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

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1985 ANNUAL MEETINGS OF THE BOARDS OF GOVERNORS

SUMMARY PROCEEDINGS

Seoul, Republic of Korea
October 8–11, 1985

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INTRODUCTORY NOTE

The 1985 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 Seoul, Republic of Korea, October 8–11 (inclusive). The Honorable Mamoudou Toure, Governor of the Bank and Fund for Senegal, 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.
January, 1986

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**Speaking on behalf of a group of countries*

OPENING REMARKS BY H. E. CHUN DOO HWAN PRESIDENT OF THE REPUBLIC OF KOREA

It is a great pleasure today to witness the opening of the joint Annual Meetings of The World Bank and the International Monetary Fund here in Seoul. On behalf of the Korean people, and in the name of the Government of the Republic of Korea, I extend my sincere welcome to all of you who have come from afar to visit our country.

First of all, I wish to praise the historic achievements of the two institutions in re-establishing anew an economic order out of chaos that prevailed after World War II. We should all appreciate the work of economic reconstruction to which the Bank and the Fund made an indispensable contribution. In particular, I have the greatest respect for the individual countries that cooperated closely with the two institutions to overcome the difficult challenges of the postwar era.

The Korean people feel that there is a special significance to your fortieth joint meetings of the Bank and the Fund, because it has been during these forty years that Korea has managed to raise itself from one of the world's most underprivileged and disadvantaged countries to one of the world's most promising and developing. These were difficult strides, but we are grateful that the efforts proved to be worthwhile.

Now it is my wish, indeed my duty, to express Korea's deep gratitude to your two institutions for the assistance, support, and encouragement which my nation received in the course of its development. And I want to avail myself of this solemn occasion to pledge Korea's firm commitment to fulfill its responsibilities as a member of your organizations.

We all live today in a global community of interdependent nations. Increased interaction and specialization have made international cooperation imperative. No nation can manage its economy successfully without taking into account its economic relations with other countries. Today, a nation by itself can achieve neither security nor prosperity, unless its policies are geared to the common well-being of all nations.

Even when making domestic policy decisions, a country requires leadership with broad vision and a great deal of courage. It is often easier to simply wish away or ignore developments outside its borders; but this will not do. More than at any time in the past, a renewed spirit of international cooperation, backed by the will to bring economic policies into a global harmony, is necessary.

Building a lasting prosperity has always been the goal of mankind. Now, if this goal is to be successfully attained, I believe that any joint efforts we make must be firmly based on our willing acceptance of the imperative for international cooperation. In the face of this imperative, what we see today, very unfortunately, are rising demands for protectionist impediments to free trade in the interest of what is perceived to be the short-term interests.

Protectionism by any name will reduce world trade, bring about an economic downturn, and threaten all countries with economic stagnation. A vicious circle of stagnation and instability will grip the world economy and tension will mount in all aspects of international relations. Protectionism is the first step in a fatal sequence of deterioration in which all nations will suffer.

As I observe the current deterioration of the world economy and the protectionist tendencies of today, I am struck by the ominous and foreboding parallel between this situation and that of the early 1930s.

As you all know, each leading industrial nation at that time tried to outdo the other in taking and retaliating with protectionist actions, bringing about a 25 percent reduction in world trade and at least a 30 percent drop in the GNP of these same countries in the four years after 1929. As debtor countries lost opportunities to earn the foreign exchange necessary to repay their debt, world financial markets broke down. There is little doubt that the protectionist policies of industrial powers were a major cause of the Great Depression, with all its disastrous social and political consequences.

If protectionism continues to grow unabated, it could develop into economic warfare in which every nation pursues its own so-called interest at the expense of all others. No one can be sure that this sort of situation cannot lead to military conflict. We must be careful for we know that in nearly all of the past wars, big or small, a conflict of economic interests was an important factor. In order to prevent such a process of decay, I wish to ask all nations to join forces in transforming the danger of economic warfare into cooperation through fair competition.

The alternative to cooperation through fair competition is of course self-centered protectionism, but to go down that path is to invite economic and political disaster for the human race.

I am convinced that the Bank and the Fund, fortunately, are capable of exercising strong leadership to make international cooperation a reality.

In recent years, the conflicting budgetary and monetary policies of individual countries have caused instability in world financial markets. Widely fluctuating exchange rates have hindered the smooth transfer of private capital, worked against a sustained economic recovery, and aggravated debt problems worldwide.

The critical debt problems of many developing countries stem largely from rising protectionist barriers. As long as these barriers continue to increase, there is little hope that developing countries will be able to find a fundamental solution to their debt problems, even with the fullest cooperation with the Bank and the Fund.

The difficulties of many nations in servicing their debts are not simply a problem just for those countries concerned, but a problem for all of us. Naturally, debtor nations must do a better job in managing their debts to solve this problem. More important, however, all countries should work together to improve the world trade environment and restore the momentum of global economic growth.

In order to re-establish a sound world economy, all nations must give up their obsession with narrowly perceived self-interest. In its place, we must have a renewed sense of world economic order, with prosperity for all as its basic objective. In this regard, the responsibilities of developed countries are very great. Their power to influence the world economy gives these countries an obligation to maintain the international monetary system, coordinate their economic policies, and defend the free trade system.

I also wish to point out that the interests of the developing countries should be taken into full account and their positions be sufficiently reflected in the formulation of international economic policy, because these countries' roles and importance are growing in the world economy.

The newly industrialized countries play a vital and dynamic role in the world economy. Most certainly they should not be penalized for their good performance by the more advanced countries.

It must be clearly recognized that develpping countries can complement the world economy by serving as a growing market. Their growth imparts dynamism to the world economy as a whole. I believe that giving encouragement and support to these developing countries is in the enlightened self-interest of all, including the advanced countries.

If the developed countries insist on protecting their own vested interests, totally ignoring the plight of the developing nations, and if the developing countries show an attitude of equal inflexibility regarding the interests of developed countries, then the divisive and clashing inconsistency will bring us all the deprivation no one wants. The hallmarks of the renewed economic order should be trust instead of suspicion, sharing of burdens and responsibilities instead of shirking them, and, above all, efforts to keep the market open.

The Bank, the Fund, and GATT can and must provide leadership in creating a productive and harmonious international economic order. This can be accomplished if member countries will advance new ideas for broader international cooperation and coordination of national economic policies, always in close consultation with each other.

The Korean people and their Government attach a very great importance to the current Annual Meetings of the Bank and the Fund in Seoul because we have known the oppressiveness of poverty and because we are also aware of the fact that our own prosperity is directly linked to the world's economic growth. Since Korea joined the Bank and the Fund thirty years ago, we have faithfully supported the policies of these organizations, discharged our responsibilities as a member country, and were rewarded with success in overcoming poverty in our land. We began with the seemingly insurmountable difficulties arising from national division and the utter devastation of the Korean War. But the Korean people kept their spirit. They believed in a better life for themselves and in their ability to achieve it.

Beginning with our First Five-Year Plan for Development in 1962, Korea has pursued consistently an outward-looking development strategy, with the assistance of the two institutions: the results have exceeded anyone's expectations. After the inauguration of my Administration in 1980, Korea placed great emphasis on controlling inflation by reducing budgetary deficits and restricting the growth in money supply.

Important as it was, price stability was also a necessary condition for increasing the reliance on the market mechanism and maximizing efficiency. The Government's style of economic management also changed to one of greater openness, and it was in this fashion that efforts in structural adjustment were made.

The Korean Government has taken many concrete steps over the five years to liberalize our trade and investment policies. Thanks to these liberal reforms, our economy has achieved growth as well as price stability. These certainly enriched this nation's potential for future growth.

I am confident that Korea has the ability to continuously foster its growth potential, and I am sure that it will continue, in the future, to make an increasingly significant contribution to the economic progress of the international community through an open market policy and improved industrial efficiency.

Korea has accumulated some experience and know-how in the course of our development, and this we want to share with other developing countries. Let me clearly state my country's desire to stengthen our mutually beneficial and mutually supportive ties of cooperation with all nations of the world.

As you know, the division of the country and the resultant armed confrontation across the demarcation line has been the ever-present source of difficulty for Korea. This condition persists today. In order to ease the tension resulting from this condition, my Government has been promoting the idea of exchange and interaction through peaceful dialogue between the South and the North, transcending the conflicting political ideologies.

I am pleased, as I am sure you are, too, about the recent progress in the Red Cross talks and the economic talks. With perseverance on our part, we shall continue our effort so that the sports talks as well as the summit talk can become a reality. I believe that herein lies our way to make the contribution to regional and global peace. I ask you for your support and encouragement in these endeavors.

As you know, Korea will host the Asian Games next year in 1986, and the Summer Olympics in 1988. All preparations for these international events are proceeding on schedule. Korea hopes that all nations of the world will participate in the Olympic Games in 1988. We sincerely hope that these prestigious events will serve to reaffirm the sense of international solidarity of all peoples of the world and demonstrate the kind of confidence in ourselves as a human race.

In our small world consisting of interdependent nations, we must talk with each other and pool our resources to build anew a harmonious international economic order. With world prosperity as our common goal, we will walk with you toward that objective.

I have every expectation that your Seoul meetings will be a great success in promoting international harmony, cooperation, and justice. These meetings will be remembered for their success in these noble endeavors. May each and every one of you find your visit to Korea to have been a personally rewarding, enjoyable, and memorable experience.

OPENING ADDRESS BY THE CHAIRMAN, THE HON. MAMOUDOU TOURE, GOVERNOR OF THE BANK AND FUND FOR SENEGAL

On behalf of all of us meeting here, and for my own part as well, I would like to thank President Chun Doo Hwan, and the Government and people of Korea, for the warm welcome extended to us.

It is a great privilege to follow president Chun Doo Hwan in welcoming you to the Fortieth Annual Meetings of the Governors of The World Bank and the International Monetary Fund.

I would also like to take this opportunity to extend a welcome to the representatives of Tonga, which has become the 149th member of the Bank and the Fund.

The recovery of the world economy which began in 1983 continued through 1984 with a rate of growth significantly higher than that of the preceding year.

The increase in gross domestic product of the industrial countries was greater than projected, largely because of developments in the United States and Japan, while GDP in Europe expanded at a rate only slightly higher than that of the year before when, moreover, performance was lackluster.

The developing countries as well have improved the rate of growth of output, a circumstance prompted particulalry by export growth, particularly in Asia and Latin America, thanks to policies implemented with a view to eliminating the distortions in their ecomomies. However, performance varied significantly from one region to the next; per capita income has continued to decline in the African countries, for example.

While it is true that the deepest crisis in the postwar period has now more or less been circumvented and that the most acute phase of the debt crisis which very nearly destroyed the international economic and financial system is behind us, the fact remains that the severe damage they inflicted on the economies of many countries, in particular in the developing world, has been of such proportions that the prospects for restored growth and development throughout the world are still a source of justifiable concern.

In reviewing the balance sheet for the past five years so that we may indentify the major tasks ahead for our two institutions, it is impossible to overlook the deplorable situation facing most countries of the Third World, which are suffering from the severest and most prolonged crisis to have affected their economies in the postwar era.

We are meeting at a time when, following the remarkable progress of 1984, there are still serious doubts regarding the continuation and spread of this recovery to all member countries.

For this reason, I consider it more necessary than ever that international cooperation be strengthened, in particular through the Bank and the Fund.

Industrial Countries

Real growth in the industrial countries in 1984 was the strongest in almost a decade, and inflation was brought down to its lowest rate in 16 years. Morever, stimulated by the vigorous revival of demand in the United States, world trade grew substantially after four years of virtual stagnation. However, in light of recent developments it would appear that the pace of expansion in the industrial countries cannot be maintained at a satisfactory level.

The recovery is not uniform throughout the world. Its characteristics and its intensity vary significantly from one country to the next, and it remains fragile. There are still serious domestic and external financial imbalances in a number of major industrial countries, in particular the United States.

Those imbalances, together with persistent high unemployment levels, particularly in Europe, have unfortunately intensified protectionist pressures and contributed to the maintenance of continued high interest rates throughout the world.

