects. Adjustment and development must proceed one alongside the other. I can assure you that the World Bank will at all times find in our countries the support that it requires from its members. Nevertheless, we feel that the World Bank must formulate an explicit medium- and long-term strategy to take account of the new challenges facing the developing countries, both those in the low-income category and those in the middle-income group. In the absence of such a vision and framework, the work of the Bank may become routine and immediate in its approach to problems, or may be dictated more by improvisation than by planning. This is a risk we cannot run and one that we must avoid at all costs. The blend of imagination and realism with which the Bank faces its own future will in large measure determine the success—or failure—of the efforts being made by the developing nations. The countries I represent are confident that, under Mr. Clausen's leadership, the World Bank will be able to meet this challenge.

VIET NAM: NGUYEN DUY GIA

Governor of the Bank

Since our last Annual Meetings in Toronto, the world has witnessed, though not on a firm optimistic ground, some sign of fragile recovery, especially in certain industrial countries. World inflation is in a declining trend; output and consumption in some fields are on the rise. Economic recovery in the least developed countries has occurred at a slower rate; trade, primary commodity and main export prices showed a gradual improvement but their levels are still below those of a decade ago. External debt and debt service of developing countries are still a major concern, because their debt service ratio has increased to more than 20 percent while their capital market is still limited.

The new emergence of world economic recovery is threatened by the huge fiscal deficit of the United States and the return to a policy of high interest rates. The results become evident in interest rate competition among industrial countries, which attracts investment funds, whereas developing countries' access to capital market contracts is limited because of the high cost of borrowing. It surprises no one that funds start flowing back to the United States, and stagnation appears in many countries.

The result of the Sixth Conference of UNCTAD held in Belgrade last June showed that developed countries have not given up their intention to place their burden of economic crisis on developing countries. The economic interdependence and development call for a review of economic policy on the part of rich nations toward poor countries should the rich nations wish to escape an economic crisis which they initiated.

The present economic difficulties require the Fund and the Bank to play more active roles as international monetary and fiscal centers and respond positively to the requests of member countries for funds. . . .

The Bank should expand its capital base including its selective capital increase to ensure its lending level for world economic real growth. So far, there is still one country which has not fulfilled its committed contribution to IDA-VI. This, in turn, has affected the normal operation of this agency and delayed the negotiations for IDA-VII.

Now allow me to say a few words about my country. Viet Nam, with its own efforts and the assistance from friendly countries and international and regional organizations, has step by step overcome the difficulties caused by a long war and the economic sabotage and isolation by international reactionaries and successive natural calamities. Our economy is gradually becoming stable and is achieving new development. In recent years, a series of economic policy measures have improved domestic output and the living conditions of our people. However, Viet Nam, like other developing countries, has suffered the aftermath of recent economic recession; its access to capital markets has contracted and foreign resources for economic development have become scarce.

Up to now, our two institutions—the Fund and the Bank—have not fulfilled their obligations to Viet Nam and many other member countries. The Bank should seriously review its policy of political interference in the normal operation of a poor member country devastated by war and eligible for assistance. The Fund should devise appropriate policies to facilitate flexible access to various Fund facilities for member countries with payments problems. These practical policies will contribute to a prompt economic recovery and development of member countries.

WESTERN SAMOA: TOFILAU ETI ALESANA

Governor of the Fund

I wish to extend my tribute to the President of the World Bank, Mr. Clausen, and to the Managing Director of the Fund, Mr. de Larosière, for the excellent manner in which they continue to discharge their respective responsibilities.

For my own country, as for the other developing countries of the world, the recent few years have been extremely difficult. The sharp deterioration in the international terms of trade and the stagnation of overseas markets have caused much hardship for these nations. In this respect, it is most gratifying to note the emerging signs of economic recovery in areas of the industrial world.

Unfortunately, however, there are still some misgivings as to the durability of the recovery. It is to be sincerely hoped that policy makers in industrial countries will advocate and pursue policies that will serve to ensure that the recovery becomes more broadly based and sustainable in the longer term. For the developing world, the consequences of another recession would be most serious.

The recovery of commodity prices from the low levels of recent years is making an important contribution toward restoring the external viability of the less developed primary producing nations. However, for full advantage to be taken of this welcome development it is vital that these nations should not be denied adequate and equitable access to the markets of the industrial world. In this context, the Fund itself has an important role to play in ensuring that barriers to trade are removed at the earliest opportunity.

Many of the developing world's difficulties lie beyond the influence of domestic control. However, this does not remove responsibility from the governments of these countries to make timely and appropriate adjustments to accommodate to the reality of international economic circumstances. Almost inevitably this will involve reining in even the most modest economic and social aspirations of the population.

My own country is now undergoing such an adjustment program. Since taking office nine months ago, my Government has adopted and pursued a comprehensive package of policies designed to place our economy on a path which is consistent with the situation of a small, isolated, and resource-poor country making its way in a difficult world economic environment. . . .

In the longer term, access to the financial and technical facilities of the World Bank and the Fund is going to be a vital factor in the continuing development efforts of the poorer countries. . . .

The financial demands of a small country such as Western Samoa are only nominal in the global scheme of things. Nevertheless, we are interested in ensuring that the resources of the Bank and the Fund are maintained at a level commensurate with their responsibilities. . . .

What seems desirable is a solution which enables those in the greatest need to have access to adequate amounts of assistance in a balanced mixture which ensures the pursuit of appropriate corrective policies in any situation in which the nature of the disequilibrium is fundamental rather than temporary. I would trust, in any event, that there is sufficient flexibility to accommodate the prospective needs of those countries already committed to longer-term adjustment programs.

The poorer developing countries are now experiencing even greater difficulty in gaining access to the international capital markets. In any event, the terms of commercial loans only serve to aggravate an already overwhelming debt service burden. In these circumstances, access to development finance on concessional terms is vital to preserve the development momentum of the poorer countries. In this regard, it is most unfortunate that IDA-VI has fallen short of expectations, with consequent adverse effects on IDA's operational program.

IDA donors should not regard this financial resource with skepticism on the grounds that it is a "soft credit." Prospective projects are subject to strict tests of economic viability. For the borrower, IDA funds help to promote economic stability and self-reliance and to bridge the yawning gap between aspirations and resources. For the donor countries the benefits are unfortunately less tangible. However, surely it must promote their own self-interest to support a redistribution of wealth which in the broadest sense will increase economic and social welfare, encourage political stability, improve access to supplies of primary commodities, and eventually provide enlarged markets for their own products. It is to be hoped that the Seventh IDA Replenishment can proceed on schedule, and I urge all donor countries to ensure that the result is a further significant increase in real terms.

All this and myriad other problems faced by the Bank and the Fund in a very rapidly changing world economic situation make one seriously raise the question whether the time has not come for a fundamental and comprehensive review of the goals, the policies, and the working procedures of these two great institutions in a new world economic conference similar to Bretton Woods. We believe so, because the ad hoc solutions of the past two decades to the grave economic problems of all our nations do not appear to have produced sufficiently comprehensive and longer-lasting results.

In closing, may I simply express my sincere hope that discussions at these Meetings will play a constructive role in ensuring increased economic well-being for all. The possibility of a sustained economic recovery perhaps gives us greater grounds for optimism this year than we have had for several years. It is to be hoped that when we meet again next year we are able to say that this optimism was well founded.

YUGOSLAVIA: JOSE FLORJANCIC

Governor of the Bank

Since our last meeting in Toronto, the world economy has experienced two contradictory tendencies. On the one hand, the recession in a number of industrial countries is showing signs of easing, while on the other, the economic situation of a large number of developing countries is dramatically deteriorating. It is hard to expect that optimistic forecasts on the economic recovery of the developed countries will automatically lead to higher economic growth of the developing countries, and to the alleviation of the adverse external financial position of all the other countries, due primarily to a high level of unemployment in the developed world. In addition, the duration and intensity of economic recovery in the developed countries is still uncertain, as is its positive impact on the alleviation of the economic and external financial positions of developing countries.

The 1983 World Development Report of the World Bank is a very useful document, indicating a number of problems which the developing countries are facing in their economic development. The Report brings into direct focus the issue of the dependence of economic development of developing countries on the speed of economic growth in the developed countries, international trade, and foreign capital inflows. Generally speaking, however, the Report is insufficiently flexible in relation to the government policies of developing countries, because it starts from the a priori assumption of the advantages of market mechanisms and open economies, and disregards the fact that such policies are not pursued by the most developed countries.

Regarding the capital of the World Bank, our great concern is the unreadiness of certain developed countries to render full support to a major capital increase. In order to achieve the envisaged increase of 5 percent in real terms in its lending operations, and in order to prevent a decline in net disbursements and net transfers of the World Bank, it is of the utmost importance that both the selective and general capital increases take place as early as possible. The needs of the developing countries, and the possibilities for investments in justified development projects in which no interest exists on the part of direct foreign investors, and which cannot be financed under purely commercial terms and conditions, are much larger today than they were when the upcoming general capital increase was negotiated. In addition to the selective and general capital increases, cofinancing remains an indispensable method for obtaining additional funds. The initiative in selecting projects should be on the part of borrowing countries, while the World Bank and other multilateral institutions should become actively involved in seeking cofinancing. This is of particular importance, at the present time, to the more developed of the developing countries, because a drastic fall in private sector lending is taking place.

Increased energy production in the oil importing developing countries would effectively diminish their balance of payments problems. We consider that the establishment of an appropriate institutional form would be the best way to provide additional funds without affecting other important Bank programs.

We strongly support the Special Assistance Program adopted in February 1983 by the Board of Directors of the Bank. In this context, we want to emphasize the necessity of seeking the most effective ways for faster disbursements of loans. This is of interest, not only to member borrowing countries, but also to the World Bank as their creditor. The speed in loan disbursements is a special problem because, in line with the Bank's analysis, a large decline will occur soon not only in net disbursements but also in net transfers of the Bank's funds.

We welcome the increasing orientation of the Bank toward financing structural adjustments of member countries, and toward extending professional assistance in seeking ways for faster adjustments.

The graduation policy of member countries should be implemented in the most flexible way possible, by taking into account the particular circumstances of every country that is a candidate for the graduation policy. In this context, we consider the requests of a large number of member countries which are aimed at reconsideration of the graduation criteria to be applied to the beneficiary countries of the Bank's funds justified, because these criteria were established in very different world economic circumstances. This would be in line with the Resolution on Multilateral Development Institutions, adopted recently by consensus at the UNCTAD-VI Conference in Belgrade.

The International Development Association is facing a scarcity of funds for financing the least developed among the developing countries. Within the negotiations on the Seventh Replenishment of IDA funds, an amount of $16 billion was proposed. This would represent only a moderate increase in real terms in relation to the originally agreed volume of resources within the Sixth Replenishment. Therefore, it is difficult to understand the decision of one of the leading contributors to reduce the limit of its contribution by more than $750 million, thus reducing the Seventh Replenishment of funds to the level of $9 billion. It is even more difficult to understand the ideas on conditionality of IDA credits, in the sense of bringing the economic policies of the borrowing countries in line with specific principles. We consider that the difficulties presently faced by IDA can only be solved by a substantial increase of its funds in real terms within the Seventh Replenishment, in relation to the originally agreed level of the Sixth Replenishment.

The International Finance Corporation plays a significant role in engaging private capital for the development of some economic sectors. We are satisfied with the results which the Corporation achieved in the last fiscal year, both in utilizing its resources properly and by significantly mobilizing funds in the capital markets. We particularly welcome the Corporation's involvement in financing export-oriented projects. . . .

An appropriate role in the recovery process in the low-income developing countries should be played by financial flows under concessional terms. It is essential to provide a continuous and foreseeable growth of these funds without introducing any form of conditionality. It would not be permissible for contributing countries to take upon themselves the prerogatives of multilateral development institutions in their policy of making funds available.

Our institutions have a very delicate and important role, and represent an example of cooperation among countries at different development levels and with different economic systems. Furthermore, creativity and flexibility in solving the problems they are facing are essential in the present economic situation. Mr. de Larosière, Managing Director of the International Monetary Fund, Mr. Clausen, President of the World Bank, deserve our praise for their efforts.

However, these institutions need an adequate level of funds in order to play their roles in encouraging the recovery process of the world economy and, in particular, inclusion of the developing countries in the expected expansion of production and international trade. Only on this basis will the recovery process acquire its lasting character.

Let me finally express, on behalf of my Government, appreciation to the management and staff of the World Bank and the International Monetary Fund for the successful cooperation my country has had with them. We wish other developing countries the same cooperation in their relations with these two institutions.

ZAMBIA: NALUMINO MUNDIA

Governor of the Bank and Fund

Let me, on behalf of the African Governors, congratulate Mr. de Larosière on his reappointment for a second term as Managing Director and Chairman of the Executive Board of the International Monetary Fund. We African Governors wish him continued success in the difficult period ahead. I would also like to express my appreciation to Mr. Clausen for his understanding of the problems confronting our countries.

Since our last Meetings in Toronto in September 1982, the world economic situation has not shown any marked improvement. The level of economic activity remains depressed in most member countries. In 1982, the combined output of all the industrial countries actually declined following four years of continuous fall in their rate of growth. Despite the much publicized upturn in economic activity in recent months, the growth rate for 1983 is projected at about 1.9 percent and optimistically put at 3.3 percent in 1984, compared with 5 percent in 1976. Although inflation rates decelerated in many of the industrial countries to about 7 percent in 1982 and were estimated at 5.5 percent and 5 percent in 1983 and 1984, respectively, this has been achieved at a very high cost in terms of output and employment. Available data indicate that unemployment rates in the seven largest industrial countries averaged 8 percent in 1982, compared with 3.2 percent in the decade 1963-72 and 5 percent in 1979. It now appears that the unemployment rate in these countries will average 8.5 percent in 1983 and could even exceed 10 percent in a number of them. We view this situation with concern because of its implications for our economies.