The Annual Reports of the Bank and the Fund stress the obstacles to economic growth, which in Europe consist largely of structural rigidities that are deep-rooted and longstanding.

There are no clear signs that the economies of Japan and Europe are moving to offset the effects on world demand of the slackening of the growth rate in the United States. Under these circumstances, there is every reason to fear that the authorities of the industral countries will be unable to resist the strong pressures exerted on them by the vulnerable sectors of their economies, particularly those industries which risk elimination by foreign competition.

Clearly, the developing countries will not be able to expand their exports, re-establish their creditworthiness, and diversify their output if they must cope with the protectionist policies of the industial countries.

The projections of the Bank as well as the Fund show that there is a serious risk of a return to the virtual stagnation that marked the early 1980s if the industrial countries fail to make the proper economic policy choices.

It is to be hoped that the way shown by the communiqué of the Group of Five released after its New York meeting on September 22, 1985 will contribute to averting a trade war that would be disastrous for the entire world.

Developing Countries

It already appears likely that the developing countries will experience little or no growth in per capita income in the year ahead. In 1984, however, the developing countries as a group considerably increased their exports, and the non-oil developing countries cut their external current account deficit to the lowest level in two decades, corrected the distortions in their economies, and adjusted overvalued exchanged rates, all these while managing to achieve growth of 4.5 percent, the highest rate in five years.

On the whole, the strategy of encouraging official and commercial financing and supporting adjustment programs in debtor countries has helped ward off the dangerous turn that the problem of debt service payments was beginning to take. Morever, this strategy is probably in the manifest interest of the creditors and debtors alike; while both may not have contributed to its formulation, both have accepted its implementation with relief.

Just a few months ago, the problem of Third World country debt appeared to have been brought under control, at least in the case of certain major debtors, and there was still hope that economic growth would be extended to all the developing countries. These two topics were at the heart of the discussions of the Interim Committee last April in Washington.

While these results are satisfactory from the accounting stand-point, they were obtained at the cost of heavy sacrifices, accompanied by high political risks and heavy social costs. During the recession, several debtor countries were compelled to reduce their imports and their output drastically in view of the abrupt halt in investment and the development process.

A number of concurrent circumstances indicate that the prospects for the developing countries are less favorable than they appeared to be only a few months ago:

(a) the external debt service burden, which continues to pose an extremely heavy burden on the budgets of the developing countries and to absorb their scant foreign exchange resources;
(b) the decline in raw materials prices in 1985; and
(c) the slowdown in recovery in the industrial countries.

Sub-Saharan Africa

The overview of financial year 1984 presented above may well mask a number of noteworthy discrepancies which are of importance for the small countries of sub-Saharan Africa that are faced by serious production and external debt problems.

Indeed, the effects of the world economic recovery have had virtually no impact on these counties.

In Sub-Saharan Africa, where the majority of the least developed countries are located, economic growth has been slower than the rate of population growth and the standard of living has been reduced to the level of 16 years ago, at the very time that world economic recovery is beginning and despite praiseworthy adjustment efforts.

Some of these countries have continued to suffer from hunger, from debt service burdens, and from the consequences of drought and desertification. I wish to take this opportunity to thank the international community for its generous contribution to the fight against famine in Africa.

In such a context, the adjustment burden these countries have had to bear appears even heavier, socially more costly, and more politically dangerous than might have been imagined. In some cases, it has opened the way for a process of political and social destabilization, rocking the foundations on which harmony and social tranquility are based.

Impoverishment is spreading, and in a number of countries a larger and larger proportion of the population is falling below the absolute poverty line. In the absence of additional resources, the human dimension of development is lost in the face of the need to ensure, at whatever cost, that the accounts are in balance.

Even if the world economy were to expand over the next few years at its recent rate, it is quite unlikely that these countries will benefit from it. Indeed, the deterioration in the economic and financial situation in the past few years has plunged their development into deep crisis and seriously weakened their human and physical capital. Compounding the problems of the international economic climate, three consecutive years of drought and poor harvests have led to the worst famine in the history of modern Africa.

To crown it all, for the past several years these countries have been obliged to deal with mounting external debt burdens; the magnitude of debt service, even after rescheduling, deprives them of any chance to safeguard the future.

This dramatic situation was examined by the Heads of State and Government at the OAU summit in Addis Ababa in July of this year.

Our people are being hit hard by the social costs of adjusting external imbalances, adjustments which are carried out at a speed which is sometimes inappropriate in view of the harsh realities of famine, drought, desertification, and the widespread shortage of resources. To reduce the social impact and the inherent political risks, it is necessary to eliminate the compulsive mistrust of the international community and the wait-and-see attitude and inertia of private investors that have been brought about by the debt crisis. In the case at hand, this means giving the countries that are implementing adjustment policies the means to invest in productive sectors that have been identified as profitable. The success of adjustment and any viable solution to the debt problem thus cannot be dissociated from:

(a) a reorganization of trade in developing country commodities, based upon fair compensation for the work that goes into agricultural production;
(b) an opening up of the industrial countries' markets; and
(c) an improvement in the international monetary system, guaranteeing relative stability of exchange rates and interest rates at reasonable and sustainable levels.

In absolute terms, of course, the external debt of the countries of Latin America is on a quite different scale from that of Sub-Saharan Africa, and exposes the international financial community to considerably greater and more serious risks.

This is not to suggest that the small debtors should be allowed to sink rapidly into destitution and to subsist miserably in relative neglect. Uniform treatment of the debt problems of member countries cannot fail to aggravate the already precarious financial position of those whose genuine development problems have yet to be addressed and whose resource needs are enormous, even despite draconian cuts in demand. In current circumstances, that is, given low incomes, the lingering harmful effects of recession, protectionism, and poor weather, most of the debtor countries, in particular those of Sub-Saharan Africa, will be unable to service their debt, even after rescheduling, without forgoing the kind of investment efforts that guarantee harmonious development and thereby ensure an improvement in living standards.

Rescheduling is really no more than a band-aid that is inadequate to cure a deep-seated ailment. Despite reductions in imports, the current deficits of the debtor countries remain sizable because of the magnitude of debt service after debt relief, the growth of which fully absorbs the already slowed growth of tax revenues and of gross domestic output. This situation amounts to a transfer abroad of resources which the developing countries were at pains to earn and which could have been used to sustain their growth.

The Senegalese Economy

Since 1980, Senegal has been pursuing an adjustment policy designed to reduce the large external and domestic deficits that had brought its economy to the edge of ruin. Far-reaching structural reforms have proven necessary to bring the major aggregates back into equilibrium and at the same time lay the foundations for sound and lasting growth. Senegal has entered into a number of stand-by arrangements with the Fund, and negotiations are under way with The World Bank for a structural adjustment loan.

We have considerably reduced the obstacles faced by business enterprises, particularly in the semipublic sector, through a policy of liberalization and gradual disengagement by the State, and have been successful in substantially reducing the deficit on financial operations and curbing the growth in domestic credit. We still have a long way to go, however, in eliminating the distortions afflicting our economy. We are particularly aware of the burden of servicing our external debt, a burden that constitutes a real and lasting threat to the still fragile results of a great deal of effort and sacrifice.

Between 1980 and 1985, economic growth measured by GDP in constant terms outpaced population increase by only 0.6 percentage points (3.4 percent as compared with 2.8 percent). In current prices, the ratio of final consumption to GDP, which had been 99 percent in 1980, exceeded 100 percent in 1981, only to fall to 98 percent in 1984 and 92.3 percent in 1985. Domestic saving was thus modest, and even negative at times, forcing the country to turn to foreign borrowing.

Domestic inflation, measured in terms of the household consumption deflator, has averaged 7.7 percent a year. In 1984, however, the rate of price increase slowed significantly, from 10.5 percent in 1983 to 7.6 percent, and it is virtually certain that this rate will be maintained in 1985.

The external deficit on current account, which had amounted to 14 percent of GDP in 1982/83, was cut to 11.1 percent in 1983/84, under the combined effect of a severe curbing of domestic demand, debt rescheduling, and a greater-than-expected inflow of capital.

The economic and financial adjustment policies pursued by Senegal since 1978/79 have focused primarily on demand and have prevented further deterioration in the financial aggregates. Unfortunately, however, supply has suffered severely from this protracted curbing of demand. The time has now come to stress the stimulation of supply as a means of increasing budgetary saving through higher government revenues.

The Challenge Ahead

The task ahead, for each of our countries and both our institutions, is to unite our efforts and work together to achieve the conditions required for sustained growth and harmonious development throughout the world.

Events in recent months have enabled us to observe how difficult it is to achieve lasting and sustained growth after the severe damage inflicted on our economies by the lengthy world recession.

Even the most industrialized countries among us have encountered serious obstacles in their efforts to restore growth and reduce stubbornly high unemployment. In developing countries, the resolve of policymakers and the public's spirit of sacrifice are sapped by a harsh international environment, and adjustment policies are becoming more costly on all levels even as recently entertained hopes of a return to normal and lasting growth conditions recede.

For the developing countries, the international economic climate is largely determined by financial and trade policies in the industrial countries. The developing world's fate depends to a great extent on the industrial countries' ability to restore balanced and prosperous economies at home. Once again, we find ourselves at a crossroads: the next few years will therefore be crucial and decisive for determining whether the world economy will move into a period marked by prolonged and lasting growth, or toward a return to the acute crisis that characterized the 1970s and early 1980s.

In this situation, the Bretton Woods institutions bear a special responsibility: that of instilling the will and mobilizing the resources needed to ensure a transition toward prosperity.

The Role of the Fund

It is important for the International Monetary Fund to bring its authority to bear in persuading the industrial countries to implement suitable economic policies.

The obligations prescribed in Article IV, and the role entrusted to the Fund in the area of surveillance, are of particular importance in this regard.

As noted in the report of the Deputies of the Group of Ten, surveillance is carried out in a delicate area at the very heart of the conduct of national policies.

Countries that have recourse to the conditional use of Fund resources are well aware of the fact that national sensitivities are frequently at odds with the restrictive requirements entailed by an unavoidable choice, especially when no other source of refinancing is available to the country until a stabilization program has been concluded. It is equally clear that this formidable, virtually absolute power in negotiations, which we trust will be exercised with discretion by experts acting on behalf of the international financial community, is completely lacking to the Fund in the case of countries which make no use of its resources.

This is exactly why we deem it important to correct this fundamental asymmetry, which was pointed out many times in all the work leading up to and following the Jamaica agreements.

Bilateral surveillance, just like multilateral surveillance, and not ruling out intervention within the framework of other, smaller institutions, should be exercised primarily through the various instrumentalities of the International Monetary Fund.

Multilateral consultations should serve not only to shed light on the impact of the industrial countries' domestic policy measures on their own performance internationally, but also to ensure that these policies are consistent with one another.

Bilateral consultations should give the Managing Director of the Fund an opportunity, as appropriate, to draw the attention of the finance minister to policy changes that are desirable in the interest of the community.

The industrial countries should be encouraged to reduce their deficits and the rigidities in their economies so as to ensure broader recovery, and especially to permit the expansion of exports from the developing countries. In particular, the Fund should spare no effort in encouraging the industrial countries to scale back and subsequently abandon their protectionist policies. Adjustment in the developing countries is necessary in order to restore the conditions required for a healthy resumption of economic growth, and the Fund must support those developing countries that have elected to take this course of action.

But it is important to demonstrate a degree of flexibility and to take into account the special conditions applicable to each country concerned. These precautions are necessary in order to obtain the results anticipated from a realistic adjustment policy. It must also be stressed that there is certainly nothing new about this concept in those countries which, since independence, have made fundamental reforms in their economies and have tried—with varying degrees of success and perhaps not always at exactly the right moment—to react time and time again to unexpected economic developments, and above all to sudden shocks brought about by exogenous factors that are completely outside their control.

These countries are firmly resolved to make the necessary adjustments but, as recent experience has shown, adjustment is a perilous and costly process which runs the risk of leading to an impasse in the absence of realistic policies and adequate support from outside. It is here that the Fund's support for realistic and reasonable national policies in the context of stabilization programs may be of great assistance in helping guarantee the support of the international banking community and a spirit of understanding that will help these countries restore their external creditworthiness.

Often pushed to the brink of absolute poverty and compelled to increase their exports, finance their external debts, and make investments essential for the future, these countries cannot hope to carry out all these essential activities at once in the absence of additional financing and of a rescheduling of their debts on terms such as to guarantee sufficient breathing space, financial arrangements consistent with the country's situation, and unrestricted access to export markets.

Our two institutions played an important relief role during the bleakest point of the recession in 1981 and 1982, in particular when the Bank and the Fund disbursed nearly $6 billion to Africa while at the same time increasing their technical assistance.

While it is true that the Fund's resources are short term in nature, the structure of financing is now changing in the low-income countries, more and more of which are obtaining additional support from The World Bank and becoming net repurchasers from the International Monetary Fund. But the Fund's role among these countries is still important, and the implementation of its programs is, in any case, still a precondition, and certainly serves as a powerful catalyst, for access to other official or commercial sources of financing.

The recent tendency to reduce access to Fund resources raises serious concerns. If member countries have no hope of obtaining such external support in the face of the enormous risks to which a lack of adequate financing would expose them, they will be less inclined to adopt structural transformation and policy reorientation measures of the kind taken so far—and recommended by both the Bank and the Fund—prior to any intervention on their part in this area.

These considerations must be borne in mind when work is begun for the forthcoming General Review of Quotas. In the meantime, the Trust Fund, use of which would be concentrated in the poorest countries in support of realistic programs, and an allocation of SDRs, would contribute significantly and immediately to easing the burden of countries experiencing external payments difficulties.

The Role of The World Bank

The challenges before The World Bank have grown since the onset of the recession and into the current recovery period, but the institution has been able to respond flexibly and innovatively. Thus, at the height of the debt crisis, the Bank came up with and applied a series of appropriate responses: disbursements were accelerated, where possible through special action programs; structural adjustment loans were introduced to strengthen planning capacity and promote policy changes and institutional reforms; and special efforts were initiated to increase aid coordination and technical assistance as well as cofinancing with commercial banks.

I wish to pay tribute to the work of the Bank's President, Mr. Clausen, who, ever since he took the helm, and despite an international environment largely hostile to the transfer of real resources, has devoted particular attention to the situation of the countries of Sub-Saharan Africa. At a time when they were deep in crisis, he succeeded in organizing an emergency fund to help the most vulnerable of our members deal with the countless problems they face.

Although both prompt and appropriate, the Bank's response was constrained by the difficulties faced by the borrowing countries, by the requirements for prudent management, and by the dearth of resources on appropriate terms. Extensive discussions are under way within the Bank and Executive Board on the institution's future role and resource requirements.

Continuing economic stagnation in many developing countries and uncertainty in the financial markets have had a direct effect on the Bank's lending operations and technical assistance for planning in fiscal year 1985. In many developing countries, particularly in the heavily indebted countries of Sub-Saharan Africa, unanticipated delays had the effect of changing investment priorities and re-orienting Bank resources.

Lending priorities were changed to take account of the requirements of economic stabilization and structural adjustment. For a number of reasons, some of which were related to the weakness of economic performance in borrowing countries, actual commitments in fiscal year 1985 fell short of The World Bank's lending program. Still, the Bank was able to respond to the needs of the developing countries. In addition to the measures referred to earlier to strengthen planning and promote reform policies, the Bank continued lending to the social sectors and successfully launched the Special Facility for Sub-Saharan Africa. IFC expanded its operations to promote private investment in developing countries.

The Bank devoted considerable attention to the potential for mobilizing additional resources through the Multilateral Investment Guarantee Agency (MIGA). The Executive Directors have met on a number of occasions in the Committee of the Whole to draw up a Convention Establishing the Multilateral Investment Guarantee Agency to enhance the flow of capital and technology to developing countries. MIGA seeks to encourage the flow of financial resources to member countries by extending guarantees as well as coinsurance and reinsurance against noncommercial risks.

By helping to disseminate information on investment issues and providing technical assistance and advice to its member countries, MIGA will help increase flows of capital and technology to them. In cooperation with national financial institutions, it will provide an important forum for cooperation between capital-borrowing and capital-exporting countries..

Because of its deep involvement in the development process, the Bank pays particular attention to the economic climate in borrowing countries. Accordingly, as we seek to expand and sustain the recovery and to secure noninflationary growth for all nations through 1990, the outcome of the debate on the Bank's future role and resource requirements has taken on added significance. The Bank has already conducted this analysis, and has done so with extreme thoroughness. What is needed now is a decision on the Bank's future role and a clear idea of the resources needed for that purpose, including the timetable for a general capital increase and a firm commitment by the international community to match the developing world's financing needs with adequate resources.

I do hope that a similar commitment will also be made with regard to the needs of the low-income countries in Sub-Saharan Africa and elsewhere for concessional resources, notably IDA funds and ODA flows. When we acknowledge the economic interdependence of today's world, and recognize that global growth and development is an integral objective of such interdependence, we cannot separate the availability of adequate concessional resources from that larger equation.

The IDA-7 negotiations, resulting in a replenishment of only $9 billion were disappointing for all of us. For the least advanced countries, they came as a great blow. And the international donor community, with very few exceptions, was also unhappy with the outcome.

Because of the complex and time-consuming requirements that have to be observed in most member countries to secure legislative passage of the replenishment, agreement would have to be reached no later than early next fall.

I hope and trust that the level of replenishment that will result from these negotiations will be substantially higher than was agreed for the current year, to enable IDA to meet the basic needs of eligible member countries in an effective manner.

The significance and effectiveness of IDA are questioned by none, and its operations require greater and more sustained support from its members.

I therefore welcome the decision by IDA donors and management to work together to initiate negotiations shortly with a view to an Eighth Replenishment. Because of the complexity of legislative measures in most countries for implementing this measure, an agreement should be reached as soon as possible from the first day of next autumn.

Bank/Fund Cooperation

Between, on the one hand, the Fund's short-term interventions under stabilization programs—which traditionally, and I daresay almost exclusively, cover one-year periods, at least in Sub-Saharan Africa, where the structural imbalances are more evident than anywhere else—and, on the other hand, the long-term efforts of The World Bank, there is a void which each institution has endeavored to fill to the extent permitted by the flexibility of its Articles, and while continuing to observe the principle of nondiscrimination among member countries, by means of a panoply of ingenious measures and a proliferation of funds and facilities which have apparently developed without coordination.

It is high time that more concerted and systematic action—action consistent with the respective areas of intervention of each institution and more suited to the needs of those of our members which face lasting growth and development difficulties and acute signs of financial and balance of payments crisis—be undertaken without delay so as to promote an orderly long-term adjustment of their economies.

We were justified in placing great hope in an institution that emerged from what I consider to be the still incomplete reform of the international monetary system: the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries. Was this not a necessary forum in which the Bank and the Fund could meet at the highest level so as to promote a coordinated view of the policies of the two institutions? To observe that the views or suggestions of the Development Committee, as the group I just referred to is commonly known, have not succeeded in preventing the transfer of real resources from the developing countries to the industrial countries—the opposite of its mission—is simply to call your attention to the fact that there are institutions whose full potential we may yet have not learned to tap.

Be that as it may, the countries concerned must take an active part in the coordination of the activities of the Bank and the Fund, whose programs are, I reiterate, prerequisites for the intervention of other sources of official and private financing, including the rescheduling of external debt. This, in order to make conditionality internally consistent and to prevent unexpected demands or requirements at odds with performance criteria (which would perhaps jeopardize a laboriously developed system of equilibrium and halt the adjustment process, only to resume it later, after a deterioration that would be all the greater as more time was taken to resume and conclude negotiations which, as everyone knows, are unavoidable in any event).

The medium-term projections presented by the Bank and the Fund show unambiguously that the world economy is at an important turning point. Its course will depend basically on the effectiveness and the convergence of the economic policies of the industrial countries in promoting sustained noninflationary growth sheltered from the protectionist pressures that have developed in recent years.

In this regard, the collective orientation and the individual commitment made in the communiqué of the Ministers of Finance and Central Bank Governors of France, the Federal Republic of Germany, Japan, the United Kingdom, and the United States give us grounds for hope that the implementation of appropriate policies, the strengthening of international cooperation, and continued support for the activities of the Bank and the Fund will put us on the path toward prosperity in world trade, where no member will fail to benefit from peace and stability for all.

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

Mr. Chairman, Governors, Ladies and Gentlemen: welcome to these Annual Meetings.

We want to express sincerest thanks to President Chun, to the Government of Korea, and to the city of Seoul, for welcoming us here. The warmth of Korean hospitality is legendary, and we are delighted and grateful to be your guests in this great city.

We are especially pleased to have had our opening session this morning honored by the presence of President Chun. His thoughtful statement has provided an excellent beginning to our discussions.

And we all should warmly welcome the delegates from our new member nation, Tonga.

At the outset I would like to express to the delegation of Mexico the deepest sympathies of all of us at the World Bank following the terrible earthquakes in your country. I know I speak for all assembled here today in saying that our hearts go out to the Government and to the peoples of Mexico, most especially to the injured and bereaved and the homeless in and around Mexico City. The massive task of reconstruction will not lack for support from a concerned and caring international community, and the World Bank has already pledged to do all it can to support this effort.

This fiscal year we mark the 40th anniversary of the opening of the doors for business of the International Bank for Reconstruction and Development. We have learned much in these four decades and we have contributed much as well. The progress in development has been impressive and I want to express our thanks to you the shareholders for your constant support, and to all those who have worked for your institutions and who have secured so proud a record of accomplishment.

This is the fifth occasion on which I have had the honor of addressing the Boards of Governors of The World Bank and the International Finance Corporation. We meet this year at mid-point in the decade, and at the beginning of a period which must mark a shift from the rigors of austerity to the revival of development and growth. At this turning point, I want to review the crisis of the last five years and share with you our expectations for the next five years. And then I want to discuss the ways in which the Bank has responded to the needs of its members during those difficult times, and how the lessons which we draw from that experience can make our support for the reoriented development strategies of our members even more effective in the future.

The economic turmoil of the last five years has challenged us to reestablish the foundations of growth. And it has challenged us to reaffirm the mutual benefit to all nations and peoples of an interdependent world based on a trading system that is truly liberal and a financial system that is truly sound.

The World Bank will play a vital role in the transition from recession to sustained economic growth, a transition upon which hang the hopes for a better life of hundreds of millions of people in the developing nations. That role, and the enhanced financial capacities which our strategy will require, need your firm support.

Let me turn first to how the developing world has fared economically over the first half of the decade, and how it may evolve over the next half.

The first half of the 1980s began with global recession and ended with recovery. It was a period of adversity and adaptation, stabilization and adjustment. Developing country experiences varied greatly according to the circumstances which each country confronted and the policies each adopted. Some were successful, some were not. Some policies worked, others did not. As partners of our developing member countries in this experience, and as analysts of it, we have been able to identify some of the policy approaches that have allowed countries to cope better with these adverse conditions. In short, their experience has helped to shape our actions.

That experience began with the deep and widespread recession of 1981-82 which hit the developing nations particularly hard. Demand for developing countries' goods declined sharply; commodity prices fell; interest rates increased; and debt servicing difficulties spread and intensified.

As the recession deepened, there was widespread pessimism about the prospects for many developing countries. As a group, their output grew by three percent in 1981 and increased by only two percent in 1982 and in 1983—resulting in a decline in per capita income. Growth of developing countries' exports—the foundation of their creditworthiness—was stunted, increasing by only three percent in 1981 and in 1982. Developing countries which had borrowed heavily from foreign sources experienced serious debt servicing problems, and as a result the availability of foreign commercial capital declined abruptly after 1981.

The depth and intensity of the recession revealed major underlying structural imbalances and market rigidities, the correction of which is a prerequisite to restoring equilibrium and growth. The recovery which began in 1984 with improvements in overall developing country output and exports, was built upon recovery in the OECD countries and in international trade, major stabilization efforts in many countries, and the beginning of the necessary restructuring of economies in the developing world. Some countries performed it well, and others did not.