The continued slowdown of economic activity in the industrial countries, with the attendant decline in the volume of world trade and intensification of protectionist pressures, has seriously affected the economic performance of most developing countries. In the non-oil developing countries, total output, after growing by 1.2 percent in 1981, increased by 0.8 percent in 1982 and is expected to grow by 2.3 percent in 1983, a dramatic deceleration from an average annual growth rate of 6 percent achieved between 1968 and 1972 and 5.4 percent in 1978. The seriousness of the economic slowdown becomes more obvious when viewed in the context of these countries' low-income levels, which inhibit their capacity to adapt to a significant deceleration in their growth rate.

Compounding the problems of this group of countries is the deterioration in their terms of trade. After five consecutive years of adverse movements in the terms of trade, the cumulative deterioration in most of these countries was about 20 percent in 1982. Added to this are the sharply increasing debt-servicing costs caused by high real interest rates and the appreciation of the dollar. Despite the slower rate of debt expansion, debt service as a proportion of export earnings reached 23.4 percent in 1982, compared with 20 percent in 1981 and 15 percent for 1976 and 1977. However, despite these adverse developments, the combined deficit on current external payments narrowed from $107.5 billion in 1981 to $84 billion in 1982 and is expected to narrow further to $66.5 billion in 1983. This decline in the deficit was achieved at the cost of a severe compression of imports and the consequent curtailment of development programs.

The plight of the African countries should be of particular concern to the entire international community. Twenty-six of the 36 least developed countries are in our continent. The average growth rate of GDP for the region has plummeted from 4.4 percent in 1980 to 2.9 percent and 0.6 percent in 1981 and 1982, respectively, and is expected to remain at the same level in 1983. This is considerably lower than the average population growth rate, implying that, for Africa as a whole, real per capita income has been in continuous decline over the years, and is now below the level of the early 1960s. Furthermore, there has been no amelioration of the external payments problems confronting us. It is likely that our combined current account deficit in 1983 will remain at the 1982 high level of around $12 billion with not much change even in 1984. This situation is very worrisome, particularly as the ratio of reserves to imports of goods and services has declined sharply from 16.5 percent in 1973 to not more than 4.5 percent ten years later, and external debt was $93 billion in 1982, compared with only $14.2 billion in 1973. The average debt-service ratio is estimated to climb from 8.8 percent in the latter year to 19.1 percent in 1982. This implies a deterioration of 10.3 percent during the period, compared with an improvement of 0.3 percent for Asia and 3.7 percent for the Middle East. It is, therefore, not surprising that the Fund in its 1983 world economic outlook emphasized that, despite the expected economic recovery in the industrial countries, many African countries "will continue to encounter difficulties in servicing external debt, in financing current account deficits, and hence in financing the projected flow of imports."

While appreciating the economic plight of these African economies, it needs to be stated that the worsening economic situation has parallel consequences for the economies of the developed countries in terms of decreased demand for their exports with adverse impact on employment. It has been estimated that one out of seven workers in the developed countries is employed in the export sector. Hence, the case for increased resources to developing countries in general, and to Africa in particular, is of mutual interest to both Africa and the industrial countries.

Given the situation that I have outlined, the need for immediate action cannot be overemphasized. We recognize that the current and prospective problems require us to tighten our belts further, and already most of our countries have put or are putting into effect painful adjustment measures. However, for the majority of our countries, the problems are externally induced. The needed structural adjustment can only be accomplished over a longer period and with the cooperation and support of the whole international community. Our major trading partners must take full cognizance of the deleterious effects of their policies on our economies. We, therefore, urge the industrial countries to abstain from imposing new restrictions and other protectionist measures against African countries, to roll back existing trade barriers, and to open their markets to our products. It is through the maintenance of a liberal international trading system that we can all promote economic development of our countries. We also urge them to agree on an immediate action program encompassing urgent measures in areas of critical importance to developing countries, well-planned structural changes in the world economy, and far-reaching reforms in the institutional framework governing international economic relations.

There is need to channel additional financial resources into the poorer countries through increased official development assistance and lending programs of the international financial institutions, including the Fund, the World Bank group, and the regional development banks. As regards difficulties faced by multilateral development institutions, we would like to emphasize the need to continue to support the African Development Bank group. We hope, in particular, that the international community will be responsive to the fourth general replenishment of the African Development Fund, which represents one of the most concessional resources to African countries. The provision of more debt relief through postponement of debt payments and conversion of official loans into grants will go some way toward ameliorating the plight of many member countries. Without such immediate assistance, not only are the more severely affected countries in danger of economic collapse but the economic recovery now under way in the industrial world is sure to be aborted as the developing world which now takes about 30 percent of their exports will not have the means to sustain such imports.

The industrial countries should take into account the international ramifications of their economic policies and adopt a more appropriate and well-balanced fiscal and monetary policy mix than hitherto with the objective of stimulating and sustaining a noninflationary economic recovery, reducing interest rates in the major international financial centers and minimizing fluctuations in exchange rates. It has been estimated that a 1 percent increase in the U.S. interest rate adds about $2 billion to the debt burden of developing countries. . . .

I should now like to turn to the activities of the World Bank. First of all, we wish to express appreciation to the Executive Directors and management of the Bank for having accomplished the fiscal year 1983 lending target under extremely difficult world economic conditions. We, however, cannot overemphasize our concerns about the constraints imposed on the Bank which have impaired its capacity to channel adequate levels of financial resources to its developing member countries.

During the past fiscal year, the constraints facing IDA have been manifested by a 32 percent reduction in IDA's commitment authority from the originally planned level of $5 billion to the actual commitment level of $3.4 billion. It is disheartening to note that the uncertainties surrounding IDA have further constrained the size of its fiscal year 1984 lending program to $3.3 billion. The effects of the fiscal year 1984 funding gap on IDA recipients would have been severe had it not been for the support of those donors who pledged to make additional contributions to IDA in fiscal year 1984 with the object of limiting the harmful effects of IDA's difficulties on the economies of the poorest countries. We would like to take this opportunity to express appreciation to the IDA donors participating in the arrangements for the special contributions.

Notwithstanding the reduced resources of the Association, we have noted with satisfaction that Africa's share of total IDA commitment in fiscal year 1983 reflects the efforts made by the Bank's management to assist our countries at this crucial time. It is necessary that these efforts be intensified in order to abate any further deterioration in the economic conditions prevailing in our countries.

It has to be borne in mind that, among the developing countries, it is the African countries that have been hardest hit by the world economic crisis. Moreover, the low-income African countries are the ones that have suffered the sharpest fall in per capita income during the last ten years. The Bank's *World Development Report 1983* has alerted us that even under the most optimistic assumptions, the per capita income of low-income, sub-Saharan African countries in 1995 would continue to be at less than the level that was achieved in 1970. For these reasons, we believe that it is both justified and equitable that the international community put emphasis on the development problems of sub-Saharan Africa. In this connection, we warmly thank the donor countries who have recommended, in the context of the negotiations for the Seventh Replenishment, that highest priority be accorded to the African countries in the allocation of IDA's limited resources. We hope that this consensus among donors will be appropriately reflected in the level of IDA commitments to our countries during the ~~period~~ fiscal years 1985 to 1987.

We are deeply disturbed by the lack of meaningful progress in the IDA-VII negotiations. We urge the major donors to take the necessary measures to reach agreement at an early date so that the necessary legislative formalities can be accomplished in time to allow IDA-VII to enter into effect by July 1, 1984. We strongly emphasize the need for an IDA-VII of at least $16 billion so as to bring a substantial real increase in resources over IDA-VI which would enable the Association to meet the needs of the poorest borrowers during the period 1985-87. In this connection, we wish to stress the importance we attach to ensuring the continuity and strengthening the role of IDA in its present form in our development activities. The resources of IDA remain our major source of concessional external financing.

Before leaving IDA matters, we would like to pay tribute to Mr. Clausen for his unflagging efforts to find a satisfactory solution to the crisis of the International Development Association.

I would now like to say a few words about the lending plans of the World Bank. We note, with interest, the modest upward revision in the Bank's lending plan for the period 1982-86. This is indeed a move in the right direction toward strengthening the World Bank's role in the 1980s. However, the proposed level of increase in the revised plan falls far short of what the Bank can and should do to respond to the increased needs of the borrower countries. It is now, therefore, imperative for shareholders to take urgent action to substantially increase the Bank's capital base in order to enable it to address the needs of its borrowers adequately. In this connection, we urge the major shareholders to expedite consultations on the capital increase so as to permit a real growth in Bank lending of at least 5 percent a year in the present decade. Further, we strongly urge that the lending program for fiscal year 1984 be increased, on the occasion of the mid-year review of the Bank's activities, to a level which would enable the achievement of this goal during this fiscal year. The zero real growth rate implicit in the planned lending level of $12 billion for fiscal year 1984 is indeed incompatible with the role the Bank is expected to play in promoting global economic recovery and financing of development.

We note that the World Bank has established a Special Assistance Program to member countries for a two-year period to help them cope with the extremely unfavorable economic situation and to minimize the impact of the financial crisis on their growth prospects. The program is intended to accelerate transfers of resources to the borrowing countries. Unfortunately, the low-income countries, especially those of Africa, which are particularly vulnerable to external events, will hardly benefit from this assistance. Therefore, supplemental efforts which take into account the special needs of these countries should also be initiated to accelerate the flow of resources to these countries so as to enable them to successfully implement their adjustment programs. Further, the Special Assistance Program itself should be strengthened and kept in effect for as long as it meets the needs of the borrower countries.

The protracted recession coupled with persistent low commodity prices has highlighted the increased importance of structural adjustment lending. A number of borrower countries have benefited from this quick disbursing form of assistance. We regard this as the most suitable form of assistance for supporting borrower countries who are grappling with the difficult adjustment process. Hence, the guidelines on the overall level of the Bank's structural adjustment lending must be flexibly applied. It is true that the seriousness of the economic situation facing developing countries requires that primary emphasis be placed on measures that would facilitate efficient utilization and financial management of existing capacity. However, these adjustment measures need to be designed and implemented with social and political sensitivity so that the burden of the adjustment does not fall disproportionally on the poorer segments of the population. Failure to recognize this sociopolitical dimension would inevitably hamstring and dangerously compromise the stability and future development prospects of the countries concerned.

One of the goals we have adopted is to accord the highest priority to the development of agriculture, particularly of food crops. It must, however, be on record that results were disappointing and progress slow during the 1970s, partially due to funding constraints. Moreover, the drought that ravaged a number of African countries during the last few years has aggravated an already very precarious food situation. The food crisis has now become so serious that only the launching of an emergency program, inter alia, the establishment of grain stocks financed by the international community, can save the populations in a number of African countries from famine. It must nevertheless be stressed that emergency measures will be effective only if they form part of a medium- and long-term development plan for agriculture in the countries concerned. In our view, the long-term solution to Africa's food problem depends in large measure on substantial intensification of assistance by the Bank, other multilateral, and bilateral institutions in the introduction of modern and well adapted farming techniques.

The recent World Bank report entitled *The Energy Transition in Developing Countries* shows clearly that the developing countries have accomplished substantial progress toward adjustment to the era of high energy costs. The amount of the investments required for the exploitation of these countries' energy resources is higher than ever before. This report estimates that about $130 billion a year, half of it in foreign exchange, would be required during the period 1982-92 to finance these investments. The very size of this investment requirement poses an enormous financing problem, particularly for the low-income countries that lack access to international financial markets. It is, therefore, important that concessional flows to this sector be increased substantially. The World Bank thus has a vital role to play in this field, but this role can be meaningful only to the extent that its concessional window is replenished at an adequate level.

We believe that stepped-up lending for energy, in whatever form, would make an invaluable contribution to solving energy financing problems without reducing the role of the oil companies in financing the developing countries' energy resources development. We ask the World Bank to increase its energy lending and expand its technical assistance to our countries in formulating and implementing suitable strategies for development of our energy resources. In particular, the Bank should, in close cooperation with the other concessional assistance sources, substantially increase its contribution to hydrocarbon exploration and developing activities in the African countries.

It should be stressed that fuelwood is still the main source of energy for the great majority of African countries. The appropriate priority should therefore be accorded to this subsector in order to halt the rapid advancement of desertification in Africa. We consider it important and urgent for the World Bank, in collaboration with other multilateral institutions and bilateral agencies, to provide assistance in the formulation and implementation of reforestation programs in Africa.

We are following with interest the efforts of the World Bank to mobilize additional resources to finance the high-priority investment projects of its borrower countries. We hope that the experimental program of cofinancing with commercial banks will exert a positive influence on the attitude of the donors of funds and lead to a resumption of expansion of commercial banks' lending to the developing countries. We consider it essential, with regard to African countries in the present situation, to step up and expand cofinancing activities with public financing agencies. However, we must emphasize that cofinancing would be meaningful in this context only if the funds so mobilized are additional to what would otherwise have been available to the borrowers involved. Besides, cofinancing should not be a precondition for Bank lending.

In conclusion, we would like to reiterate our appeal especially to the major shareholders of the World Bank and the Fund to respond positively, in the spirit of international cooperation, to the funding requirements of these institutions so as to enable them to fulfill their mandates. As you well know, it is to our mutual benefit that these institutions succeed.

CONCLUDING REMARKS BY MR. CLAUSEN

We have had a busy and constructive week of work. I have read and listened carefully to the statements of the Governors, and am pleased to note the support that has been offered on a number of important issues.

I would particularly like to express our thanks and gratitude to His Excellency, Miguel Boyer, who has so expertly chaired our meetings here this year.

Let me say first, on behalf of management and staff of The World Bank, that your expressions of confidence in our institutions are most welcome and heartening. We greatly appreciate the recognition given to the efforts to make these institutions ever more responsive to the changing global economic environment and the growing needs of our member countries.

We welcome the support expressed by such a large majority for a Selective Capital Increase for the Bank of about $8 billion. This would permit the needed realignment of members' voting rights following the IMF's General Review of Quotas, and also a modest increase in our lending program in the next two fiscal years. We shall now proceed in earnest with work on the specifics of an increase so that a proposal can be discussed by the Executive Directors for submission to you, the Board of Governors, by the end of this calendar year.