Take, for example, the export oriented economies which generally adjusted in a timely way. Those in the Far East quite quickly recovered their earlier high rates of growth, so that the overall increase in output for East Asian countries rebounded from about four percent in 1982 to about six percent in 1983, and just over five percent in 1984. A few Asian countries even exceeded their earlier performance. China experienced impressive growth in 1983 and 1984 of about 8½ percent.

Other countries, such as some of the major debtors in Latin America, delayed their adjustments, and they are still in transition to restored creditworthiness and satisfactory growth rates. With strong support however, from the IMF, The World Bank, the commercial banks and official creditors, they weathered their initial debt servicing difficulties, and their turnaround has been impressive. Output in Latin America increased by more than three percent in 1984 after two consecutive years of decline.

For many low-income countries, particularly those in Sub-Saharan Africa, long standing problems got worse as demand for their primary exports fell. At the same time, they were hit by a series of droughts, and reexamination of their domestic policies and development strategies in light of the changed global environment was long delayed. While a number of countries in Africa began the realignment of their policies and the adjustment of their strategies in 1983 and 1984, much yet remains to be done to deepen, spread, and strengthen this effort. Sub-Saharan African countries as a group experienced an actual decline in output in 1984, for the third year in succession.

The nature of the policy changes needed to promote adjustment and longer-term growth is, of course, dependent upon the specific conditions in each country. Generally, however, those countries which have reduced economic distortions and have permitted economic agents—public and private—to act more freely, have experienced more rapid economic growth over time. They have also responded better to external shocks. A critical measure of such policies has been how well they promote economic flexibility. More specifically, most adjustment programs have included the reduction of a broad range of price distortions, a decrease in government budget deficits, and an increase in domestic savings.

It is not surprising, therefore, that countries which have devalued their exchange rates, raised producer prices, reduced consumer subsidies, and installed market interest rates, have experienced positive results in their economic performance. The recent experiences with some of these policies in countries as diverse as India, Indonesia, China and Turkey illustrate this dramatically. These countries were able to improve economic performance at the same time the recession was gripping most of the global economy. In Turkey, for example, during 1980-83, output grew by roughly four percent a year, and merchandise exports doubled.

If there was ever any doubt, it is now dispelled on one very apparent reality: the economic performance of developing countries depends largely on their own decisions and on their own efforts. It is true that continued access to foreign finance, both private and public, can assist the developing countries carry out these difficult reform programs, and support growth-oriented development strategies. But financial assistance is no substitute for policy reform, nor for the political courage to undertake it.

Finance is, however, a vital partner. Ending subsidies, reducing deficits, and devaluing exchange rates impose costs and hardships on those population groups long accustomed to benefitting from these imbalances. External financial support can soften the impact of these costs, and help deliver the economic benefits of rehabilitation and recovery.

This year, at the half way mark of the decade, our expectation is that, across the globe, progress will continue. In 1985 developing countries may come close to matching their strong growth of 1984. Hopefully we are standing at the threshold of an economic transition from recovery to sustained growth over the next five years.

A successful transition is indeed our objective. But by no means is it assured. Industrial and developing nations alike must act to adopt policies that firmly set in place non-inflationary growth. The last five years and its hard earned lessons show us what actions are necessary.

The industrial nations, for their part, must move to restore monetary and fiscal balance to enhance their growth prospects and to permit a return to lower interest rates. This would have a direct beneficial impact on the severe debt servicing problems that are afflicting so many developing nations.

Futhermore, the industrial nations must, amongst other measures, act to ease rigidities in their labor markets to reduce high unemployment and help stimulate new industrial capacity. Stronger economic growth should help these nations to resist protectionist pressures and to build a more open international trading environment. This is essential if the developing nations are to increase their exports and so facilitate their adjustment.

We now know from experience which adjustment and reform initiatives generate the best results. Both developed and developing countries need to pursue with true determination those initiatives applicable to them in the key areas of economic prices, exchange rate and trade policies, and domestic savings and fiscal management.

Let me spell out these initiatives and the results they should achieve.

1. Economic prices which more closely reflect opportunity costs will enable countries to improve the efficiency of utilization of both domestic and external resources.
2. Appropriate exchange rate and liberal trade policies will not only increase export earnings needed to service debt but will also improve domestic efficiency and growth.
3. Increased domestic savings generated through market interest rates, and more efficient resource mobilization will make possible a larger volume of investments needed to resume the path of rapid growth. These increased savings are also important to reduce the growth in external debt.

In other words, there is a choice of two paths: one leads to the rewards of a successful transition, the other to the penalties resulting from a failure to adjust. These two scenarios are analyzed in this year's *World Development Report*, which I recommend to you all. Here the numbers are set out plainly so that the economic payoff for adjustment and the penalty for inaction are both readily grasped.

There is considerable variation from region to region in these scenarios, but in Africa, the situation is especially grave. The depth of the economic crisis in Sub-Saharan Africa constrains the high scenario to one of mere maintenance of the low per capita income levels achieved in 1984. The degree of urgency, the necessary scope of policy reform, and the need for substantial concessional assistance place Africa in a special category to which the Bank and other development institutions must devote a very concentrated effort. We have made a good start with several countries which have reform programs in place. Meanwhile the list of countries is growing, and we are encouraged.

In putting the pieces together for a successful transition to long-term economic growth, we must include the vital component of capital flows from industrial to developing countries. Whether they be private or official, direct or indirect, such capital movements provide the necessary new resources to finance reform, and to invest in the productive capacity of developing nations. Over the last five years, contractions in the flows of private capital have compelled many nations to compress imports to levels below those required to maintain their economies at present levels of output. This has impeded the adjustment process and, if continued, could lead to untenable political and social consequences.

Similarly, the growth of official development assistance has fallen below even minimal expectations. The quick response of donors in providing extraordinary drought relief to Africa reflected the international community's deep humanitarian concern. But the low-income countries, in Africa and elsewhere, face long-term problems of adjustment and abysmal poverty. Their ability to offer even modest hopes to their citizens, to reduce poverty and to sustain growth, depends vitally on a much more robust increase in aid for long-term development.

The transition to sustained growth over the next five years will also depend on a liberal international trading environment, characterized by reduced trade barriers in both industrial and developing countries. Increased access to markets could be achieved through trade liberalization measures agreed in a new round of multilateral trade negotiations under the aegis of the General Agreement on Tariffs and Trade.

So, after five years of experience with difficult global economic conditions, the road ahead for the rest of the decade is well defined. Developing countries, we all agree, must undertake policy reforms, and they must receive adequate capital flows to support their reform efforts. Industrial countries must also undertake reforms, especially in their fiscal policies. And all countries must actively participate in efforts to liberalize and strengthen the world trading system.

How have we, at The World Bank, responded to help you, our member nations, to cope with the difficult economic environment of recent years? We have responded in many ways, and here are some important examples.

—We have increased our lending in support of overall policy reform by developing new lending instruments such as structural and sector adjustment loans. Since they were instituted in 1980, 32 structural adjustment loans totalling more than $4.5 billion have been made to 17 countries, and 37 sectoral adjustment loans totalling $3.8 billion have been made to 26 countries. Last year, they together amounted to $1.6 billion—11.4 percent of our total lending.

—To underpin our analysis of adjustment, and to improve our contribution to the policy dialogue with our borrowers, we have increased the resources devoted to country economic and sector work. And we have restructured our research programs so as to focus more attention on trade and debt issues and to improve the quality of the Bank's policy assistance to adjustment programs.

—We introduced a special assistance program in 1983 to increase the rate of disbursements from existing and planned loans, and to prevent sound projects from being discontinued for lack of budgetary resources. As a result of the program, additional disbursements to forty-four recipient countries during the Fiscal Years 1984 and 1985 amounted to some $4.5 billion, almost compensating for the shortfall in regular disbursements resulting from the recent recession.

—In the Latin American and Caribbean region, the region most seriously affected by debt-servicing problems, we increased our disbursements from $1.8 billion in fiscal 1982 to a record $3.2 billion in fiscal 1985—a 75% increase. And we have devised ways, including the use of guarantees, in which we can induce new money into the indebted countries in association with our own loans.

—In response to the deepening crisis in Sub-Saharan Africa, we launched our Joint Program of Action for the troubled region, focussing on supporting those countries undertaking difficult economic policy reforms. And with a group of donor nations, we put together the Special Facility for Africa, a three-year program with resources of $1.2 billion to provide fast-disbursing concessional funds to help move this process forward.

—In our project work, we have greatly strengthened the programs in population, nutrition and health lending; we have expanded lending in the energy sector; we have emphasized lending for maintenance and rehabilitation to protect past investments; and in all sectors we have increased the attention given to training, technical assistance, institutional development and management.

More generally, to help countries make the best use of available resources, your institutions of The World Bank have helped members focus on the mobilization and allocation of resources in the public sector, and on ways of strengthening the role of private initiative.

In the public sectors of many member countries, the excessive expansion of state enterprises—entailing ambitious and often uneconomic investment programs, subsidized prices, high costs and inefficient operations—has placed an unbearable burden on both the budget and the balance of payments. Working with our borrowers and responding to their requests, we have assisted with comprehensive reviews of public sector investments and expenditures. Initiatives to restructure the public sector—such as regulatory reform, more effective use of foreign borrowing, and privatization where desirable—have become an increasingly common element of our country assistance. We have, in many countries, helped with the postponement or elimination of capital-intensive investments with long-gestation periods. And we have been widely involved with programs to improve the organization and management of parastatal enterprises, including the adoption of economic prices.

In regard to the private sector, our structural adjustment loans have supported country efforts to rationalize and improve their incentive and regulatory structures. At the same time, Bank and IDA lending directly to support private enterprise, and lending to improve infrastructure as a basis for expanding private sector production, have continued to be prominent in our operations. As you know, the IFC program is expanding rapidly, with increases in its corporate restructuring assistance, greater attention to the development of domestic financial markets and institutions, and growing activity in new sectors such as energy exploration.

We have strengthened the Bank's catalytic role—encouraging the mobilization and more effective coordination of official aid flows through consultative groups; working to create a Multilateral Investment Guarantee Agency to encourage private investment flows; and developing new instruments for cofinancing with commercial banks, such as the "B-loan." Since September 1983, when the B-loan program was launched, thirteen such loans have been arranged totaling over $1.8 billion. They have helped to reintroduce countries to the capital markets after debt rescheduling improved terms and attracted additional capital. In addition to the B-loan program, the Bank attracts an average of nearly $4 billion in cofinancing arrangements from official sources and export credit agencies each year, yielding an overall cofinancing average of $5 billion per year. We would like to see that figure increased.

The Bank's flexible response to country needs over the past several years may be illustrated by the case of Brazil, which faced an adjustment problem of crisis proportions at the end of 1982. Brazil undertook courageous measures to reduce investment and imports and expand exports in order to reduce the current account deficit of the balance of payments. The Bank then more than doubled its lending to Brazil, committing $4.5 billion during 1983-85; our disbursements to Brazil tripled between 1982 and 1984, reaching $1.4 billion. The program included innovative sectoral loans to support efforts to accelerate manufactured and farm product exports, and to support the adoption of essential reforms of trade policy and agricultural credit. The program also focussed on critical infrastructure needs in power transmission and distribution, railways and highways. Loans were also made for rural development and land resettlement. And the IFC has helped to finance investment in private sector projects totaling about $1.0 billion over the past three years, with special emphasis on exports and import substitution.

At the other end of the spectrum from Brazil, but also beset by crisis, were the small, least developed countries of Sub-Saharan Africa. Several special Bank studies of the disastrous Sub-Saharan Africa situation and its causes led us to propose our "Joint Action Program", which has now been widely endorsed by both African and donor governments. The establishment of the Special Facility for Africa, which this consensus made possible, is most encouraging, and donors are to be congratulated for their timely response. But more concessional funds for Sub-Saharan Africa are essential.

These countries continue to face a heavy outflow of funds to service foreign debt, mostly owed to official creditors. Debt service ratios of 40 to 50 percent are not uncommon in Africa. One country, Mauritania, has a debt-to-GNP ratio of nearly 180 percent. Such levels of debt pose a major threat to the ability of these countries to resume growth. Either aid flows must expand much more than presently planned, or the debt service burden has to be reduced by imaginative rescheduling on concessional terms.

The IMF has provided vital support to many African and other low-income countries during the recession. The revolving nature of short-term IMF resources must be maintained, but the capital requirements and the debt repayment problems of these countries remain long-term. Expanded long-term financing will be essential even to maintain net capital inflows.

In several Asian countries, performance has been very good, especially against the background of recession. In those countries the Bank has continued to emphasize traditional project lending for agricultural development, human resource infrastructure and poverty alleviation, while also supporting adjustment measures. In India, for example, the Bank lent over $1.2 billion during 1980-85 for developing oil and gas resources—which helped increase the share of domestic oil production from around 40 percent of total consumption in 1980 to about 75 percent in 1985. In China, the Bank lent nearly $650 million during 1981-85 in support of the modernization program in education, research and training alone.

As we try to understand and respond to economic events of recent past, it may be helpful to recall that global interdependence has been very greatly increased by the rapid growth of international trade, capital flows and debt. While that interdependence tends to increase efficiency and growth, it has also made economic management much more complex. This places a higher premium than ever on confidence—an intangible but absolutely vital ingredient in any country's return to sustained growth.

Ladies and gentlemen, the international community now must work together urgently to restore the necessary confidence; confidence which events of the past several years have badly shaken.

—Creditors must become confident again that debt can be serviced.

—Investors must become confident that price relationships accurately reflect fundamental economic realities rather than changeable administrative or political biases.

—And developing countries must remain confident that their adjustment efforts will be supported.

Both through our advice and our resources, we in The World Bank can perform an important role in helping to build the understanding and confidence that are now required. Our knowledge and our instruments have evolved in response to your changing experience with adjustment and reform. Many of our members have achieved important, in some cases spectacular, progress, but the fundamental problems—extreme poverty, unemployment and underemployment, low productivity, and low growth levels—weigh heavily on nearly all developing countries. That is a sobering reality which tells us that our work is really only beginning.

The next five years will give us all an opportunity to focus our efforts on solving these fundamental problems. If we build on what has been accomplished in the first half of the decade, and apply what we have learned carefully and consistently, a full transition to long-term development and sustained growth could be within reach by the end of the decade.

Permit me now to explore with you the operational strategy we have developed to help our members attain these objectives. This strategy rests on twin pillars: assisting our borrowers in formulating satisfactory programs of adjustment and more rapid growth, and helping mobilize the external resources necessary to sustain these programs.

How do we apply this strategy in addressing the problems of the heavily indebted middle-income countries, especially those in Latin America? The strong support provided by the IMF to many of these countries has helped avert the financial crisis which they and the international financial community faced not so long ago. It has bought us valuable time which we should use to best advantage. Continued austerity will need to be an essential fact of life in these countries for some years to come but our actions must hold out the promise that it will not be a permanent condition of life. To that end, we must all join to create the conditions that will ensure the revival of economic growth through the adoption of comprehensive programs of adjustment.

There is no easy way to achieve this, but there are some basic principles on which the Bank has founded its twin-pillared strategy of assistance to this group of countries. First is the recognition that we must adopt a long-term perspective in addressing their problems. We cannot live from one debt rescheduling to another. Second, the Bank's role and assistance must be closely linked with those of the Fund, the private commercial banks, the regional banks, and official sources of funding. To succeed, we shall need the unwavering commitment of the indebted country governments to continue with the difficult policy reform programs that so many have already embarked upon. And we shall need a comparable resolve on the part of the commercial banks to stay the course with additional support. Neither the Bank nor the Fund can on their own provide the new money that is needed.

Let me cite by way of illustration some particularly useful and creative applications of our strategy relating to three middle-income Latin American countries, whose principal source of external capital is the private banking system.

In Colombia the government has initiated a wide-ranging program of trade liberalization. A first loan of $300 million was approved in support of it, and we expect to make other loans to support this program in this and future years. The World Bank will continue to review Colombia's progress in the trade policy and public investment areas. Our loan, and the IMF's review of the country's stabilization program, is associated with the provision of new money to Colombia by commercial banks.

Similarly, in a structural adjustment loan to Costa Rica, commercial bankers and other lenders have linked their disbursement to those of The World Bank, thereby using our assessments of progress as a basis for their own lending decisions.

In the case of Chile, a World Bank guarantee and a planned structural adjustment loan have helped to firm up the program of long-term adjustment and diversification on which Chile's future depends, and have helped to complete the protracted discussions on the reschedulings and new money package to that country.

Our collaboration with the IMF in arrangements of this kind has been, and will continue to be, close. Effective coordination between the Bank and the Fund is essential.

The additional financial support that The World Bank provides to such countries must give high priority to strengthening economic management, and to utilizing existing productive capacity more fully in all sectors of the economy through well-designed programs of sector investment and adjustment. And it must also give high priority to reducing the existing burdens, both financial and managerial, on public sector resources in most of these countries. Governments must recognize that their capacities are overstretched and that their room for maneuver is extremely limited. With our support they must embark on major programs of liberalizing their economies and releasing the prodigious energies of the private sector. In short, we must get down to resuscitating activity at the grass roots where jobs are created and people earn their livelihoods. The Bank has had long years of experience and success in helping countries improve their economic performance at these levels, and we clearly recognize that our future operational activities must reflect this comparative advantage.

Let me turn now to how this twin-pillared strategy of assisting the adjustment effort and helping mobilize supporting resources is being applied to the poorest countries, in particular to that group of them facing the most serious challenge, namely the countries of Sub-Saharan Africa.

What efforts should our strategy seek to assist? There is a new consensus among donors and African countries alike on the steps that must be taken. The quality of economic management has to be improved to enhance returns to investment in Africa. The framework of incentives for producers, particularly in agriculture, needs to be reformed. The growth of public enterprises beyond their ability to manage resources effectively and efficiently needs to be curtailed. Unrealistically large public investment programs need to be pruned back. And the maintenance and rehabilitation of basic infrastructure must be given greater priority. At the same time, we must pay greater attention to the vital role women play in development as we continue to invest in agriculture, urban development, and education. The urgent issues of population growth and natural resource management must be more forcefully addressed as well. And the right environment has to be created for private investment to make a larger contribution to growth. This adds up to a long-term effort which must attract the effectively coordinated support of all donors.

The World Bank's role, therefore, is clear. We must imaginatively apply our twin-pillared strategy. Through our policy dialogue, research, and technical assistance, we are expanding our efforts to help African governments to analyze the issues constraining their economic and social growth, and to design and implement the actions that will remove those constraints. This means expanding our help to governments to finance and implement programs of economic policy reform. The Special Facility for Sub-Saharan Africa is specifically designed to materially support governments in the difficult decisions they have to take to ensure that the overall flow of resources to Africa is put to the most effective use. That effectiveness depends heavily on improved donor coordination. Here the Bank plays a key role, chairing a total of ten African country aid coordination groups, and with plans underway for the establishment of three more during this fiscal year.

In Africa as much as anywhere in the developing world we face the simple truth that development is not an abstraction, it is a process that improves the life of people. If the rate of population growth exceeds economic and social progress, the people will suffer because each will have less—less services, less employment, less material resources. This basic calculation of development varies from country to country and from region to region. But in Africa, population growth is so rapid that it is severely constraining development.

Growing faster than that of any other continent, Sub-Saharan Africa's population of about 400 million today could conceivably treble by the year 2020, that is if measures to limit population growth are not taken. Even if the problem were faced squarely, starting now, and governments committed themselves to effective programs for reducing population growth, the young age structure of the present population would cause rapid growth to continue for at least another generation. The impact of this inevitable population increase on desertification, urban growth, water supply, agriculture, and energy consumption will be staggering. Needless to say, its impact on poverty will be no less staggering.

The combination of economic and social development with well designed and implemented family planning programs provides the best hope for achieving significant reductions in the rate of population growth. In both these respects, the Bank has an important role to play—indirectly, through its policy dialogue and its lending in support of economic and social development, and directly, by assistance to family planning and basic health services. That is why we are going to double our lending for population and health in the next five years.

Rapid population growth has made national resource management more urgent than ever. Especially in Africa, where drought has exacerbated the problem, the balance between traditional farming, soil productivity, and forest cover has been upset as the demand for foodcrops, animal fodder and fuelwood has increased. Deforestation is accelerating—with an estimated 3.6 million hectares now being lost every year. This means more severe fuelwood shortages, soil erosion, declines in agricultural productivity, and, in semi-arid areas like the Sahel and the Sudan, more desertification.

There are no quick solutions. These are broad land use problems which cannot be solved by investment in one sector alone. They require an integrated approach to agriculture, forestry, energy and rural development.

The Bank is now reviewing this cluster of problems, and it will increase its advice and assistance here. In many countries, there is a need for more information on the magnitude and the consequences of the problem. We plan to work with African governments in support of intensified sector planning activities and the development of long-range strategies to address these issues in an integrated way. The Bank is supporting a new generation of projects under preparation in Rwanda, Mali and Senegal to help launch this more comprehensive approach toward natural resource management.

Although The World Bank is taking many such new initiatives to assist our members, this will not alter the importance of the agriculture and rural development sector, which will remain the mainstay of our lending activity for the foreseeable future. Food continues to be fundamental. The poorest of the poor are usually rural. In the low-income developing countries, nearly three-fourths of the labor force is engaged in agriculture. And the room for improving agricultural productivity remains great indeed. There have been dramatic successes in agriculture—India's current food self-sufficiency, the "Green Revolution," Indonesia's and the Philippines' rice surplusses. There will be more, and we will help bring them about. Agricultural lending will continue to be our highest sectoral priority, comprising more than one-quarter of our program. And agricultural research will continue to receive heavy emphasis.

Education and urban development are vital sectors which have been neglected in some developing countries due to intense budgetary pressures. They will continue to receive our strong assistance.

There are ample opportunities to increase the efficiency of educational services, through cost recovery programs for secondary and higher-level schooling, more relevant text books, improved curricula, better use of facilities, and reduced student-teacher ratios. Primary education still yields the greatest benefit per dollar spent, yet over 30 percent of primary school-age children in the developing countries (except China) are not attending school. The proportion for girls—whose education has a high leverage on fertility reduction—is double that. While primary education will remain an important element in our lending, we plan also to support education at higher levels as well, to help alleviate, in some countries, the serious skill constraints in the technical, financial, and managerial fields.

Urban areas in many countries have felt the impact of rapid population growth and migration. While, in 1950, only three cities in developing countries had more than four million people, the number of such cities had grown to more than 20 in 1980 and will exceed 60 by the year 2000. In India alone, the total urban population is growing by more than 600,000 each month.

Urban areas can be highly productive. As centers of business and industry, they supply employment to migrants from rural areas and, in most developing countries, account for more than half of GNP. But with the inevitable rapid growth in population, we can anticipate congestion, slums, disease, unemployment, underemployment, and urban management problems of unprecedented magnitude. We will continue to help countries cope with their explosive urban growth—through lending for water supply and waste treatment, urban transport, sites and services, business support and technical advice to improve urban management.

In the next few years, The World Bank will continue to adapt its lending programs to the changing realities of development. The lessons we have learned from working with our members in recent years are the product of a very special, very productive partnership. And they should be shared with others, particularly with some of the other providers of assistance.

That is why we believe that in the future the reorientation of assistance programs must accompany their expansion. Donors will need to give greater priority than in the past to the timely support of programs of policy reform with fast-disbursing funds. They will have to recognize that maintenance and rehabilitation of investments are likely to deserve higher priority than large "visible" investments in new capacity—even when the latter may bring prestige to the government and sales of machinery and equipment to the donor. Assistance institutions should give strong support, particularly in Africa, to programs addressing basic constraints such as family planning, health, education, agriculture and natural resource management. They should also support the pursuit of policies which encourage the private sector and foreign direct investment. Moreover, donors will need to collaborate to improve coordination and thereby increase the effectiveness of scarce aid resources.