Many Governors have emphasized the importance they attach to ensuring the Bank's continuing capacity to adequately support our members' development efforts. You have confirmed our view that we must look carefully and realistically down the road to see what the Bank's role in the balance of the 1980s and the consequent longer-term capital needs are going to be. We, therefore, welcome your expressions of support for immediately launching work on the planning framework required to shape the next General Capital Increase. We look forward to fruitful negotiations leading to an agreement before the end of fiscal year 1986.

Several Governors have emphasized the point that private capital, both in the form of direct investment and commercial lending, is essential to the development process. Therefore, we appreciate the expressions of support from so many delegations for our proposal to recommend to the Board of Directors a $750 million increase in the capital base of the International Finance Corporation.

In particular, the Development Committee, after a positive and constructive discussion of the proposal, took special note of the need to expand IFC's investment program and its capital base.

This encouragement has added to our resolve to proceed to put before IFC's Board within the next few months a program which calls for IFC to continue its present growth rate of 12 per cent per year in real terms and expand the breadth of its operations by undertaking a number of new initiatives. The $750 million capital increase is needed to support the expansion of the Corporation's activities.

I would also like to take this occasion to express my appreciation for the special assistance given by the Kingdom of Saudi Arabia to IFC in the form of a $100 million "parallel" fund for equity investments.

The plight of the low-income countries, after three years of global recession, has been repeatedly and earnestly noted. Governors have urgently declared their determination that programs of development assistance to the low-income countries not be allowed to weaken and decline. Particular concern has been expressed by the Governors of both developed and developing countries over the especially critical situation in our Sub-Saharan African member countries. And we therefore welcome your endorsement of our ordering of priorities which makes Sub-Saharan Africa and its economic problems the number one regional concern of The World Bank, and the priority area for action.

Three positions have emerged among the donor Governments seeking agreement on the Seventh Replenishment of the International Development Association. An important group of countries has expressed support for the Management's position that a $16 billion replenishment is needed if IDA is to support really effectively the programs of development and policy change in its borrowing countries over the next three-year period. Another sizeable group of countries would support a $12 to $13 billion replenishment. Finally, one donor member would prefer a smaller replenishment.

We must now set for ourselves the objective of achieving agreement on this question by the end of this calendar year. A hiatus in IDA commitment authority would be a very severe blow to the countries relying on these resources. Hard political decisions will need to be taken by the major donors. A compromise will have to be reached, and I cannot emphasize too strongly our profound hope that, in working toward that compromise, donors will heed the concerns expressed here repeatedly this week; namely that IDA must be replenished at a level truly commensurate with its formidable task. We cannot, and we *must* not compromise on our joint resolve and commitment to assist those who are in need—our low-income member countries and their peoples.

The ever critical question of population growth rates has been noted by a number of Governors at these meetings, and I made reference to it myself in my opening address to you. I am grateful for your expressions of satisfaction that the Bank intends to continue and intensify its activities in this area. We see the lowering of population growth rates in areas where their level is holding down economic and social development as a matter of pressing importance. And let me say here, in acknowledgement of the concerns expressed by a group of Governors, that, at the Bank, we see the enhancement of the status of women and their role in development as a most important contribution, if not *the* most important contribution, to the solution of many social development problems, including the population problem. Therefore we shall continue to devote our attention to the role that women play in the development process.

Mr. Chairman, Governors, Ladies and Gentlemen:

I believe we have done a good week's work. There has clearly been unity of concern that the institutions in whose names I have had the privilege of speaking to you be enabled to serve their developing member countries in the most efficient, practical and energetic manner possible. We are convinced that, given the means to do so, we can fulfill our task. We know how vast and challenging that task is. We know how many hundreds of millions of people are fearful that their aspirations will be allowed to sink into the dust of despair. And we know that we can, with your support, help to remove those fears and contribute to the building of a better life for all of them. And thus for all of us.

We are at a critical stage in the evolution of the global economy. We must all work hard together, in a spirit of meaningful cooperation, to secure sustained recovery and continuing progress in the alleviation of poverty. I pledge that The World Bank will spare no effort in this great endeavor.

I look forward to meeting you again next year here in Washington D.C. under the chairmanship of our new Chairman, Mr. Haruo Mayekawa, Governor of the Bank of Japan. I congratulate him on his election. And I now bid you farewell, and wish each one of you Godspeed and a safe journey home.

CONCLUDING REMARKS BY THE CHAIRMAN THE HON. MIGUEL BOYER

Having been privileged three days ago to open the discussion on the work of the World Bank and its affiliates and of the International Monetary Fund, I now have the duty of bringing to a close the Thirty-Eighth Annual Meetings of the Boards of Governors. I would like to take this opportunity to thank my fellow Governors, Mr. Clausen, and Mr. de Larosière for their constructive contributions to our deliberations.

I also am grateful to President Reagan for having expressed his Administration's steadfast commitment to our institutions.

As I look back on our discussions I am struck by the change in the collective mood compared to the Meetings in Toronto a year ago. It would not be an exaggeration to say that last year there was an air of crisis over our gathering, arising from a collective anxiety about the future of the financial system. It is clear that many problems still remain to be tackled and, as many Governors have emphasized here, there is no room for complacency. Nevertheless, the anxiety is now replaced by an emerging sense of confidence that the situation is manageable—confidence that is based on our experience during the past year, in which the system was subjected to severe strains and successfully survived them.

The catalytic role played by the Fund in mobilizing a collective response to cope with these strains has been recognized by all. At the same time, we have heard from many colleagues that they have begun the hard task of re-establishing viable external payments positions. Though a lot remains to be done, solid progress is being made. In this respect, adjustment programs worked out in cooperation with the Bank and the Fund have played a notable role.

It was in recognition of that role that we decided to advance the Eighth General Review of Quotas and this Board, earlier this year, agreed upon a significant increase in the Fund's financial resources. This has been followed now by an agreement on the continuation of the enlarged access policy in 1984, after the larger quotas have become effective. There remains now the task for the membership of validating these vital steps by rapidly ratifying the increase in quotas. It is also clear that the Fund's financial resources need further replenishment for the implementation of the enlarged access policy, and I trust that this will be forthcoming in the near future.

In recognition of the World Bank's complementary role in the development process over the long term, expansion of the World Bank's capital base on a selective basis following the Eighth Review of the Fund quotas also was widely endorsed, and early discussion of the possibility of a larger general capital increase was supported. In addition, it was especially heartening to note the overwhelming support expressed for the speedy and successful negotiation of a Seventh Replenishment of IDA's resources of a size sufficient to be responsive to the needs of an expanded recipient community facing dire circumstances, but not unmindful of the budgetary constraints affecting donor countries. I was also encouraged by the willingness of many Governors to consider the possibility of expanding the capital base of IFC to facilitate its task of stimulating direct private investment in developing countries.

Indeed, the destinies of our institutions lie in our hands—and in our hands alone. It is up to us to support their further evolution vigorously and to strengthen their ability to achieve the goals on which we have all agreed.

Wise national policies are necessary to ensure that the recovery, which has clearly begun, will spread geographically and be sustained over time. Only then can its benefits spread to the unemployed in industrial countries and the poor in developing countries, and ultimately, that is what economic welfare is all about. We can all take back with us, from these Meetings, thoughts and ideas about the shape of such policies. All of us have also been reminded of the necessity of international cooperation to enable us to find our way out of the present difficulties. It is up to us now to continue to do the job that has been well begun. The more confident mood of these Meetings can then be translated into a better economic reality.

On behalf of my fellow Governors, I thank the Government and people of the United States for the gracious hospitality they extended to us. I would also like to express my appreciation to the staffs of the institutions for all the assistance they provided me in the conduct of these Meetings. And I congratulate the Governor for Japan who succeeds me as Chairman for next year. Before adjourning, let me wish you all a safe journey home.

The 1983 meetings of the Boards of Governors of the World Bank and its affiliated institutions and of the International Monetary Fund are hereby closed.

REMARKS BY HARUO MAYEKAWA

Alternate Governor of the Bank
and Governor of the Fund

It is a great honor for Japan to have been selected for the chairmanship of the Board of Governors of the World Bank Group and the International Monetary Fund for the coming year. In accepting the chairmanship, Japan promises to endeavor to carry out the duties of this weighty office following the example of the excellent chairmanship that Mr. Miguel Boyer, the Governor of the Bank and of the Fund for Spain, has demonstrated before us.

Now, may I take this opportunity to say that I have just been informed from Tokyo that the Bill for the IMF Quota Increase, which kept our Finance Minister Noboru Takeshita, from joining this Annual Meeting, was approved by the Committee for Finance of the House of Representatives. It is my pleasure to report to you that the Bill will be sent in due course to the House of Councilors for its deliberations.

In closing, I should like to pay my deepest respects to Mr. Clausen, Mr. de Larosière and the staff of both institutions for their leadership and many contributions.

I look forward to working closely with them throughout the year and I hope that the positive signs that have begun to emerge in the world economy will have developed more fully so that we can gather again in 1984 with a sense that the goals we all share are within our grasp.

DOCUMENTS OF THE BOARDS OF GOVERNORS

SCHEDULE OF MEETINGS[1]

Tuesday September 27	10:00 a.m.	—Opening Ceremonies Address from the Chair Annual Address by President, IBRD, IFC, IDA Annual Address by Managing Director, IMF
	3:00 p.m.	—Annual Discussion
Wednesday September 28	9:30 a.m.	—Annual Discussion
	3:00 p.m.	—Annual Discussion
Thursday September 29	9:30 a.m.	—Annual Discussion
	3:00 p.m.	—ICSID Administrative Council[2]
	5:30 p.m.	—Joint Procedures Committee
Friday *September 30*	9:30 a.m.	—Annual Discussion Joint Procedures Committee Reports Comments by Heads of Organizations Adjournment

[1]*All sessions were joint sessions with the Board of Governors of the International Monetary Fund.*
[2]*The summary of proceedings of ICSID are published separately.*

PROVISIONS RELATING TO THE CONDUCT OF THE MEETINGS[1]

ADMISSION

1. Sessions of the Boards of Governors of the Bank, IFC and IDA, and the Fund will be joint and shall be open to accredited press, guests, and staff.
2. Meetings of the Joint Procedures Committee shall be open only to Governors who are members of the Committee and their advisers, Executive Directors, and such staff as may be necessary.

PROCEDURE AND RECORDS

3. The Chairman of the Boards of Governors will establish the order of speaking at each session. Governors signifying a desire to speak will generally be recognized in the order in which they ask to speak.
4. With the consent of the Chairman, a Governor may extend his statement in the record following advance submission of the text to the Secretaries.
5. The Secretaries will have verbatim transcripts prepared of the proceedings of the Boards of Governors and the Joint Procedures Committee. The transcripts of proceedings of the Joint Procedures Committee will be confidential and available only to the Chairman, the President of the Bank and its Affiliates, the Managing Director of the Fund, and the Secretaries.
6. Reports of the Joint Procedures Committee shall be signed by the Committee Chairman and the Reporting Member.

PUBLIC INFORMATION

7. The Chairman of the Boards of Governors, the President of the Bank and its Affiliates, and the Managing Director of the Fund will communicate to the press such information concerning the proceedings of the Annual Meetings as they may deem suitable.

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[1]*Approved on April 8, 1983 pursuant to the By-Laws, IBRD Section 6(d), IFC Section 4(d), and IDA Section 1(a).*

BANK AGENDA[1]

1. 1982/83 Annual Report
2. Financial Statements and Annual Audit
3. Allocation of Net Income
4. Administrative Budget
5. Joint Development Committee
6. Officers and Procedures Committee for 1983/84

IFC AGENDA[1]

1. 1982/83 Annual Report
2. Financial Statements and Annual Audit
3. Administrative Budget

IDA AGENDA[1]

1. 1982/83 Annual Report
2. Financial Statements and Annual Audit
3. Administrative Budget

[1] *Approved on April 8, 1983 pursuant to the By-Laws, IBRD Section 6(a), IFC Section 4(a), and IDA Section 1(a).*

JOINT PROCEDURES COMMITTEE

Chairman	Spain
Vice Chairmen	Bangladesh
	Paraguay
Reporting Member	France

Other Members

Argentina	Niger
Belgium	Pakistan
Benin[1]	Saudi Arabia
China	Tunisia
Costa Rica	Uganda
Germany	United Arab Emirates
Haiti	United Kingdom
Japan	United States
Malaysia	Yugoslavia

[1]*Not a member of IFC.*

REPORT I[1]

September 30, 1983

At the meeting of the Joint Procedures Committee held on September 29, 1983, the items of business on the agendas of the Boards of Governors of the Bank, IDA and IFC were considered.

The Committee submits the following Report and Recommendations on Bank and IDA business:

1. *1983 Annual Report*

The Committee noted that the 1983 Annual Report and the activities of the Bank and IDA had been discussed at these Annual Meetings.

2. *Financial Statements, Annual Audits and Administrative Budgets*

The Committee considered the Financial Statements, Accountants' Reports and Administrative Budgets contained in the 1983 Bank and IDA Annual Report, together with the Report dated August 17, 1983.

The Committee recommends that the Boards of Governors of the Bank and IDA adopt the draft resolutions . . . [2]

3. *Allocation of Net Income of the Bank*

The Committee considered the Report of the Executive Directors dated August 2, 1983, on the Allocation of Net Income . . .[3]

The Committee recommends that the Board of Governors of the Bank adopt the draft resolution . . .[4]

The Committee submits the following Report and Recommendations on IFC business:

1. *1983 Annual Report*

The Committee noted that the 1983 Annual Report and the activities of IFC had been discussed at these Annual Meetings.

2. *Financial Statements, Annual Audit and Administrative Budget*

The Committee considered the Financial Statements and the Accountants' Report contained in the 1983 Annual Report, and the Administrative Budget attached to the Report dated August 17, 1983.