Our strategy for the next five years has many facets, reflecting the diversity of our membership and the complexity of development itself. But uniting all these elements—from adjustment and project lending to our catalytic role and better donor coordination—is our determination to use what works and to avoid what does not. Our goal is to increase the effectiveness of the assistance we provide to you.

Effectiveness, unfortunately, does not grow from good intentions alone. In our daily transactions of development, we offer advice and encouragement to foster sound economic policy decisions and investments. We back up that counsel with reliable long-term financial support. This complex relationship between the Bank and its borrowers is at the core of our ability to operate creatively and effectively.

Changes in global financial conditions, however, could well disrupt these carefully wrought arrangements. Traditional sources of finance, particularly for the middle-income developing countries, are no longer expanding. Commercial bank exposure, for example, will grow slowly for the foreseeable future. While an increase in private direct investment can provide a partial offset, it cannot possibly expand enough to provide capital flows in amounts that can be really productively used. Indeed, current trends in financial flows give grounds for major concern. Some debtor countries, having undertaken painful adjustment measures, now have productive investment opportunities which would permit export expansion, a rising growth rate, and a gradual restoration of creditworthiness. But the debt overhang absorbs significant portions of domestic savings, and commercial banks remain reluctant to increase their exposure. The possibilities of being caught in this vicious circle are as dangerous as they are real.

The multilateral financial institutions are not in a position to offset the shortfall in private capital flows, although we, and the regional banks, are planning to increase our lending substantially. But the commercial banks cannot turn away from their responsibilities. Stagnation and deteriorating debt-service capacities are not in their own self-interest. Growth, strong economies, and growing exports are. And these are not possible without their continued participation, or without modest growth in their net lending to creditworthy developing countries.

They, no more than national governments, can take a narrow view of their interests. They, no more than our members, can isolate themselves in an interdependent world. They have been vital participants in the past; they must be good partners in the present, and remain so in the future.

Meanwhile, for the poorest countries, the outlook for an increase in concessional flows is bleak. It is not hard to see how The World Bank and its regional counterparts can soon be in the difficult position of trying to maintain the provision of expert, impartial advice without adequate resources to back that advice with carefully planned and supervised investments.

Resources, adequate resources, are the fuel for effective development. I have outlined the new lending and policy strategy which we are putting to work, but it must be said that the question of resources will determine how effective it will be. Permit me now to be specific about the capacities of our institutions and how we see their roles evolving in the future.

The IFC has embarked on a course of major expansion. For 1985, total investments represented a 55 percent increase over the previous fiscal year, and we exspect that investments in 1986 will grow a further 15 to 20 percent. Illustrating the vigorous and innovative role the IFC is now playing, the Corporation recently made its first investment in China to help finance a joint venture between Chinese and French sponsors for the production of lightweight trucks. Shares amounting to 10 percent of the equity will be made available to the Chinese public, another first for a joint venture in China. The Corporation has also embarked on a program of energy exploration and is expanding its activities in developing capital markets, in support of small businesses, and in restructuring companies which have run into difficulties.

IFC's essential role is to facilitate sound investments by the private sector, domestic and foreign. This kind of investment can and should play a larger part in the process of development in most of our member countries. But a growing role for IFC requires more capital for the Corporation, and we are all pleased that IFC's Board recommended last year a doubling of IFC's capital base to $1.3 billion. Now nearly 71 percent of the member nations' votes have been cast in favor of the increase, only four percent short of final apporval. Endowed with the additional capital, IFC will be better equipped to attract more private capital into ventures where such funding otherwise would not go—the very essence of IFC's catalytic role.

Africa is a case in point. The IFC plans to support over 100 projects in Africa over the next five years at a total investment of $2.8 to $3 billion. And in partnership with UNDP and the African Development Bank, and with the help of a number of donor governments who have offered support, the IFC plans to establish a new Project Development Facility which will identify, appraise, and arrange financing for private sector investments in Africa.

After wide-ranging consultations with our members, we believe the time has arrived to strengthen still further our efforts to promote international investment. Bilateral efforts by individual nations on this front can be enhanced with still stronger multilateral support.

Accordingly, we are submitting to you now a resolution to establish a Multilateral Investment Guarantee Agency (MIGA). MIGA will fulfill a vital need for improving investment conditions worldwide through a more comprehensive coverage of non-commercial risks to foreign investors in developing countries and a broad range of promotional and technical assistance measures. MIGA responds both to developing country needs for increased foreign capital flows for development purposes and the concern of investors, from developed and developing countries alike, that their investments be protected against non-commercial risks.

The draft Convention establishing MIGA, as drawn up by the Executive Directors, establishes it as a voluntary facility: each country may freely decide whether or not it wishes to join, and when it has joined it still retains control over the extent of MIGA's activities in its territories, as investments will only be guaranteed with the host country's approval. MIGA is also designed as a cooperative facility. Both financial responsibility and political oversight are shared by developed and developing countries. Countries joining MIGA will contribute to its capital in accordance with their relative economic strength as measured in their share allocations in the capital of the Bank. It is envisaged that the groups of developed and developing countries will eventually have equal voting power; during a three-year transition period special arrangements assure the adequate participation of both groups in the decision-making process. Its cooperative structure is the best assurance that MIGA will indeed reduce political risk, thus serving its developmental mandate while maintaining its financial viability.

We want to thank so many of you here today who have participated in the preparation of MIGA's draft convention. The result is a solid, prudent document, containing both the flexibility necessary for responsive management and the explicit recognition of member nations' sovereign rights. It is especially pleasing that in this, The World Bank's fortieth anniversary year, we are witnessing a growing welcome for this proposed new agency. We are hopeful that with your firm support MIGA will be launched before too long.

Let me now turn to our efforts on the stage of concessional flows—to IDA. The Report of the Task Force on Concessional Flows, which was submitted yesterday to the Development Committee, puts the issue in perspective . . .

> "the low income countries still need concessional assistance and the poorest among them need more of it more than ever."

But the levels of official development assistance going to developing countries have been falling since 1980 in real terms and, based on preliminary estimates, will register only a disappointing 2% annual increase in the years ahead.

We must be realistic and recognize that, unless official development assistance to the poorest countries is increased, the pace of progress in these nations to implement adjustment programs, to sustain investments, and to alleviate poverty will be desparately slow. And, as the Report concludes, no single alternative to increasing ODA or any combination of alternative measures will bridge the growing mismatch between ODA needs and supply.

IDA is the largest single source of international concessional flows. The exemplary record of IDA's achievements in the field is well known to all of you. IDA could be still more effective if it were strengthened. We trust that the donor nations will enter the next replenishment negotiations determined to equip IDA with the necessary resources and to do so in a timely fashion. IDA 7's resources will be exhausted by June 1987. In order to preserve continuity in IDA's operations the negotiations must conclude by December 1986.

It was the crisis in Sub-Saharan Africa, the inadequacy of IDA 7, and the low levels of ODA generally, which compelled us to seek support for a Special Africa Facility. But the facility is a one-time, three-year operation. The problems which it was set up to address must be dealt with on a long-term basis by IDA. Donors need to consider this as they enter the next replenishment round. And they need to consider too the scale of poverty that persists in much of Asia, and the very strong case that is so self-evident for greater flows of concessional resources to the poorer countries of that region. India and China, in which more than 450 million of the world's absolute poor reside, need affordable external finance on a large and sustained basis to support their far-reaching efforts to realize their great potential. And several small countries of the region, such as Bangladesh and Nepal, are heavily dependent on IDA too.

IDA is a crucial weapon in the global struggle to help defeat the forces of malnutrition and absolute poverty, and it must be strengthened.

Today we meet here in a nation that once was an IDA recipient and is now an IDA donor. IDA has proudly assisted the Republic of Korea, and the rapid progress of this nation is an inspiring illustration of what a development success story can really be. It can be, and indeed is being, replicated. But without adequate funds, IDA will be unable to help launch more of the poorest nations on their voyage of recovery and long-term development. That is unacceptable.

Permit me now to turn to IBRD. The potential role that this institution can play in securing a stronger global economy is a formidable one. I have given you an overview of the lending strategies that we intend to pursue. Now we will turn to the IBRD's future level of operations and the question of adequate lending capacity.

But in looking to IBRD's future, it is important that we recognize clearly the creditworthiness and performance standards that IBRD maintains.

The creditworthiness of borrowers must continue to be a major consideration in our lending. Our concern is, and has been, to see how The World Bank can actively support a country's development program so as to enhance its creditworthiness. And this must be assessed in a dynamic context. The question that needs to be asked is whether a country can be expected to service its debt to the IBRD. Where creditworthiness is weak, the focus is on how the Bank can most effectively participate in the formulation and in the financing of a creditworthiness-recovery program.

As we plan future IBRD lending levels, we also will remain most concerned about performance standards. Effective management of the economy and appropriate incentives at the sector and project level are essential steps towards economic efficiency and the enhancement of creditworthiness. If conditions are such that we cannot assure the effective utilization of resources, then this can, and indeed must, constrain our lending levels. We see no long-term benefit to our members of any kind in lowering our standards simply to boost our lending volume.

Much work and ingenuity over the last five years has brought us to the point where IBRD's financial base is stronger than ever. And IBRD's robust health is essential to support our ambitious plans and provides us with a sound base for an expansion in our lending commitments in the immediate period ahead.

We have reviewed on a country-by-country basis the future likely assistance that we can provide to our members with the lending strategies that I have outlined to you today. We see the clear need to expand our lending commitments, and we will be able to do so while still adhering to the rigorous standards we have maintained for so many years. It would be an error, however, to become wedded to precise figures at a time of such economic uncertainty and when the determination of your institutions to ensure the highest quality of lending should rightly have priority over quantity.

Yet the direction is clear. IBRD commitments this year are planned to be higher than in any previous fiscal year, and we expect our lending volume to grow in future years. The critical point is the need for shareholders' support both in terms of access to the capital markets in which the bulk of the Bank's resources are raised, and in terms of the level of capital needed to give the Bank the authority to lend on the scale required. The actions required by Governments with respect to resources are thus not mainly the provision of budgetary funds; they mainly take the form of permission—both permission to borrow and permission to lend. We need to manage the future discussion of these resource issues so as to ensure that resource constraints do not prevent the Bank from providing the scale of support which the borrowing countries need and which the Bank is otherwise well positioned to provide.

Looking at our lending program over the next few years, there can be no question that we will need a substantial capital increase, although our lending plan this year and for the next need not be constrained as long as there is broad support on the part of our shareholders for a General Capital Increase that will support an expanded role for the Bank in the rest of this decade. An expanding lending program will be crucial for our middle-income borrowers, who will look to the IBRD increasingly in the absence of growth in other sources of finance. We must be able to assure them that adequate financial support from the Bank will be available in the years ahead as we urge them to undertake adjustment programs which will require several years to implement.

Discussions with our shareholders on the specific features of a capital increase will need to proceed in the months ahead so that we are ready with a specific capital increase request in time to avoid disruption of lending plans. Consultations with members must go forward in a spirit of common purpose that the IBRD continues to have the lending capacity that it needs—a capacity to support the strategies I have outlined to you today; a capacity to respond, both as an agent and as a catalyst, to the changing needs of its borrower nations in a period of economic uncertainty; a capacity to play a still more prominent role in assisting nations to make the transition from crisis economic adjustment to sustained economic growth.

I cannot exaggerate how important your support is for us, both now and for our future lending strategies and resource needs. As the precise capital requirements of the IBRD emerge, I am confident that we will receive your strong and swift endorsement of our capital increase request.

Mr. Chairman, Governors and Ministers, Ladies and Gentlemen, when I made my first address to you as President of The World Bank and IFC in 1981 none of us could foresee how difficult and volatile the global economic situation would become over the following five years. At that time it was my intention to serve a single five year term and today I want to reaffirm that intention.