[1]*Report II related to the business of the Fund.*
[2]*See pages 227 and 245.*
[3]*See page 246.*
[4]*See page 227.*

The Committee recommends that the Board of Governors of IFC adopt the draft resolution . . .[1]

Approved:

/s/ Miguel Boyer Spain—*Chairman*	/s/ Bruno de Maulde France—*Reporting Member*

This report was approved and its recommendations were adopted by the Boards of Governors on September 30, 1983.

[1]*See page 242.*

REPORT III

September 30, 1983

The Joint Procedures Committee met on September 29, 1983 and submits the following report:

1. *Development Committee*

The Committee noted that the Annual Report of the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee) has been presented to the Boards of Governors of the Bank and the Fund pursuant to paragraph 5 of Resolutions Nos. 294 and 29-9 of the Bank and the Fund, respectively . . . [1]

The Committee recommends that the Boards of Governors of the Bank and the Fund note the Report and thank the Development Committee for its work.

2. *Officers and Joint Procedures Committee for 1983/84*

The Committee recommends that the Governor for Japan be the Chairman, and the Governors for Ghana and the Netherlands be Vice Chairmen, of the Boards of Governors of the Bank and its affiliates and of the Fund, to hold office until the close of the next Annual Meetings.

It is further recommended that a Joint Procedures Committee be established to be available, after the termination of these Meetings and until the close of the next Annual Meetings, for consultation at the discretion of the Chairman, normally by correspondence and, if the occasion requires, by convening; and that this Committee shall consist of the Governors for the following members: Australia, Brazil, Cyprus, Dominica, Egypt, France, Germany, Ghana, Japan, Morocco, Netherlands, Peru, Saudi Arabia, Solomon Islands, Sudan, Sweden, Thailand, United Kingdom, United States, Venezuela, Zaîre, and Zimbabwe.

It is recommended that the Chairman of the Joint Procedures Committee shall be the Governor for Japan, and the Vice Chairmen shall be the Governors for Ghana and the Netherlands, and that the Governor for Australia shall serve as the Reporting Member.

Approved:

/s/ Miguel Boyer
Spain—*Chairman*

/s/ Bruno de Maulde
France—*Reporting Member*

This report was approved and its recommendations were adopted by the Boards of Governors on September 30, 1983.

[1] *See page 248.*

RESOLUTIONS ADOPTED BY THE BOARD OF GOVERNORS OF THE BANK BETWEEN THE 1982 AND 1983 ANNUAL MEETINGS

Resolution No. 388

Direct Remuneration of Executive Directors and their Alternates

RESOLVED:

THAT, effective July 1, 1983, the annual rates of remuneration of Executive Directors of the Bank and their Alternates pursuant to Section 13(e) of the By-Laws shall be as follows:

(i) As salary, $73,600 per year for Executive Directors and $61,600 per year for their Alternates;

(ii) As supplemental allowance (for expenses, including housing and entertainment expenses, except those specified in Section 13(f) of the By-Laws), $8,500 per year for Executive Directors and $6,800 per year for their Alternates.

(Adopted July 6, 1983)

Resolution No. 389

Home Leave Allowance for Executive Directors and their Alternates

RESOLVED:

THAT, effective with respect to home leave travel of the families of Executive Directors and Alternates commencing after July 1, 1983, a home leave allowance shall be paid to Executive Directors and their Alternates in the same amounts as it is paid in respect of the families of the staff.

(Adopted July 6, 1983)

Resolution No. 390

Salary of the President

RESOLVED:

THAT, effective July 1, 1983, the annual salary of the President of the Bank shall be $120,000.

(Adopted July 10, 1983)

Resolution No. 391

Membership of the Republic of Malta

WHEREAS the Government of the Republic of Malta has applied for admission to membership in the International Bank for Reconstruction and Development in accordance with Section 1(b) of Article II of the Articles of Agreement of the Bank; and

WHEREAS pursuant to Section 19 of the By-Laws of the Bank, the Executive Directors, after consultation with representatives of the Government of the Republic of Malta, have made recommendations to the Board of Governors regarding this application;

NOW, THEREFORE, the Board of Governors hereby

RESOLVES:

THAT the terms and conditions upon which the Republic of Malta shall be admitted to membership in the Bank shall be as follows:

1. *Definitions:* As used in this resolution:
   (a) "Bank" means International Bank for Reconstruction and Development.
   (b) "Articles" means the Articles of Agreement of the Bank.
   (c) "Subscription" means the capital stock of the Bank subscribed to by a member.
   (d) "Member" means member of the Bank.
   (e) "General Capital Increase Resolution" means Board of Governors' Resolution No. 346 entitled "1979 General Capital Increase" adopted on January 4, 1980.
   (f) "Additional Capital Increase Resolution" means Board of Governors' Resolution No. 347 entitled "1979 Additional Increase in Authorized Capital Stock and Subscriptions Thereto" adopted on January 4, 1980.

2. *Subscription:* By accepting membership in the Bank, the Republic of Malta shall subscribe to 163 shares of the capital stock of the Bank at par.

3. *Payment on Subscription:*
   (a) Before accepting membership in the Bank, the Republic of Malta shall pay to the Bank on account of the subscription price of one-half of such shares:
      (i) Gold or United States dollars equal to 2% thereof; and
      (ii) An amount in its own currency which, at the appropriate prevailing exchange rate, shall be equal to 18% thereof.

(b) With respect to the subscription price of the other one-half of such shares, the 2% portion payable in gold or United States dollars and the 18% portion payable in the currency of the member shall be left uncalled, as set forth in Resolution No. 129, on the same basis as the 2% and 18% portions of subscriptions made pursuant to Resolution No. 128 of the Board of Governors.

4. *Representation and Information:* Before accepting membership in the Bank, the Republic of Malta shall represent to the Bank that it has taken all action necessary to sign and deposit the instrument of acceptance and sign the Articles as contemplated by paragraphs 5(c) and (d) of this resolution and the Republic of Malta shall furnish to the Bank such information in respect of such action as the Bank may request.

5. *Acceptance of Membership:* The Republic of Malta shall become a member of the Bank with a subscription as set forth in paragraph 2 of this resolution as of the date when the Republic of Malta shall have complied with the following requirements:

(a) made the payments called for by paragraph 3 of this resolution;

(b) furnished the representation, and such information as may have been requested, pursuant to paragraph 4 of this resolution;

(c) deposited with the Government of the United States of America an instrument stating that it has accepted in accordance with its law the Articles and all the terms and conditions prescribed in this resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this resolution; and

(d) signed the original Articles held in the archives of the Government of the United States of America.

6. *Limitation on Period for Acceptance of Membership:* The Republic of Malta may accept membership in the Bank pursuant to this resolution until December 30, 1983, or such later date as the Executive Directors may determine.

7. *Additional Subscription on Terms and Conditions of General Capital Increase Resolution:*

(a) The Republic of Malta may subscribe up to 153 shares of the capital stock of the Bank, subject to adjustment as provided in paragraph 7(b) of this resolution, on the terms and conditions specified in paragraph 4 of the General Capital Increase Resolution.

(b) In the event that the number of shares authorized to be subscribed by each member under the General Capital Increase Resolution shall be reduced pursuant to paragraph 3 thereof, the amount authorized to be subscribed under paragraph 7(a) of this resolution shall be reduced correspondingly (to the nearest number of shares).

(c) The provisions of paragraph 5 of the General Capital Increase Resolution shall apply to the Republic of Malta to the same extent as if the subscription authorized by paragraph 7(a) of this resolution had been authorized under paragraph 2 of the General Capital Increase Resolution.

8. *Additional Subscription on Terms and Conditions of Additional Capital Increase Resolution*

(a) The Republic of Malta may subscribe to 250 shares of the capital stock of the Bank on the terms and conditions specified in paragraphs 2 and 3 of the Additional Capital Increase Resolution.

(b) Subscriptions shall not be taken into account in determining the amount of the unimpaired subscribed capital, reserves and surplus of the Bank for purposes of Article III, Section 3 of the Articles of Agreement of the Bank.

(Adopted August 10, 1983)

RESOLUTIONS ADOPTED BY THE BOARD OF GOVERNORS OF THE BANK AT THE 1983 ANNUAL MEETING

Resolution No. 392

Financial Statements, Accountants' Report and Administrative Budget

RESOLVED:

THAT the Board of Governors of the Bank consider the Financial Statements, Accountants' Report and Administrative Budget, included in the 1982/83 Annual Report, as fulfilling the requirements of Article V, Section 13, of the Articles of Agreement and of Section 18 of the By-Laws of the Bank.

(Adopted September 30, 1983)

Resolution No. 393

Allocation of Net Income

RESOLVED:

1. THAT the Report of the Executive Directors dated August 2, 1983 on "Allocation of FY83 Net Income" is hereby approved;

2. THAT the Bank transfer to the International Development Association by way of grant the equivalent of $200 million out of the net income of the Bank for the fiscal year ended June 30, 1983, such transfer to be made at the time and in the manner to be decided by the Executive Directors; and

3. THAT the allocation of the balance of the net income of the Bank for the fiscal year ended June 30, 1983 to the General Reserve is hereby noted with approval.

(Adopted September 30, 1983)

RESOLUTIONS ADOPTED BY THE BOARD OF GOVERNORS OF IFC BETWEEN THE 1982 AND 1983 ANNUAL MEETINGS

Resolution No. 130

Increase of Subscriptions by Cameroon and Upper Volta to the Capital of the Corporation

WHEREAS by IFC Resolution No. 100 (the Capital Increase Resolution) adopted by the Board of Governors on November 2, 1977, the authorized capital stock of the International Finance Corporation (the Corporation) was increased to $650,000,000, in terms of United States dollars, by the creation of 540,000 additional shares having a par value of one thousand United States dollars each, and the issuance of a certain number of such shares was authorized as set forth therein; and

WHEREAS the last date as determined by the Board of Directors for subscription to additional shares under the Capital Increase Resolution and payment therefor by member countries (other than countries for which payment was deferred due to economic hardship, in accordance with Section F.2(c) of the Capital Increase Resolution) was August 1, 1982; and

WHEREAS neither Cameroon nor Upper Volta could complete subscription and payment for the entire number of shares allocated to it for subscription under the Capital Increase Resolution on or before August 1, 1982; and

WHEREAS in accordance with Section H of the Capital Increase Resolution any shares of capital stock which remain unsubscribed after the last date prescribed for subscription and payment shall remain authorized and unissued, issuable by the Corporation in accordance with its Articles of Agreement; and

WHEREAS it would be consistent with the objectives of the Capital Increase Resolution to enable each of Cameroon and Upper Volta to subscribe in the aggregate to that number of shares which it would otherwise have been authorized to subscribe on or before August 1, 1982;

NOW THEREFORE THE BOARD OF GOVERNORS RESOLVES THAT:

(a) Cameroon is hereby authorized to subscribe up to 76 shares of the Corporation on the terms and conditions provided for in this Resolution.

(b) Upper Volta is hereby authorized to subscribe up to 78 shares of the Corporation on the terms and conditions provided for in this Resolution.

(c) The subscription price per share shall be $1,000 in terms of United States dollars, and such subscription price shall be paid in United States dollars or other freely convertible currency or currencies; provided that, if payment is made in such a currency or currencies other than United States dollars, the Corporation shall exercise its best efforts to cause such currency or currencies to be promptly converted into United States dollars and the same shall constitute payment of, or towards, the subscription price only to the extent that the Corporation shall have received effective payment of United States dollars.

(d) Payment of the subscription price for shares subscribed shall be made in cash in full upon subscription.

(e) Subscription and payment for shares as authorized hereunder shall be completed on or before August 1, 1983, and such shares remaining unsubscribed after August 1, 1983 shall remain authorized and unissued, issuable by the Corporation in accordance with its Articles of Agreement.

(Adopted December 7, 1982)

Resolution No. 131

Increase of Subscription by Ivory Coast to the Capital of the Corporation

WHEREAS by IFC Resolution No. 100 (the Capital Increase Resolution) adopted by the Board of Governors on November 2, 1977, the authorized capital stock of the International Finance Corporation (the Corporation) was increased to $650,000,000, in terms of United States dollars, by the creation of 540,000 additional shares having a par value of one thousand United States dollars each, and the issuance of a certain number of such shares was authorized as set forth therein; and

WHEREAS the last date as determined by the Board of Directors for subscription to additional shares under the Capital Increase Resolution and payment therefor by member countries (other than countries for which payment was deferred due to economic hardship, in accordance with Section F.2(c) of the Capital Increase Resolution) was August 1, 1982; and

WHEREAS Ivory Coast could not complete subscription and payment for the entire number of shares allocated to it for subscription under the Capital Increase Resolution on or before August 1, 1982; and

WHEREAS in accordance with Section H of the Capital Increase Resolution any shares of capital stock which remain unsubscribed after the last date prescribed for subscription and payment shall remain authorized and unissued, issuable by the Corporation in accordance with its Articles of Agreement; and

WHEREAS it would be consistent with the objectives of the Capital Increase Resolution to enable Ivory Coast to subscribe in the aggregate to that number of shares which it would otherwise have been authorized to subscribe on or before August 1, 1982;

NOW THEREFORE THE BOARD OF GOVERNORS RESOLVES THAT:

(a) Ivory Coast is hereby authorized to subscribe up to 521 shares of the Corporation on the terms and conditions provided for in this Resolution.

(b) The subscription price per share shall be $1,000 in terms of United States dollars, and such subscription price shall be paid in United States dollars or other freely convertible currency or currencies; provided that, if payment is made in such a currency or currencies other than United States dollars, the Corporation shall exercise its best efforts to cause such currency or currencies to be promptly converted into United States dollars and the same shall constitute payment of, or towards, the subscription price only to the extent that the Corporation shall have received effective payment of United States dollars.

(c) Payment in the subscription price for shares subscribed shall be made in cash in full upon subscription.

(d) Subscription and payment for shares as authorized hereunder shall be completed on or before August 1, 1983, and such shares remaining unsubscribed after August 1, 1983 shall remain authorized and unissued, issuable by the Corporation in accordance with its Articles of Agreement.