I have talked today about the major economic problems that the world confronts and the priority institutional issues before us—the need for a stronger and larger IDA, an enlarged role for the IFC, the establishment of MIGA, an expanded IBRD lending capacity and the continued ability of our institutions to respond flexibly to the changing needs of our members. The temptation is great to participate in solving these problems as the President of your institutions. But the development process is a very long-term proposition and I do not delude myself that if I stayed longer then the problems that I would bring before you two, three or five years from now would be any less daunting or any less urgent than those that we face today. I have therefore decided that my original decision was sound and that this should be my last address to you the Board of Governors as your President.

The retrospective I have presented today shows that The World Bank and IFC are better prepared than ever to take up the challenges that lie ahead; and the perspective I have described defines these challenges. The global economic turbulence of the last five years has tested our capabilities and toughened our resolve. We have translated the fruits of our experience into strategies that are relevant, flexible and sound. If we reach agreement on the expansion of IDA and IBRD resources I have no doubt that when our successors attend the 1990 annual meetings, they will, in addition to facing new challenges, be able to report major development progress.

Permit me to stress one last point.

The declining incomes in many developing countries, the years of austerity, the heavy burden of debt and the need for pervasive structural changes, have created the impression that the development process offers no hope for the future. This is a fundamentally wrong conclusion to draw from our experiences of the last forty years, and of those in the last five years.

Despite the setbacks and despite the many financial problems, there has been massive progress in the developing countries in recent decades. Economic growth has taken place; living standards have improved; infant death rates have fallen; life expectancy has increased; more children than ever before have been given educational opportunities; and employment has been provided to tens of millions who have entered the labor force. Development assistance has played a crucial role in these achievements.

And even the trials of the last five years have contributed to the future. Out of these experiences have evolved more realistic development strategies; incentive structures for the more efficient use of capital. In short, a sounder basis has been created for sustained and accelerated growth and there is a new recognition that the future of peoples everywhere rests in their own hands.

But such accomplishments are not grounds for complacency because so much remains to be done. Hundreds of millions of people still live in absolute poverty.

Almost three-quarters of a billion people face malnutrition. Population growth is well above sustainable levels in many countries. The recent, unprecedented drought in Africa has raised the spectre of adverse long-term climatic changes and dramatically highlighted the immediate dangers of deforestation and desertification.

And in too many countries still, the new pragmatism, the more realistic view of the relationship between the external environment and domestic capacities in an interdependent world, is mixed with yearnings for simpler solutions, for easy answers and with the natural desire to avoid hard choices.

So the task in the years ahead is not merely to ensure that growth can be resumed—difficult though that will be; nor is it merely to secure this growth on a sound and sustainable basis—vital though that is, but also to make certain that this growth will improve the quality of life of all peoples and will continue the effort to provide every individual with the opportunity for a long and productive life.

I am more than ever convinced that we—our member countries and the Bank—must ensure that growth in the developing countries is accompanied by programs to alleviate poverty; that a resumption of growth is accompanied by expanded investments in education and social services. We must redouble our efforts in the low income countries—in Africa and in Asia—to end stagnation and allow the peoples of these countries to look to the future with hope. And we, as an international community, must undertake to reverse the depletion of our forests, and the associated degradation of the land. Sustainable growth requires true development of human capital, the alleviation of poverty, and the maintenance of the environment. Improving the quality of life of all who dwell in the developing nations has more dimensions than ever before.

But The World Bank Group has the capacity to deal with these complexities. With your support, these institutions can fulfill their potential as true partners in promoting economic and social progress in the developing world. With your support, too, we can help our members realize the vision to which all our efforts are dedicated—a more peaceful world and a world in which no mind will be stunted for lack of opportunity or lack of nourishment.

Mr. Chairman, Governors, Ladies and Gentlemen—I look back on the years since I joined these institutions with appreciation, despite the difficulties we have faced.

—Appreciation for having witnessed the courageous efforts of so many member countries in dealing effectively with the deepest recession in recent history and undertaking the far-reaching structural changes necessary for their recovery and sustained growth.

—Appreciation for having been associated with The World Bank and IFC, which have been able to assist those who were prepared to help themselves during the years of austerity and which are now ready and able to lead in a period of resumed growth.

—Appreciation for having been associated with you, the Governors, and with your colleagues, in our endeavor to safeguard the development achievements and to create a sound basis for future growth.

—And, appreciation for your counsel, guidance and support.

Thank you.

REPORT BY GHULAM ISHAQ KHAN

Chairman of the Development Committee

I have the honor to present the 1985 Annual Report of the Development Committee.

This has been a difficult year. The meetings of the Committee, held in April and here in Seoul last Monday, have taken place against a background of unfavorable international economic conditions for the developing countries. At the time of last year's Annual Meetings, economic recovery had strengthened in the industrial countries with some beneficial impact on the growth rates, export receipts, and balance of payments of the developing countries. In the spring meeting, however, in the light of some adverse developments pointing to the fragility of the global economic situation, we took a more cautious view of the prospects of the developing countries. More recent developments underscore the concern expressed at the April meeting that despite some advance, "many problems remained to be tackled before the progress already achieved could be translated into sustained growth and improved living standards over the longer run."

The slackening of growth in the industrial countries over the first half of 1985 has reduced the estimates of real GNP growth to less than 3 percent, against 5 percent in 1984. The slowdown in economic activity in the industrial countries combined with any increase in protectionism is likely to reduce the expansion in the volume of world trade to around 4.5 percent in 1985, against 8.5 percent in 1984. Commercial capital flows to developing countries have significantly declined with little prospect of any increase during the year. The sharp decline in commodity prices is another element for exceptional worry in this situation. In fact, this is the first post-recessionary period since the 1930s in which recovery has not been accompanied by an increase in the price of commodities.

Reflecting the concerns of several groups of member countries over the disturbing trends in the global economy, the Committee at its meeting in September 1984 agreed to hold an extended meeting in the spring of 1985 to initiate discussions on a number of interrelated issues concerning the revival of growth and expansion of trade in the developing world. At that extended meeting, a constructive dialogue took place on trade, resource transfer, debt, and other related issues. The Committee concluded that continued adjustment was necessary in both the industrial and developing countries if enduring progress was to be achieved toward sustained growth and improved living standards. It was agreed that restoration of creditworthiness to the indebted developing countries required improved access to markets and multi-year reschedulings where appropriate, together with continued adjustment efforts, supported by adequate financial flows on appropriate terms.

The Committee advanced this discussion on the adjustment process further in its October 1985 meeting. The Committee, while continuing to emphasize pursuit of efficiency and resource mobilization goals in adjustment programs, stressed that all countries need to move as quickly as possible toward sustained economic growth. With difficulties persisting in many heavily indebted countries, despite considerable progress, the Committee underlined the conclusion that The World Bank has an increasingly important role to play in reviving growth. The Committee, therefore, requested that Bank management prepare for the April 1986 meeting of the Development Committee a report focused on how sustained growth can best be achieved in these countries.

The critical situation of Sub-Saharan African countries was extensively discussed in the Committee. In September 1984, the Committee endorsed a report which it had mandated from The World Bank entitled "Toward Sustained Development: A Joint Program of Action" setting out an action program for dealing with the severe human, social, and economic problems in the region. The World Bank was requested to take a leadership role in strengthening aid coordination efforts in Sub-Saharan Africa and in mobilizing resources for the region. In January 1985, the Bank concluded negotiations with donors for the creation of the Special Facility for Sub-Saharan Africa. It was recognized that the size of this facility could only meet a small portion of the immense needs of the region and that donors needed to increase their efforts to provide additional flows of concessional resources. At the recent meeting in Seoul, the Committee noted with pleasure that the Special Facility for Sub-Saharan Africa had become effective on July 1, 1985, with over $1.2 billion in anticipated contributions and that several credits had already been extended by the facility in the first three months of its operation.

The Committee expressed its great concern over the increasing number of countries in Sub-Saharan Africa facing severe debt and resource problems, and welcomed the emerging consensus that the use of the Fund's Trust Fund reflows would contribute to the solution of these problems. It was agreed that continued adjustment efforts supported by additional flows of concessional resources were needed for resumption of per capita income growth. The Committee requested World Bank management to prepare a study focused on resource problems of Sub-Saharan Africa for discussion at its next meeting.

In the course of the year, the Committee sought to reach a political consensus on the future role of The World Bank. In April 1985, the Committee called for an expansion in the Bank's lending program in order for it to respond more effectively to the needs of its borrowing members and to stimulate the flow of capital from other sources. With this objective in view, Bank management was requested to provide for the Seoul meeting its projections of Bank lending over the next five years and their implications in terms of resources to meet the future financial requirements of the Bank.

In our last meeting, Ministers reiterated their strong support for a substantial expansion in the Bank's lending program and agreed that the Bank should be provided with the capacity to increase its quality lending and that it should not be constrained by lack of capital or borrowing authority in meeting future demand. The Committee called upon the Bank management to begin discussions with the Executive Board on proposals that would enable the Bank to meet its resource requirements over the next five years, including the possibility of a general capital increase. Bank management would report on progress at the next meeting of the Development Committee.

In its meetings during the year, the Committee devoted considerable attention to the issues relating to increasing concessional flows to the low-income countries. At its April meeting in Washington, the Committee reiterated its request to the management of the International Development Association (IDA) to carry out a medium-term review of IDA-VII and asked management to start consideration of a broad array of possibilities for addressing the future needs of the poor countries for concessional resources, including IDA.

At its recently concluded meeting in Seoul, the Development Committee heard a report on the midterm review of IDA-VII from the Chairman of the IDA Deputies, following their meeting on October 5, 1985. The Committee urged that a successful and adequate Eighth Replenishment of IDA be achieved by September 1986, following the time-table established by the Deputies.

The continuing concern of the Committee for increased concessional flows was reflected in the establishment of the Task Force on Concessional Flows in May 1982 under the chairmanship of John P. Lewis. The Task Force, whose membership comprised representatives from 18 developing and industrial countries, presented its report to the just concluded Seoul meeting of the Development Committee. The Development Committee expressed its appreciation and support for this important report and welcomed its unanimous character. The Committee urged that the report and its suggestions be taken into account by all governments concerned. The Ministers asked The World Bank to take the lead in the follow-up of the Task Force's conclusions and to report to future Development Committee meetings on progress achieved.

During the period since 1983, the Committee has placed considerable emphasis on the close linkages between expansion of world trade and the prospects of growth and adjustment in the developing countries. The Committee called for governments to resist protectionism and, to the extent possible, roll back existing barriers to trade. Ministers were urged to implement their undertakings to lift any measures inconsistent with GATT or not based on specific GATT disciplines. The Committee endorsed the idea, to engage as a matter of priority, in serious efforts to carry forward unfinished business from the 1982 GATT work program.

At its Seoul meeting last Monday, the Committee was pleased to note the progress made toward starting preparations for a new round of multilateral trade negotiations. The Committee again reiterated its call for all governments to resist protectionism.

In discussions on the resource transfers to the developing countries, the Committee agreed that private financial flows could make a useful contribution to development. Accordingly, encouragement was given at its April 1985 meeting to The World Bank for the establishment of the Multilateral Investment Guarantee

Agency (MIGA) whose aim would be to improve the investment environment in the developing countries. I am pleased to note that the Executive Directors of the Bank have now approved a draft convention establishing the multilateral guarantee agency. Most members of the Committee noted with satisfaction that the convention was now before the Board of Governors of The World Bank. They expressed the hope that the convention would be signed and ratified by interested members in the near future.

In Seoul, there was general agreement that the Committee should hold an extended meeting in the spring of 1986. We hope that a continuing and informal dialogue on wide-ranging international economic issues between industrial and developing countries will lead to satisfactory results and improvement in the prospects for the developing countries.

Finally, also in the Seoul meeting, Mr. Chairman, Ministers extended their deepest sympathy to the Mexican people and government following the tragic earthquake that has caused such great human loss and suffering. The Committee called upon the international community to give its strong support to alleviating the effects of this disaster.

STATEMENTS BY GOVERNORS AND ALTERNATE GOVERNORS[1]

ALGERIA: MOHAMED TERBECHE,
Governor of the Bank

It is my honor and privilege, on behalf of the Arab Governors, to address the Meetings of the Boards of Governors of The World Bank and the International Monetary Fund. I join my fellow Governors in welcoming Tonga as the newest member of The World Bank and the International Monetary Fund. Let me also take this opportunity to express the appreciation of the Arab Governors for your address, Mr. Chairman, at the opening ceremonies as well as those of Mr. Clausen and Mr. de Larosière.