(Adopted December 21, 1982)

Resolution No. 132

Increase of Subscription
by Morocco to the Capital of the Corporation

WHEREAS by IFC Resolution No. 100 (the Capital Increase Resolution) adopted by Board of Governors on November 2, 1977, the authorized capital stock of the International Finance Corporation (the Corporation) was increased to $650,000,000, in terms of United States dollars, by the creation of 540,000 additional shares having a par value of one thousand United States dollars each, and the issuance of a certain number of such shares was authorized as set forth therein; and

WHEREAS the last date as determined by the Board of Directors for subscription to additional shares under the Capital Increase Resolution and payment therefor by member countries (other than countries for which payment was deferred due to economic hardship, in accordance with Section F.2(c) of the Capital Increase Resolution) was August 1, 1982; and

WHEREAS Morocco could not complete subscription and payment for the entire number of shares allocated to it for subscription under the Capital Increase Resolution on or before August 1, 1982; and

WHEREAS in accordance with Section H of the Capital Increase Resolution any shares of capital stock which remain unsubscribed after the last date prescribed for subscription and payment shall remain authorized and unissued, issuable by the Corporation in accordance with its Articles of Agreement; and

WHEREAS it would be consistent with the objectives of the Capital Increase Resolution to enable Morocco to subscribe in the aggregate to that number of shares which it would otherwise have been authorized to subscribe on or before August 1, 1982;

NOW THEREFORE THE BOARD OF GOVERNORS RESOLVES THAT:

(a) Morocco is hereby authorized to subscribe up to 388 shares of the Corporation on the terms and conditions provided for in this Resolution.

(b) The subscription price per share shall be $1,000 in terms of United States dollars, and such subscription price shall be paid in United States dollars or other freely convertible currency or currencies; provided that, if payment is made in such a currency or currencies other than United States dollars, the Corporation shall exercise its best efforts to cause such currency or currencies to be promptly converted into United States dollars and the same shall constitute payment of, or towards, the subscription price only to the extent that the Corporation shall have received effective payment of United States dollars.

(c) Payment of the subscription price for shares subscribed shall be made in cash in full upon subscription.

(d) Subscription and payment for shares as authorized hereunder shall be completed on or before August 1, 1983, and such shares remaining unsubscribed after August 1, 1983 shall remain authorized and unissued, issuable by the Corporation in accordance with its Articles of Agreement.

(Adopted January 23, 1983)

Resolution No. 133

Increase of Subscription
by France to the Capital of the Corporation

WHEREAS by IFC Resolution No. 100 (the Capital Increase Resolution) adopted by the Board of Governors on November 2, 1977, the authorized capital stock of the International Finance Corporation (the Corporation) was increased to $650,000,000, in terms of United States dollars, by the creation of 540,000 additional shares having a par value of one thousand United States dollars each, and the issuance of a certain number of such shares was authorized as set forth therein; and

WHEREAS the last date as determined by the Board of Directors for subscription to additional shares under the Capital Increase Resolution and payment therefor by member countries (other than countries for which payment was deferred due to economic hardship, in accordance with Section F.2(c) of the Capital Increase Resolution) was August 1, 1982; and

WHEREAS France could not complete subscription and payment for the entire number of shares allocated to it for subscription under the Capital Increase Resolution on or before August 1, 1982; and

WHEREAS in accordance with Section H of the Capital Increase Resolution any shares of capital stock which remain unsubscribed after the last date prescribed for subscription and payment shall remain authorized and unissued, issuable by the Corporation in accordance with its Articles of Agreement; and

WHEREAS it would be consistent with the objectives of the Capital Increase Resolution to enable France to subscribe in the aggregate to that number of shares which it would otherwise have been authorized to subscribe on or before August 1, 1982;

NOW THEREFORE THE BOARD OF GOVERNORS RESOLVES THAT:

(a) France is hereby authorized to subscribe up to 4,404 shares of the Corporation on the terms and conditions provided for in this Resolution.

(b) The subscription price per share shall be $1,000 in terms of United States dollars, and such subscription price shall be paid in United States dollars or other freely convertible currency or currencies; provided that, if payment is made in such a currency or currencies other than United States dollars, the Corporation shall exercise its best efforts to cause such currency or currencies to be promptly converted into United States dollars and the same shall constitute payment of, or towards, the subscription price only to the extent that

the Corporation shall have received effective payment of United States dollars.

(c) Payment of the subscription price for shares subscribed shall be made in cash in full upon subscription.

(d) Subscription and payment for shares as authorized hereunder shall be completed on or before August 1, 1983, and such shares remaining unsubscribed after August 1, 1983 shall remain authorized and unissued, issuable by the Corporation in accordance with its Articles of Agreement.

(Adopted March 11, 1983)

Resolution No. 134

Increase of Subscription by Tunisia to the Capital of the Corporation

WHEREAS by IFC Resolution No. 100 (the Capital Increase Resolution) adopted by the Board of Governors on November 2, 1977, the authorized capital stock of the International Finance Corporation (the Corporation) was increased to $650,000,000, in terms of United States dollars, by the creation of 540,000 additional shares having a par value of one thousand United States dollars each, and the issuance of a certain number of such shares was authorized as set forth therein; and

WHEREAS the last date as determined by the Board of Directors for subscription to additional shares under the Capital Increase Resolution and payment therefor by member countries (other than countries for which payment was deferred due to economic hardship, in accordance with Section F.2(c) of the Capital Increase Resolution) was August 1, 1982; and

WHEREAS Tunisia could not complete subscription and payment for the entire number of shares allocated to it for subscription under the Capital Increase Resolution on or before August 1, 1982; and

WHEREAS in accordance with Section H of the Capital Increase Resolution any shares of capital stock which remain unsubscribed after the last date prescribed for subscription and payment shall remain authorized and unissued, issuable by the Corporation in accordance with its Articles of Agreement; and

WHEREAS it would be consistent with the objectives of the Capital Increase Resolution to enable Tunisia to subscribe in the aggregate to that number of shares which it would otherwise have been authorized to subscribe on or before August 1, 1982;

NOW THEREFORE THE BOARD OF GOVERNORS RESOLVES THAT:

(a) Tunisia is hereby authorized to subscribe up to 78 shares of the Corporation on the terms and conditions provided for in this Resolution.

(b) The subscription price per share shall be $1,000 in terms of United States dollars, and such subscription price shall be paid in United States dollars or other freely convertible currency or currencies; provided that, if payment is made in such a currency or currencies other than United States dollars, the Corporation shall exercise its best efforts to cause such currency or currencies to be promptly converted into United States dollars and the same shall constitute payment of, or towards, the subscription price only to the extent that the Corporation shall have received effective payment of United States dollars.

(c) Payment of the subscription price for shares subscribed shall be made in cash in full upon subscription.

(d) Subscription and payment for shares as authorized hereunder shall be completed on or before August 1, 1983, and such shares remaining unsubscribed after August 1, 1983 shall remain authorized and unissued, issuable by the Corporation in accordance with its Articles of Agreement.

(Adopted March 14, 1983)

Resolution No. 135

Membership of The Bahamas

WHEREAS the Government of The Bahamas has applied for admission to membership in the International Finance Corporation in accordance with Section 1(b) of Article II of the Articles of Agreement of the Corporation; and

WHEREAS, pursuant to Section 17 of the By-Laws of the Corporation, the Board of Directors, after consultation with representatives of the Government of The Bahamas, has made recommendations to the Board of Governors regarding the application of said Government;

NOW, THEREFORE, the Board of Governors hereby

RESOLVES:

THAT the terms and conditions upon which The Bahamas shall be admitted to membership in the Corporation shall be as follows:

1. *Definitions:* As used in this resolution:

(a) "Corporation" means International Finance Corporation.

(b) "Articles" means the Articles of Agreement of the Corporation.

(c) "Dollars" or "$" means United States dollars.

(d) "Subscription" means the capital stock of the Corporation subscribed by a member.

(e) "Member" means member of the Corporation.

2. *Subscription:* By accepting membership in the Corporation, The Bahamas shall subscribe to 114 shares of the capital stock of the Corporation at the par value of $1,000 per share.

3. *Payment of Subscription:* Before accepting membership in the Corporation, The Bahamas shall pay $114,000 to the Corporation in full payment of the capital stock subscribed.

4. *Information:* Before accepting membership in the Corporation, The Bahamas shall furnish to the Corporation such information relating to its application for membership as the Corporation may request.

5. *Acceptance of Membership:* The Bahamas shall become a member of the Corporation with a subscription as set forth in paragraph 2 of this resolution, as of the date when The Bahamas shall have complied with the following requirements:

(a) made the payment called for by paragraph 3 of this resolution;

(b) furnished such information as may have been requested by the Corporation pursuant to paragraph 4 of this resolution;

(c) deposited with the International Bank for Reconstruction and Development an instrument stating that it has accepted without reservation in accordance with its law the Articles and all the terms and conditions prescribed in this resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this resolution; and

(d) signed the original Articles held by the International Bank for Reconstruction and Development.

6. *Limitation on Period for Acceptance of Membership:* The Bahamas may accept membership in the Corporation pursuant to this resolution until December 30, 1983, or such later date as the Board of Directors may determine.

(Adopted April 20, 1983)

Resolution No. 136

Increase of Subscription
by Venezuela to the Capital of the Corporation

WHEREAS by IFC Resolution No. 100 (the Capital Increase Resolution) adopted by the Board of Governors on November 2, 1977, the authorized capital stock of the International Finance Corporation (the Corporation) was increased to $650,000,000, in terms of United States dollars, by the creation of 540,000 additional shares having a par value of one thousand United States dollars each, and the issuance of a certain number of such shares was authorized as set forth therein; and

WHEREAS the last date as determined by the Board of Directors for subscription to additional shares under the Capital Increase Resolution and payment therefor by member countries (other than countries for which payment was deferred due to economic hardship, in accordance with Section F.2(c) of the Capital Increase Resolution) was August 1, 1982; and

WHEREAS Venezuela could not complete subscription and payment for the entire number of shares allocated to it for subscription under the Capital Increase Resolution on or before August 1, 1982; and

WHEREAS in accordance with Section H of the Capital Increase Resolution any shares of capital stock which remain unsubscribed after the last date prescribed for subscription and payment shall remain authorized and unissued, issuable by the Corporation in accordance with its Articles of Agreement; and

WHEREAS it would be consistent with the objectives of the Capital Increase Resolution to enable Venezuela to subscribe in the aggregate to that number of shares which it would otherwise have been authorized to subscribe on or before August 1, 1982;

NOW THEREFORE THE BOARD OF GOVERNORS RESOLVES THAT:

(a) Venezuela is hereby authorized to subscribe up to 6,990 shares of the Corporation on the terms and conditions provided for in this Resolution.

(b) The subscription price per share shall be $1,000 in terms of United States dollars, and such subscription price shall be paid in United States dollars or other freely convertible currency or currencies; provided that, if payment is made in such a currency or currencies other than United States dollars, the Corporation shall exercise its best efforts to cause such currency or currencies to be promptly converted into United States dollars and the same shall constitute payment of, or towards, the subscription price only to the extent that

the Corporation shall have received effective payment of United States dollars.

(c) Payment of the subscription price for shares subscribed shall be made in cash in full upon subscription.

(d) Subscription and payment for shares as authorized hereunder shall be completed on or before August 1, 1983, and such shares remaining unsubscribed after August 1, 1983 shall remain authorized and unissued, issuable by the Corporation in accordance with its Articles of Agreement.

(Adopted May 5, 1983)

Resolution No. 137

Membership of the Central African Republic

WHEREAS the Government of the Central African Republic has applied for admission to membership in the International Finance Corporation in accordance with Section 1(b) of Article II of the Articles of Agreement of the Corporation; and

WHEREAS, pursuant to Section 17 of the By-Laws of the Corporation, the Board of Directors, after consultation with representatives of the Government of the Central African Republic has made recommendations to the Board of Governors regarding the application of said Government;

NOW, THEREFORE, the Board of Governors hereby

RESOLVES:

THAT the terms and conditions upon which the Central African Republic shall be admitted to membership in the Corporation shall be as follows:

1. *Definitions:* As used in this resolution:

(a) "Corporation" means International Finance Corporation.

(b) "Articles" means the Articles of Agreement of the Corporation.

(c) "Dollars" or "$" means United States dollars.

(d) "Subscription" means the capital stock of the Corporation subscribed by a member.

(e) "Member" means member of the Corporation.

2. *Subscription:* By accepting membership in the Corporation, the Central African Republic shall subscribe to 67 shares of the capital stock of the Corporation at the par value of $1,000 per share.

3. *Payment of Subscription:* Before accepting membership in the Corporation, the Central African Republic shall pay $67,000 to the Corporation in full payment of the capital stock subscribed.

4. *Information:* Before accepting membership in the Corporation, the Central African Republic shall furnish to the Corporation such information relating to its application for membership as the Corporation may request.

5. *Acceptance of Membership:* The Central African Republic shall become a member of the Corporation with a subscription as set forth in paragraph 2 of this resolution, as of the date when the Central African Republic shall have complied with the following requirements:

(a) made the payment called for by paragraph 3 of this resolution;

(b) furnished such information as may have been requested by the Corporation pursuant to paragraph 4 of this resolution;

(c) deposited with the International Bank for Reconstruction and Development an instrument stating that it has accepted without reservation in accordance with its law the Articles and all the terms and conditions prescribed in this resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this resolution; and

(d) signed the original Articles held by the International Bank for Reconstruction and Development.

6. *Limitation on Period for Acceptance of Membership:* The Central African Republic may accept membership in the Corporation pursuant to this resolution until December 30, 1983, or such later date as the Board of Directors may determine.

(Adopted May 5, 1983)

Resolution No. 138

Membership of Cape Verde

WHEREAS the Government of Cape Verde has applied for admission to membership in the International Finance Corporation in accordance with Section 1(b) of Article II of the Articles of Agreement of the Corporation; and

WHEREAS, pursuant to Section 17 of the By-Laws of the Corporation, the Board of Directors, after consultation with representatives of the Government of Cape Verde has made recommendations to the Board of Governors regarding the application of said Government;

NOW, THEREFORE, the Board of Governors hereby

RESOLVES:

THAT the terms and conditions upon which Cape Verde shall be admitted to membership in the Corporation shall be as follows:

1. *Definitions:* As used in this resolution:
   (a) "Corporation" means International Finance Corporation.
   (b) "Articles" means the Articles of Agreement of the Corporation.
   (c) "Dollars" or "$" means United States dollars.
   (d) "Subscription" means the capital stock of the Corporation subscribed by a member.
   (e) "Member" means member of the Corporation.

2. *Subscription:* By accepting membership in the Corporation, Cape Verde shall subscribe to 11 shares of the capital stock of the Corporation at the par value of $1,000 per share.

3. *Payment of Subscription:* Before accepting membership in the Corporation, Cape Verde shall pay $11,000 to the Corporation in full payment of the capital stock subscribed.

4. *Information:* Before accepting membership in the Corporation, Cape Verde shall furnish to the Corporation such information relating to its application for membership as the Corporation may request.

5. *Acceptance of Membership:* Cape Verde shall become a member of the Corporation with a subscription as set forth in paragraph 2 of this resolution, as of the date when Cape Verde shall have complied with the following requirements:
   (a) made the payment called for by paragraph 3 of this resolution;
   (b) furnished such information as may have been requested by the Corporation pursuant to paragraph 4 of this resolution;
   (c) deposited with the International Bank for Reconstruction and Development an instrument stating that it has accepted without reservation in accordance with its law the Articles and all the terms and conditions prescribed in this resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this resolution; and
   (d) signed the original Articles held by the International Bank for Reconstruction and Development.

6. *Limitation on Period for Acceptance of Membership:* Cape Verde may accept membership in the Corporation pursuant to this resolution until December 30, 1983, or such later date as the Board of Directors may determine.

(Adopted May 11, 1983)

Resolution No. 139

Increase of Subscription
by Bolivia to the Capital of the Corporation

WHEREAS by IFC Resolution No. 100 (the Capital Increase Resolution) adopted by the Board of Governors on November 2, 1977, the authorized capital stock of the International Finance Corporation (the Corporation) was increased to $650,000,000, in terms of United States dollars, by the creation of 540,000 additional shares having a par value of one thousand United States dollars each, and the issuance of a certain number of such shares was authorized as set forth therein; and

WHEREAS the last date as determined by the Board of Directors for subscription to additional shares under the Capital Increase Resolution and payment therefor by member countries (other than countries for which payment was deferred due to economic hardship, in accordance with Section F.2(c) of the Capital Increase Resolution) was August 1, 1982; and

WHEREAS Bolivia could not complete subscription and payment for the entire number of shares allocated to it for subscription under the Capital Increase Resolution on or before August 1, 1982; and

WHEREAS in accordance with Section H of the Capital Increase Resolution any shares of capital stock which remain unsubscribed after the last date prescribed for subscription and payment shall remain authorized and unissued, issuable by the Corporation in accordance with its Articles of Agreement; and

WHEREAS it would be consistent with the objectives of the Capital Increase Resolution to enable Bolivia to subscribe in the aggregate to that number of shares which it would otherwise have been authorized to subscribe on or before August 1, 1982;

NOW THEREFORE THE BOARD OF GOVERNORS RESOLVES THAT:

(a) Bolivia is hereby authorized to subscribe up to 83 shares of the Corporation on the terms and conditions provided for in this Resolution.

(b) The subscription price per share shall be $1,000 in terms of United States dollars, and such subscription price shall be paid in United States dollars or other freely convertible currency or currencies; provided that, if payment is made in such a currency or currencies other than United States dollars, the Corporation shall exercise its best efforts to cause such currency or currencies to be promptly converted into United States dollars and the same shall constitute payment of, or towards, the subscription price only to the extent that

the Corporation shall have received effective payment of United States dollars.

(c) Payment of the subscription price for shares subscribed shall be made in cash in full upon subscription.

(d) Subscription and payment for shares as authorized hereunder shall be completed on or before August 1, 1983, and such shares remaining unsubscribed after August 1, 1983 shall remain authorized and unissued, issuable by the Corporation in accordance with its Articles of Agreement.

(Adopted May 31, 1983)

RESOLUTION ADOPTED BY THE BOARD OF GOVERNORS OF IFC AT THE 1983 ANNUAL MEETING

Resolution No. 140

Financial Statements, Accountants' Report and Administrative Budget

RESOLVED:

THAT the Board of Governors of the Corporation consider the Financial Statements and the Accountants' Report, included in the 1982/83 Annual Report, and the Administrative Budget attached to the Report dated August 17, 1983, as fulfilling the requirements of Article IV, Section 11, of the Articles of Agreement and of Section 16 of the By-Laws of the Corporation.

(Adopted September 30, 1983)

RESOLUTION ADOPTED BY THE BOARD OF GOVERNORS OF IDA BETWEEN THE 1982 AND 1983 ANNUAL MEETINGS

Resolution No. 130

Membership of Portugal

WHEREAS the Government of Portugal has applied for admission to membership in the International Development Association in accordance with Section 1(b) of Article II of the Articles of Agreement of the Association;

WHEREAS the Government of Portugal has expressed its intention to seek legislative approval to make resources available to the Association under the Sixth Replenishment as set forth in the Report of the Executive Directors to the Board of Governors on "Additions to IDA Resources: Sixth Replenishment", dated January 15, 1980; and

WHEREAS, pursuant to Section 9 of the By-Laws of the Association, the Executive Directors, after consultation with representatives of the Government of Portugal, have made recommendations to the Board of Governors regarding the application of Portugal for admission to membership in the Association;

NOW, THEREFORE, the Board of Governors hereby

RESOLVES:

THAT the terms and conditions upon which Portugal shall be admitted to membership in the Association shall be as follows:

1. *Definitions:* As used in this resolution:
   (a) "Association" means International Development Association.
   (b) "Articles" means the Articles of Agreement of the Association.
   (c) "Esc" means escudos in currency of Portugal.
   (d) "$" means dollars in currency of the United States of America.
   (e) "Sixth Replenishment Resolution" means Resolution No. 117 of the Board of Governors adopted on March 26, 1980.

2. *Terms and Conditions of Membership:*
   (a) The terms and conditions of the membership of Portugal in the Association other than those specifically provided for in this resolution shall be those set forth in the Articles with respect to the membership of original members listed in Part II of Schedule A thereof.

(b) Upon accepting membership in the Association, Portugal shall make resources available to the Association in the form of a subscription in the amount of Esc 343,710,000 (equivalent to $7,000,000 at the IMF representative exchange rate of October 5, 1979).

(c) Portugal shall, in respect of such subscription, have 29,071 votes, calculated on the basis of 9,900 membership votes plus 19,171 subscription votes.

(d) Payment of such subscription shall be made on the same basis, and the rights and obligations of the Association and Portugal with respect to such subscription shall be on the same terms and conditions, as provided in paragraphs 6(c), 11 and 12 of the Sixth Replenishment Resolution for the resources made available by Part II members under the Sixth Replenishment.

3. *Acceptance of Membership:* Portugal shall become a member of the Association as of the date when Portugal shall have complied with the following requirements:

(a) deposited with the Association a notification, as provided in Section E of the Sixth Replenishment Resolution, that Portugal will make the total subscription specified in paragraph 2(b) above;

(b) deposited with the International Bank for Reconstruction and Development an instrument stating that it has accepted in accordance with its law the Articles, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles; and

(c) signed the original Articles held in the archives of the International Bank for Reconstruction and Development.

4. *Limitation on Period for Acceptance of Membership:* Portugal may accept membership in the Association pursuant to this Resolution until December 29, 1983, or such later date as the Executive Directors of the Association may determine.

(Adopted March 22, 1983)

RESOLUTION ADOPTED BY THE BOARD OF GOVERNORS OF IDA AT THE 1983 ANNUAL MEETING

Resolution No. 131

Financial Statements, Accountants' Report and Administrative Budget

RESOLVED:

THAT the Board of Governors of the Association consider the Financial Statements, Accountants' Report and Administrative Budget, included in the 1982/83 Annual Report, as fulfilling the requirements of Article VI, Section 11, of the Articles of Agreement and of Section 8 of the By-Laws of the Association.

(Adopted September 30, 1983)

REPORT OF THE EXECUTIVE DIRECTORS OF THE BANK

Allocation of FY83 Net Income

1. The Bank's net income available for allocation for the fiscal year ended June 30, 1983 is estimated at $752 million. A net translation adjustment due to exchange rate changes of -$170 million has been charged directly to the General Reserve. As of June 30, 1983, the Special Reserve created under Article IV, Section 6 of the Bank's Articles of Agreement totalled $293 million and, without regard to the 1983 fiscal year's income, the General Reserve amounted to $3,134 million. Total reserves at the end of the fiscal year plus accumulated net income therefore amounted to $4,179 million, of which the $293 million in Special Reserve is kept in liquid form, the remainder being used in the business of the Bank.

2. The Executive Directors have considered what action to take, or to recommend that the Board of Governors take, with respect to the net income, for the fiscal year ended June 30, 1983.

3. The Executive Directors have considered what portion of that net income should be allocated to the General Reserve and what portion thereof, if any, they should recommend that the Board of Governors transfer to the International Development Association. The Executive Directors have concluded that part of such net income which it is not necessary to retain in the Bank's business amounts to $200 million. They have further concluded that the interests of the Bank and its members would best be served by the transfer of that amount to the International Development Association by way of grant.

4. The Executive Directors have allocated the balance of such net income to the General Reserve.

5. As far as drawings on the transfer are concerned, the attached draft Resolution[1] provides that the transfer would be made at the time and in the manner to be decided by the Executive Directors.

6. Accordingly, the Executive Directors recommend that the Board of Governors approve the present Report and adopt the attached draft Resolution.[1]

This report was approved and its recommendation was adopted on September 30, 1983.

[1]*See page 227.*

REPORT OF THE CHAIRMAN OF THE DEVELOPMENT COMMITTEE

September 26, 1983

Sir:

As Chairman of the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee), I have the honor to present herewith to the Boards of Governors a report by the Committee on the progress of its work during the period July 1982-June 1983. The report is presented in compliance with Section 5(i) of the Bank Board of Governors Resolution No. 294 and the Fund Board of Governors Resolution No. 29-9, adopted on October 2, 1974.

Sincerely yours,

/s/
Ghulam Ishaq Khan

REPORT OF THE JOINT MINISTERIAL COMMITTEE OF THE BOARDS OF GOVERNORS OF THE BANK AND THE FUND ON THE TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES

July 1982-June 1983

I. INTRODUCTION

1. This is the ninth annual report of the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee). It covers the period from July 1982 to June 1983.

2. The Development Committee was established in 1974 on the recommendation of the Committee on Reform of the International Monetary System and Related Issues (Committee of Twenty) to provide a focal point at a high political level in the structure of economic cooperation for the formation of a comprehensive overview of the development process, for efficient and prompt consideration of development issues and for coordination of international efforts to deal with problems of financing development. According to the Resolutions establishing the Committee, the consideration of the question of the transfer of real resources to developing countries was to be undertaken in relation to existing or prospective arrangements among countries, including those involving international trade and payments, the flow of capital, investment and official development assistance.

3. The Members of the Development Committee were to be Governors of the Bank and the Fund, Ministers or others of comparable rank and were to be appointed in turn for successive periods of two years by the members of the Bank and the members of the Fund. Each Member of the Committee was to be assisted by seven Associates and the Executive Directors of the two institutions representing his constituency on the Executive Boards.

4. Against the background of analyses and projections contained in the IBRD's World Development Report and the IMF's World Economic Outlook and other studies specially prepared, the Committee during the year under review considered a number of issues relating to promotion of development and to the improvement of capital flows and their effective utilization in the developing countries. The agendas were designed to focus the attention of the Ministers, representing developed and developing countries, on vital development issues of interest and urgency and sought to promote international consensus to facilitate decisions in appropriate bodies at national and international levels.

5. The Committee held three meetings during the year. The first meeting was in Toronto on September 5, 1982, at the time of the Annual Meetings of the Boards of Governors of the Bank and the Fund. It was chaired by His

Excellency Manuel Ulloa Elías, Prime Minister and Minister of Economy, Finance and Commerce of Peru. This was followed by a short procedural meeting at Toronto on September 8 for the selection of a new chairman on the completion of Mr. Ulloa's term following the election of the new Executive Directors of the Bank and the Fund. At this meeting, the Development Committee unanimously selected His Excellency Ghulam Ishaq Khan, Minister of Finance, Commerce, Planning and Coordination of Pakistan, as its new Chairman. The other meeting during the year—the twenty-first in the series—was held at Washington, D.C. on April 28-29, 1983, under the chairmanship of Mr. Ghulam Ishaq Khan.

6. At the technical and preparatory level, the Task Force on Concessional Flows which had been set up by the Committee in May 1982 to conduct an in-depth study of the problems affecting the volume and quality and effective use of concessional flows, held during the year three meetings under the chairmanship of Mr. John P. Lewis, Professor at Princeton University. The first status report on its work so far will be presented at the meeting of the Committee in September 1983.

7. The Committee is currently operating under the procedures established in April 1979 which placed the responsibility for the organization of its work on the Chairman, the President of the Bank and the Managing Director of the Fund, assisted by the Executive Secretary. The other measures then adopted included greater and closer involvement of the staffs and Executive Boards of the two institutions in the work of the Committee. These changes in the organization and procedures have contributed to the effectiveness of the Committee but the search for the realization of the Committee's full potential continues to receive the attention of all involved in its operations.

8. The main thrust of the Committee's work in the year under review has been on the capital flows to developing countries—both concessional and non-concessional—with particular emphasis on the increase in the level of lending by the multilateral development banks, including their capital base and the replenishment of their concessional funds, particularly IDA, to meet the serious challenge of the 1980s. The subjects of additional lending for energy and new mechanisms for increased co-financing with the public and private sectors also received the Committee's sustained attention. The important subjects which received fresh attention in the context of the serious world economic situation related to the external debt problems of the developing countries and the linkages between trade and the promotion of development.

II. COMMITTEE CONSIDERATION OF MAJOR DEVELOPMENT ISSUES DURING THE YEAR JULY 1982-JUNE 1983

A. *Economic Situation and Prospects Facing the Developing Countries in the 1980s–with the World Development Report 1982 and the World Economic Outlook as Background Documents*

9. Both the IBRD's World Development Report and the IMF's World Economic Outlook served as valuable background documents for the Committee's discussions on many current and prospective development issues. These documents showed that the world recession was now in its fourth consecutive year and had lasted longer and had proved more stubborn than had been expected earlier. It had hurt both rich and poor countries and had surpassed in its sweep anything experienced in the last 40 years. Its impact on non-oil developing countries had been particularly severe. Developing countries faced both deteriorating terms of trade, as commodity prices reached their lowest levels in 30 years, and a dramatic decline in world trade which affected them disproportionately. Many of these countries had large external current account imbalances, and the situation was further aggravated by declining ODA in real terms, a slowdown in private capital flows, and a mounting burden of debt. The level of unemployment remained unacceptably high with its social and political impacts and tended to strengthen protectionist trends. Growth rates declined in both industrial and non-oil developing countries and, in the latter group, the growth was in fact the lowest on record in several decades signifying an exceptional situation of decline in real per capita income in many of them. There was little expectation that the large and serious imbalances would be corrected quickly and therefore problems relating to external financing and debt were likely to persist.

10. The economic problems of the developing countries were particularly 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. These also came under review at the Williamsburg Summit and constituted the major theme in the agenda for the Sixth Session of the United Nations Conference on Trade and Development.

11. The Committee noted, however, that lately there had been some welcome trends: inflation rates had come down, particularly in some of the larger industrial countries; interest rates had been on the decline although they still remained high in real terms; oil prices had fallen and, at the same time, some commodity prices had started to rise. All these factors play an important role in the economies of all countries.

12. It is important to consolidate and improve upon these hard won gains in order to sustain, strengthen and enlarge the process of economic recovery

now in evidence in some of the industrial countries. The Committee considered that for the industrial countries priorities would be the restoration of their own economic health and sustained non-inflationary growth, maintenance of a liberal environment for trade and capital flows and continuing and, it is to be hoped, increasing flows of aid to the poorest developing countries. For the developing countries priorities would include increasing levels of domestic savings and investments, greater efficiency in the use of capital, strengthening of general economic management, greater emphasis on agriculture and special attention to the poverty alleviation programs.

B. *Concessional Flows*

(i) *ODA Flows*

13. The Committee viewed with concern the global economic deterioration and, in particular, the bleak prospects for the low-income developing countries. The World Development Report 1982 had shown that between 1979 and 1982 the current account deficit of oil-importing countries had grown by 88 percent, while ODA had increased by only 39 percent. A large part of the increase in ODA had been offset by higher debt-servicing charges, as interest payments had more than doubled. This required intensified adjustment efforts by the developing countries with respect to their domestic policies and programs and, at the same time, increased outside assistance through bilateral and multilateral channels to reduce economic and social strains in the economies of these countries, particularly when they are engaged in carrying out adjustment programs. The World Development Report projections indicated that to attain growth in the high case scenario—an objective which is modest by previous standards—the ODA equivalent from DAC countries would amount to only 0.37 percent of their GNP.

(ii) *IDA-6 and IDA-7*

14. The Committee, recognizing that the poorest countries had been most affected by the global recession, paid special attention to the problems surrounding IDA which, since its establishment in 1960, had become a very important and effective multilateral instrument for promoting development in low-income countries. Delay in the availability of IDA-6 commitment authority, its subsequent stretching out to four years and the resultant reduction in intended IDA commitment had a serious impact on the low-income developing countries especially the poorest nations in Sub-Saharan Africa and other regions. The Committee welcomed the commendable efforts made by the Bank management and also by the vast majority of the IDA donors whose response had resulted in the release of IDA-6 contri-

butions on the original three-year schedule without insistence on pro rata contributions and the provision of additional resources for FY84 through a Parallel Fund or through a Special Account of IDA for FY84. The Committee, while acknowledging with satisfaction this helpful development, urged the U.S. to provide its full third payment of $945 million in FY83 and to complete its IDA contribution in FY84, recognizing that failure to do so would have serious consequences for safeguarding future levels of concessional assistance.

15. In this context, the Committee welcomed the donors' agreement to commence formal discussions on IDA-7. While recognizing the budgetary constraints of the industrial countries, the Committee strongly hoped that, in view of the extremely serious economic predicament of the poorest developing countries, the expanded IDA recipient community and the desirability of reversing negative growth rates in IDA's most distressed borrowing countries, it would be possible for the donors to agree on a level of replenishment appropriate to the situation. It was also important that IDA-7 negotiations be completed as early as possible to ensure that the Seventh Replenishment became effective no later than July 1, 1984, in order to prompt a further funding gap from arising.

(iii) *Progress Report of the Task Force on Concessional Flows*

16. The issue of concessional funds and their effective use is of critical importance to the low-income developing countries. In May 1982, the Committee established a Task Force on Concessional Flows in order to carry forward and widen the continuing study of the problems affecting the volume and quality and the effective use of concessional flows in the shorter and longer terms. The 18-member Task Force, representing industrial donor countries, oil producers and non-oil developing countries, under the chairmanship of Mr. John P. Lewis, Professor at Princeton University and former Chairman of the Development Assistance Committee of the Organisation for Economic Cooperation and Development, held its first meeting in Paris on October 19-20, 1982 and the last one in Helsinki on June 2-4, 1983. The Chairman will present a progress report at the September meeting of the Development Committee.

C. *Non-concessional Flows*

Financial Flows from and Level of Lending by Multilateral Development Institutions (MDIs) and Implications for their Capital Base

17. Those developing countries which rely heavily on private capital markets or non-concessional flows from MDIs also face many uncertainties. The magnitude of their financial needs, in the context of the persistent large deficits, high cost of borrowing, increasing indebtedness, decline in growth of exports, inability or unwillingness of private markets to bridge the gap, underline the importance and urgency of providing the MDIs with additional resources to assist developing countries in their development efforts. The Task Force on Non-concessional Flows, which had examined the whole subject in depth, had concluded that an essential condition for meeting the external financing needs of oil-importing developing countries was that non-concessional flows continue to be available to them in conjunction with private direct investments and concessional and part-concessional flows. Its recommendations, therefore, stressed examination of various possibilities of increasing the future lending capacity of the World Bank and other MDIs and the consequent implications for their capital requirements. This matter, therefore, received attention by the Executive Board of the World Bank and by the Development Committee in both of its substantive meetings held during the year.

18. 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 Directors of a Special Assistance Program designed to be responsive to the current financial requirements of these countries. The Committee further invited the Bank to put forward proposals which would, with due regard to financial prudence, allow an expansion of the Bank's lending program. In this connection, it noted the Bank management's intention to propose an expansion of 5 percent per annum in real terms beginning in 1985. The Committee also urged the management of the Bank to present, in accordance with past policy and practice of the Bank, 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.

19. As regards the regional banks and the International Fund for Agricultural Development, 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 to enable them to continue to play their important role in the development efforts of their member countries.

D. *Co-financing*

20. The Committee noted the efforts of the World Bank to make co-financing a more effective vehicle to attract additional non-concessional flows to developing countries on longer maturities. The Committee noted with satisfaction that the co-financing operations of the World Bank from various sources had expanded considerably in recent years. Thus, in 1982, its co-financing operations amounted to $7.4 billion, of which $3.2 billion was from private sources compared to an annual average of about $200 million from private sources in the second half of the 1970s. The Committee endorsed the efforts of the Bank and regional banks, where appropriate, to secure through new mechanisms of co-financing additional resources on terms suitable for and acceptable to borrowing countries. However, co-financing with private institutions was to be regarded as a supplement to, and not as a substitute for, increased lending by the MDIs and these arrangements were not in any way to alter the development character of these institutions. The Bank had since 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 extend maturities and increase financial flows. The Committee also noted with satisfaction co-financing arrangements entered into by the Bank with official lenders. This would be of special significance to low-income borrowing members of the Bank.

E. *External Debt Problems of Developing Countries*

21. The external debt problem of the developing countries had assumed new importance and urgency in the current economic situation. The Committee was presented with a paper prepared by the Fund which described the growth of developing countries' debt and debt servicing over the period since 1974, outlined the dimensions of the debt-servicing difficulties faced by many countries in 1982 and commented on the near-term outlook with regard to financial flows and debt servicing.

22. The Committee expressed its concern about the severity of the debt-servicing problem faced by many developing countries. 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. In this connection, 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 agencies to recent critical situations, the Committee emphasized the necessity of maintaining and increasing financial flows to developing countries from official sources. It further noted the importance for borrowing countries of monitoring their external indebtedness carefully and maintaining sound economic and debt management policies. The Committee 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.

F. *Linkages between Trade and Development*

23. Another subject of increasing importance which attracted the Committee's attention during the year under review 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. A paper jointly prepared by the Fund and the World Bank pointed out that the expansion of world trade was a vital ingredient in economic development and had made and could continue to make an important contribution to economic growth and development of both industrial and developing countries. This was evident from the experience of the 1963-73 decade when the growth of international trade provided an environment in which the developing countries recorded impressive growth rates. The Committee, therefore, 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 General Agreement on Tariffs and Trade in keeping under careful review, in the areas of their competence, the progress made, including *inter alia* the dismantling of trade 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 industrialized 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 those examinations.

G. *Additional Lending for Energy*

24. The important subject of lending for energy development was last substantively discussed by the Committee at its Helsinki meeting. The search continues to identify new approaches or financing mechanisms which attract broad support from those members expected to contribute the bulk of the capital. A full consideration of this subject was, however, deferred until receipt of a comprehensive study under preparation by the Bank which would take into account the recent developments and future prospects in this area.

H. *Status of Group of 24's Program of Immediate Action and Brandt Commission Report*

25. The Committee, at its earlier meetings, had considered reports prepared by the Bank and the Fund staffs reviewing actions taken by the two institutions in pursuing those measures to enhance the flow of resources to developing countries raised by the Group of 24's Program of Immediate Action and the Brandt Commission Report. In further consideration of this matter at its Toronto meeting, the Committee noted that both the Bank and the Fund had already implemented some of the recommendations applicable to them and were continuing their consideration of other issues relevant to the Committee's work.

III. FUTURE TASKS

26. The Annual Report, largely based on the Communiqués following the Committee's meetings in September 1982 and April 1983, describes the serious and urgent economic problems which currently confront both the developed and developing countries. These will continue to receive the Committee's primary attention in the period ahead. There is growing recognition that no single approach or action by a single country or even a group of them can provide a durable solution. It has to be a joint and sustained effort of all, within their respective capabilities and responsibilities, which will produce the desired results in this increasingly interdependent world. The domestic policies of the developing countries, the external support and appropriate policies of the industrialized countries, and the programs of the multilateral development institutions have to be harnessed together in an environment of free and growing world trade unimpeded by protectionist policies to produce the right results.

ANNEX A

Members of the Committee

Member	*Countries*
1. His Excellency D. José Ramón Alvarez Rendueles Governor Bank of Spain Spain	Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Spain, Suriname, Venezuela
2. His Excellency Willy De Clercq Minister of Finance Belgium	Austria, Belgium, Hungary, Luxembourg, Turkey
3. His Excellency Jacques Delors Minister of Economy and Finance France	France
4. His Excellency Kjell-Olof Feldt Minister for Economic Affairs and the Budget Sweden	Denmark, Finland, Iceland, Norway, Sweden
5. The Honorable Giovanni Goria Minister of the Treasury Italy	Greece, Italy, Portugal
6. His Excellency Ghulam Ishaq Khan[1] Minister for Finance, Commerce and Economic Coordination Pakistan	Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Pakistan, Qatar, Saudi Arabia, Syrian Arab Republic, United Arab Emirates, Yemen Arab Republic
7. His Excellency Abdellatif Jouahri Minister of Finance Morocco	Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Socialist People's Libyan Arab Jamahiriya, Morocco, Tunisia, People's Democratic Republic of Yemen
8. The Honourable P.J. Keating Treasurer Australia	Australia, Korea, New Zealand, Papua New Guinea, Solomon Islands, Vanuatu, Western Samoa
9. His Excellency Abdoulaye Koné Minister of Economy and Finance Ivory Coast	Benin, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, People's Republic of Congo, Djibouti, Equatorial Guinea, Gabon, Guinea-Bissau, Ivory Coast, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, Sao Tome and Principe, Senegal, Somalia, Togo, Upper Volta, Zaire

[1] *Mr. Usama Faquih, Assistant Deputy Minister, Ministry of Finance and National Economy of Saudi Arabia, served as Alternate Member to permit His Excellency Ghulam Ishaq Khan to serve as Chairman.*

10. The Honourable Marc Lalonde Minister of Finance Canada	Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, St. Lucia, St. Vincent
11. The Right Honourable Nigel Lawson, M.P. Chancellor of the Exchequer United Kingdom	United Kingdom
12. The Honourable K.A. Malima Minister for Planning and Economic Affairs Tanzania	Botswana, Burundi, Ethiopia, The Gambia, Guinea, Kenya, Lesotho, Liberia, Malawi, Nigeria, Seychelles, Sierra Leone, Sudan, Swaziland, Tanzania, Trinidad and Tobago, Uganda, Zambia, Zimbabwe
13. The Honourable Pranab Kumar Mukherjee Minister of Finance India	Bangladesh, Bhutan, India, Sri Lanka
14. His Excellency Tengku Razaleigh Hamzah Minister of Finance Malaysia	Burma, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Nepal, Singapore, Thailand, Viet Nam
15. The Honourable Donald Regan Secretary of the Treasury United States	United States
16. His Excellency Carlos Rodríguez Pastor Minister of Economy, Finance and Trade Peru	Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay
17. His Excellency H.O. Ruding Minister of Finance Netherlands	Cyprus, Israel, Netherlands, Romania, Yugoslavia
18. His Excellency Noboru Takeshita Minister of Finance Japan	Japan
19. The Honorable Bernardo Vega Governor Central Bank Dominican Republic	Brazil, Colombia, Dominican Republic, Ecuador, Haiti, Philippines
20. His Excellency Wang Bingqian Minister of Finance China	China
21. His Excellency Jürgen Warnke Federal Minister for Economic Cooperation Germany	Germany

Organizational and Administrative Aspects

1. The Committee on Reform of the International Monetary System and Related Issues (Committee of Twenty) in 1974 agreed that one of the important objectives of the Reform of the World Monetary and Economic Order should be the promotion of economic development and to this end the net flow of real resources to developing countries should be given positive encouragement. The Committee of Twenty, in its final report in June 1974, therefore recommended that two committees be set up: an Interim Committee in the Fund to deal with monetary reform, and a joint ministerial committee of the Bank and the Fund (Development Committee) to continue the study of the broad question of the transfer of real resources to developing countries.

2. It was hoped that the Development Committee would be helpful in providing a focal point in the structure of economic cooperation for formation of a comprehensive overview of diverse international activities in the international area, for efficient and prompt consideration of development issues, and for coordination of international efforts to deal with problems of financing development. The Committee was expected to work in close association with the managements and the boards of the two institutions.

3. The Development Committee was accordingly established pursuant to Bank Governors Resolution 294, October 2, 1974, and Fund Governors Resolution 29-9, October 2, 1974. The parallel resolutions provided that the members of the Development Committee were to be governors of the Bank, Governors of the Fund, ministers, or others of comparable rank. Each member government of the Bank or the Fund that appoints an executive director or group of members that elect an executive director was to appoint one member of the Committee (in all: 21 in the Bank and 22 now in the Fund) and up to seven associates. The members were to be appointed in turn for successive periods of two years by the members of the Bank and the members of the Fund.

4. At the inaugural meeting of the Committee held October 2-3, 1974, Mr. Henri Konan Bédié, Minister of Economy and Finance of the Ivory Coast, was selected as Chairman, and Mr. Henry J. Costanzo, Executive Vice President of the Inter-American Development Bank, was appointed Executive Secretary. At the seventh meeting of the Committee, held October 6, 1976, Mr. Cesar E.A. Virata, Secretary of Finance of the Philippines, was selected as Chairman and Sir Richard King, Permanent Secretary of the Ministry of Overseas Development of the United Kingdom, was appointed Executive Secretary. Mr. Virata was re-elected as Chairman on September 27, 1978, at the eleventh meeting of the Committee. On expiry of Mr. Virata's term, the Committee, at its fifteenth meeting held on October 2,

1980, in Washington, D.C., unanimously selected Mr. David Ibarra Muñoz, Secretary of Finance and Public Credit of Mexico, as Chairman, and appointed Mr. Hans E. Kastoft, as Executive Secretary. Mr. Ibarra resigned from the post of Chairman in March 1982 and the Development Committee at its eighteenth meeting in Helsinki in May 1982 selected Mr. Manuel Ulloa Elias, Prime Minister and Minister of Economy, Finance and Commerce of Peru, as the new Chairman of the Committee. Mr. Ulloa completed his term in September 1982 when, following the elections of the Executive Directors of the Bank and the Fund at the Annual Meetings in Toronto, the Committee unanimously selected Mr. Ghulam Ishaq Khan, Minister of Finance, Commerce, Planning and Coordination of Pakistan, as the new Chairman of the Committee.

5. The Boards of the Bank and the Fund are used as preparatory bodies for the work of the Development Committee. The mechanism of Task Forces, with a specific limited task and duration, is used by the Committee whenever a need is felt for an in-depth study of a particular subject. A Task Force on the problems of Non-concessional Flows was established in 1980 and concluded its comprehensive work by presenting its Final Report to the Committee at its Helsinki meeting in May 1982. The Committee also approved the establishment of a new 18-member Task Force on Concessional Flows to carry forward and widen the continuing study of the problems affecting the volume and quality and effective use of concessional flows in the shorter and longer terms.

6. The organizations listed below were official observers to the Development Committee during 1982-83. In addition, the Government of Switzerland was represented by an observer:

African Development Bank
Arab Bank for Economic Development in Africa
Arab Fund for Economic and Social Development
Asian Development Bank
Commission of the European Communities
Commonwealth Secretariat
Development Assistance Committee
European Investment Bank
General Agreement on Tariffs and Trade
Inter-American Development Bank
International Fund for Agricultural Development
Islamic Development Bank
OPEC Fund for International Development
Organisation for Economic Cooperation and Development
United Nations
United Nations Development Programme
United Nations Conference on Trade and Development

ANNEX C

The text of the parallel IBRD and IMF Resolutions establishing the Development Committee is reproduced in *Summary Proceedings, 1974* (pages 180-183) and *Summary Proceedings, 1978* (pages 301-305).

ANNEX D

Agenda of Development Committee Meeting, September 5, 1982

1. Transfer of Real Resources—Review and Prospects
   (i) Status of IDA
   (ii) Co-financing
   (iii) Other Concessional and Non-concessional Flows, Including Lending by Multilateral Development Banks
2. Lending for Energy
3. Status of the Group of Twenty-Four and Brandt Commission Recommendations
4. Annual Report to the Boards of Governors
5. Other Business

Provisional Agenda of Development Committee Meeting, September 8, 1982

1. Adoption of Provisional Agenda
2. Selection of Chairman
3. Press Announcement
4. Other Business

Agenda of Development Committee Meeting
April 28-29, 1983

1. Elements of Global Economic Recovery Efforts
   (i) Financial flows from and level of lending by multilateral institutions and implications for their capital base
   (ii) Status and funding of IDA
   (iii) External debt problems of developing countries
   (iv) Linkages between trade and the promotion of development
2. Future Work of the Committee
3. Status/Progress Reports
   (i) Co-financing
   (ii) Energy lending
4. Other Business

ACCREDITED MEMBERS OF DELEGATIONS AT 1983 ANNUAL MEETINGS

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Governor
Mehrabuddin Paktiawal

Alternate Governor
Abdul Baqi Samandari

Adviser
Gholam Hassan Farmand

Algeria□

Governor
Boualem Benhamouda

Alternate Governor
Mustapha Benamar *

Advisers
Mohamed Abdou Bousselham
Ahmed Boutache
Habib Djaffari
Habib Hakiki
A. Hamidaoui
M'hamed Oualitsene
Seghir Rahmani
Layachi Yaker

Antigua and Barbuda□ °

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John E. St. Luce

Alternate Governor
Ludolph Browne

Argentina

Governor
Julio Gonzalez del Solar

Alternate Governor
Pedro Camilo Lopez

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Alfred Gordon Allen
Horacio Alonso
Alejandro C. Antuna
Habib Basbus
Felix Camarasa
Carlos Carballo
Raul Casa
Alfredo Chiaradia
Jorge Federico Christensen
Mauricio Christensen
Arnaldo L. Cisilino
Francisco M. J. Costa
Ramiro J. J. Costa
Carlos M. de Estrada
Antonio M. Estrany Y Gendre
David Exposito
Roberto Favelevic
Ernesto Gaba
Santiago J. Galindez
Jorge Gonzalez
Jose Maria Gonzalez de la Fuente
Ricardo Luis Hughes
Raul V. Ibarra
Ricardo Lopez Murphy
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Ignacio Alfonso Luduena
Rogue Maccarone
Ms. Monica Merlo
Domingo J. Messuti
Roberto Micele
Jose Victor Mondino
Jose Murua
Ernesto Pombo
Jorge Sakamoto
Elias Salama
Dante Simone
Alberto Sola
Juan F. Sommer
Mario Teijeiro
Hector Maria Torres Queirel
Arturo Valles Bosch
Oscar Viglianco
Eduardo Zalduendo †

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Robert G. Carling
Paul L. Coghlan
Anthony S. Cole
Kevin Conlan
Sir Robert Cotton
Ronald H. Dean †
Ms. Peta Furnell
Malcolm R. Hill
D. A. Hollway

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° Not a member of IDA
† Executive Director

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Peter A. McLaughlin

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Alternate Governor
Hans Heller

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Hubert Ingraham

Bahrain□ °

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Advisers
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Anwar Jassim Lori

Bangladesh

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H. R. Choudhury *
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M. Nazimuddin

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Dawa Tsering

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Adviser
Achyut Bhandari

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° Not a member of IDA

† Executive Director

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William Joyce
Jorge Lopez Pacheco
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Javier Zuazo

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Alternate Governor
U Kyaw Myint*

Advisers
U Nyunt Lwin
U Kyee Myint
Aung Pe

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Alternate Governor
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Mohamed Dakrouri
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Mamdouh Ismail
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Alternate Governor
Efua Efua Asangono

Adviser
Tomas Esono Ayingono

Ethiopia

Governor
Ato Tesfaye Dinka

Alternate Governor
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Alternate Governor
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Fabien Ovono-Ngoua

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* Temporary
□ Not a member of IFC
† Executive Director
‡ Alternate Director

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Alternate Governor
M. G. Bala-Gaye

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Klemens Van de Sand
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Alternate Governor
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Yaw Many Sarpong

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Alternate Governor
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Mrs. Louka Katseli
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Stavros Thomadakis
Loukas Tsoukalis
Georgios Zygogiannis

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Alternate Governor
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Governor
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Alternate Governor
Arturo Padilla

Guinea

Governor
Mohamed Lamine Toure

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Alternate Governor
Talibe Diallo

Advisers
Kazaliou Balde
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Governor
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Governor
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Alternate Governor
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Leslie Robinson
Joseph Tyndall

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† Executive Director

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Sri Hadi
Jannes Hutagalung
A. Mooy
Rochsid Setyoko
Sujitno Siswowidagdo
M. H. Sitindjak
Daddy Soemadipradja
R. B. Sumampouw
Mr. Sumitro
Paul Sutopo Tjokronegoro

Islamic Republic of Iran

Governor
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Alternate Governor
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Mrs. Sadegheh Mahallati
Mostafa Shahabi

Iraq

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Alternate Governor
Subhi Frankool

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Paolo Sacco
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Ivory Coast

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I. U. Iheme
Ouraga Kako
Fana Koffi
Babacar N'Diaye
Jacques Ropars
Bruno Servan
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Miss Doris Chin
Miss Mervis Dohman
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Miss Masie Plummer
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Teruo Hirao *
Toshihiro Kiribuchi *
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Mitsuo Sato *
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Masaki Shiratori
Shigemitsu Sugisaki
Kenjiro Suzuki
Teruki Uchida
Mikio Wakatsuki
Toshihiro Yamakawa ‡
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Jordan

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Alternate Governor
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Ziyad Annab
Bassam Attary
Ahmad Chalabi
Ismail El-Zabri
Sultan Lutfi
Michel Marto
Bassam Khalil Saket

Kenya

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Korea

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Kyong-Shik Kang

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Dong-Sheon Ha *
Yong-Sung Lee *
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Kuwait

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Bader Abdullah Al-Rushaid
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Lao People's Democratic Republic□

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Sythongma Phandanouvong

Lebanon

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Lesotho

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Tun Ismail bin Mohamed Ali *
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Alternate Governor
B. Ibrahim Saleem

Mali

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Omer Salih Eissa
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Erik Asbrink *

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Goran Lind *
Gunnar Lund *

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Lars Kalderen
Bert Lindstrom
K. G. Lindvall
Bertil Lund
Carl-Ivar Ohman
Per Taxell ‡
Ms. Lemmi Tui

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Moh. Bashar Kabbara
Abdul Hadi Nehlawi
Izzat Traboulsi

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J. P. Kipokola
Calvin K. Malyi
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Kasem S. Kasemsri *
Manas Leeviraphan *
Snoh Unakul *

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Boonyavat Assavarachin
Nibhat Bhukkanasut
Vira Chandarasanti
Yos Euarchukiati
Tamchai Kambhato
Sukri Kaocharern
Naovarat Karnasut
Kriang Kiatefuengfoo
Pisit Leeahtam
Thananchai Na Ranong
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Yudhana Sinswasd
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United Arab Emirates

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People's Democratic Republic of Yemen□

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Bazundama Mbandanu Luzumbulu

Advisers
Bauna ba Bidounga Madieto
Bobanza Nzele
Kasongo Mutuale
Kinzonzi-Mvutukidi
Enama Ndongola

Zambia

Governor
N. Mundia

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Wila D. Mung'Omba *

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C. L. M. Chirwa
B. Hamaluba
Sylvester R. Kabati
Mr. Kalaki
Mr. Lushangala
A. Madubula
Miss Angela Mbewe
L. Mfula
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Martin G. Sakala
Peter Scott
F. Sianga
Winford Y. Tembo
Alex K. Tubi
F. M. Walusiku
George A. Zaza

Zimbabwe

Governor
T. Mswaka

Alternate Governors
J. B. Cooke
X. M. Kadhani *

Advisers
E. O. Z. Chipamaunga
S. Kufeni
V. S. Kumalo
N. E. Zengeni

* Temporary
□ Not a member of IFC
‡ Alternate Director

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September 30, 1983

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		James Nxumalo (Swaziland)
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		Bonaventure Mbida-Essama (Cameroon)
Ferdinand van Dam (Netherlands)	Riza Sapunxhiu (Yugoslavia)	
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Nigel Wicks (United Kingdom)	Derek F. Smith (United Kingdom)	
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REFERENCE LIST OF PRINCIPAL TOPICS DISCUSSED[1]

[1] *This list relates to the Addresses and Statements of Governors. It excludes discussions of individual countries, tributes to the host country, and personal tributes. References are to pages.*

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