Since we last met, the outlook for the world economy continues to be less encouraging now than a year ago. In the short run, only moderate growth can be sustained. Output is slowing down in the industrial countries, and the developing countries face, among other things, weaker commodity prices, intensified protectionist pressures, and—in many cases—a very large burden of external debt, which has reached a critical stage that requires joint action by both creditor and debtor countries.

In view of this difficult situation and the uncertain prospects, concerted efforts by the international community continue to be essential in the period ahead. Industrial countries need to strengthen policies aimed at promoting sustained and balanced growth in the world economy, they should also adhere to free trade by dismantling protectionist barriers, and should work for a just and stable international monetary system.

Unfortunately, in the recent past, the economic situation in most developing countries has been adversely affected by lower primary product prices. In particular, the Arab countries have been affected, and in some cases severely, by the drop in oil prices. Over the medium term, developing countries are expected to continue experiencing large current account deficits and low economic growth. They, therefore, need to reduce domestic and external imbalances and exploit their development potential more fully. This requires continued firm financial and structural policies which however can only be sustained if supported by adequate financing and freer market access for their exports.

The functioning of the international monetary and financial system in recent years has also not been conducive to the process of global adjustment. Current instability in foreign exchange markets, high international real interest rates, uneven distribution of current acount surpluses, and inadequate capital flows have raised doubts on whether the system is indeed playing the role it is supposed to

[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.

play, namely, to promote high economic growth, international trade, and stable financial conditions. In our view, serious consideration should be given, on the international level, to measures which would enable the international monetary and financial system to play its role more effectively. these should include, among other things, procedures to ensure that major industrial countries, which have a significant impact on the international economy, implement largely complementary policies and take into account such impact in shaping up their policy objectives. . . .

. . . During this past year, the Boards of the Bank and the Fund have discussed the issue of cooperation between the two institutions. The Arab Governors recognize the usefulness of such collaboration. However, we have serious reservations against any linkage between the two institutions that may give rise to cross-conditionality. In our view, both institutions should maintain their distinctive character, with The World Bank continuing to play its developmental role in member countries. In this respect, we reiterate our position that the traditional strength of the Bank lies mainly in developing human and material resources through project lending. Policy-based lending should fully take into account the specific circumstances of individual countries.

Let me, however, point out here that the Arab countries are appreciative of the contribution which the Bank has made in the development process and believe that there is both the need and the potential for the Bank to enhance its role in the future. Such a role, however, cannot be played without enlarging the Bank's resources so that it may expand its lending program and thereby also assist developing countries in their adjustment efforts.

It is with this in mind that we regret the reduction in the lending operations of the Bank and IDA in fiscal year 1985. This, unfortunately, has come at a time when developing countries are going through severe hardships and when concessional and market flows have been reduced, leading to the real possibility of negative net transfers over the next five years. For these reasons, we think there is a clear need for additional capital commensurate with the Bank's three-year lending program.

Our group is once again greatly disappointed with the continued decline in IDA resources and the lack of progress in arranging supplementary financing for IDA-VII. We therefore urge the Bank to commence discussions on IDA-VIII in the near future so that a more successful IDA may continue its very important role in the less-developed countries.

The need to increase the supply of official development assistance (ODA) as a matter of urgency has been well documented in the report of the Task Force on Concessional Flows. We therefore join the Group of Twenty-Four Ministers in urging developed countries to adopt and implement a timetable for reaching the 0.7 percent ODA/GNP ratio. While we look forward to means for an increase in ODA, we appreciate the efforts of the Bank's management and a group of 16 countries in establishing the Special Facility for Sub-Saharan Africa. We are happy to say that the Kingdom of Saudi Arabia is among the countries that decided to join the donor community in support of the facility by contributing $100 million over the next three years through joint financing.

Before I conclude, allow me to refer to the proposed establishment of the Multilateral Investment Guarantee Agency (MIGA) which was approved by the Bank's Executive Board on September 12, 1985. We hope that its creation will help increase the capital flows to those developing countries in need. We also trust that this agency will extend its guarantees to investments in all member countries.

In conclusion, I would like to express, on behalf of the Arab Governors, our gratitude to the Government and people of the Republic of Korea for their gracious hospitality and outstanding organization of these Meetings, which we hope will contribute to the achievement of a more stable international financial and economic environment that will foster resumption of growth in developed and developing countries alike.

Mr. Chairman, before I leave this rostrum, having heard the decision of Mr. Clausen to retire from the World Bank, we would like to express our regret for this decision. I would like to express our deep gratitude for his great services while at the head of this important institution.

AUSTRALIA: CHRISTOPHER HURFORD,

Governor of the Bank and Fund

I would like to join other speakers in extending a warm welcome to the newest member of The World Bank and the International Monetary Fund, our friend and Pacific neighbor, the Kingdom of Tonga. I would also like to pay tribute to the work of Mr. Clausen. His leadership in a period of great challenge has brought vision and innovation to enable the Bank to respond with flexibility and imagination to the needs of the developing countries. Mr. Clausen has always had Australia's strong support and we wish him well.

I also convey grateful thanks to our host nation, the Republic of Korea, Australia's close constituency partner in the Bank and the Fund, for the most efficient arrangements they have made for these Annual Meetings and for the warm hospitality of the Korean people.

These are troubled times. It is clear that there has been some slowdown in the industrial economies in the first half of 1985. What is less clear is whether this slowdown will continue. It may well be that the rate of growth of industrial economies will fall from 5 percent in 1984 to a shade under 3 percent in 1985. Even so, that would not be exactly a calamity. The 5 percent was a high figure in historical terms. It probably was too high to be sustained. Even the 3 percent figure would be higher than the average for the past decade.

There are reasons for forecasting a pickup in the second half of 1985: low inflation provides a firm base; higher profits and lower interest rates will encourage investment; the United States is expecting a better second half; and the United Kingdom, Japan, Germany, and some smaller countries are putting in solid performances.

Certainly there is a long way to go. Unemployment remains high; interest rates, though falling, remain high in real terms; and fiscal deficits have remained high in some countries. Nevertheless, we should not be too hasty in downplaying the progress we have made. If there are problems in our performance, the real answer lies in a more rigorous application of our policies. The medium-term strategy we have been pursuing has been working. The meeting of the Group of Five in New York is an indication of a determination to continue these policies aimed at noninflationary growth.

There has been much international comment to the effect that a reduction in the U.S. budget deficit is overdue. The U.S. Administration would no doubt agree with that. Such action should help to lower the U.S. dollar, to ease interest rates down, and to reduce the U.S. current account deficit. This would be quite apart from the effects of more direct policies like foreign exchange intervention.

Such action, however, would also be likely to have adverse consequences for world growth and world trade. What this underlines is the improtance of other countries being ready to step into the breach. While there is an obligation on the United States to achieve better domestic and external balance, there is an equal obligation on other countries, such as Japan and Germany, to support strong internal activity and a less strong external balance.

I say this with all the more conviction since my own Government is convinced that lower inflation and stronger growth are not incompatible but rather reinforcing. We achieve this through a sensible incomes policy in addition to prudent fiscal and monetary policies. Growth is necessary if employment is to be increased and unemployment reduced.

In Australia, we achieved a nonfarm growth rate of 5 percent in 1984-85. We are forecasting another 5 percent growth rate for 1985-86. Meanwhile, employment has been rising at about 3 percent a year and unemployment has been falling.

We want to see growth continue to be a strong feature of the industrial contries in 1985 and 1986. Our policies should reflect that objective. We, as a world community, should not accept too soon that faster growth is out of reach.

Another aspect of these troubled times to which attention must be given is the task facing developing countries. It is sometimes suggested that the developing countries have not benefited from the recovery in world output and trade of recent years. Such a conclusion is not confirmed by the figures.

In 1982, the non-oil developing countries had a growth rate of 2.9 percent. By 1984 this had increased to 5.6 percent—somewhat above the rate of growth of the industrial countries. That may not be a rapid enough rate of growth to meet all needs. But it is a better rate than it has been for seven years. On present forecasts, the rate of growth may not be far short of 5 percent again in 1985. Even a fallback in industrial growth rates to 3 percent again in 1985 would not necessarily be incompatible with 5 percent for the developing countries. It is sometimes suggested that the balance of payments' position of developing countries is not improving. In 1982, the non-oil developing countries had a current account deficit of $77 billion. By 1984, this had been halved to $38 billion. There are various ways one can interpret that change. But given that developing countries, generally speaking, were having debt-servicing problems, to have been able to halve the deficit in two years can only be construed as a remarkable improvement in the situation. The process of adjustment, it would seem, is working.

Furthermore, the fact that a halving of the current account deficit could be associated with a 5.6 percent growth rate would seem to confirm the view that adjustment and growth are not incompatible. They are not incompatible, I suggest, any more than low inflation and growth are incompatible.

Of course, adjustment usually involves some burdens, particularly in terms of imports forgone. And yet correction of the current account deficit need not always involve lower imports. In 1982, the volume of imports by non-oil developing countries fell by over 5 percent. In 1983, imports rose by 1.5 percent and, in 1984, by 5 percent. Another strong rise is expected for 1985. At least in 1984, therefore, adjustment worked in such a way that it was possible to reduce the deficit and increase imports. Country experience, of course, differed but that was the general trend.

I make this point, not because I doubt the seriousness of the problems of the developing countries but rather because I believe we should resist the common tendency to fall too quickly into despondency. What we have to do is to adopt and stick to a strategy which will facilitate the adjustment and minimize the inevitable hardship.

One way to facilitate the balance of payments adjustment would be to establish a favorable regime for exports. Here we have a problem. The industrial countries are not making it any easier for the developing countries to achieve adjustment when the industrial countries pursue policies which are harmful to the export interests of the developing countries.

Indeed, the terms of trade of the non-oil developing countries have worsened in seven of the last eight years. Nor do weak commodity prices help. To the extent that these reflect natural changes in the demand and supply position, it is something which must be lived with. But to the extent that it is the result of restraints and subsidies by industrial countries, it is a cruel blow to the adjustment hopes of the developing countries.

The Fund expects the exports of the non-oil developing countries to rise by 5.9 percent in volume terms in 1985. But it expects they will only rise in value terms by 1.5 percent. In other words, the developing countries will be running harder to stay in the same place. This is all the more disheartening since the adjustment process the developing countries are going through is largely to enable them to service their debts to the industrial countries. Protection has many ugly faces but this must surely be one of the ugliest.

The creditor countries must recognize their obligation to allow the debtor countries to export to them if the debtor countries are to service their debts. And the need for freer trade applies to agricultural as well as industrial products. There can be no doubt now that there was heavy overborrowing by the developing countries in the early 1980s. Equally it can be said that there was heavy overlending by the industrial countries, or the institutions in those countries. That is why there is a need, and an obligation, for all countries to work together on these matters.

One force operating strongly to reduce the current account deficit has been the severe fall in private capital lending to the developing countries over the past few years. This falloff in net lending by banks and others is understandable. As against that, a slower rate of decline would have made the burden of adjustment less arduous for the debtor countries. Another way, therefore, to facilitate the balance of payments adjustment by developing countries and reduce the hardship would be to encourage some continued net private lending and so reduce the sharpness of the required trade change.

This brings us back to financing and to the Bank and the Fund.

In all of these debt problems, the Fund has been playing, and will continue to play, an extremely valuable role. It has been a valuable role for several reasons. First, the Fund was able to step up its financing operations very quickly and very sharply. The Fund, by its very nature, is a short-term source of balance of payments assistance. It is also by nature a revolving fund. It is in accordance with the mechanism of the Fund that it is now going through a slowing down period in terms of net financing.

Second, the Fund has been able to help the process of adjustment. The Fund is sometimes criticized for its conditionality. But it is conditionality which ensures that adjustment takes place. And it is adjustment which ensures that the finance provided helps the country to deal with its debt and other problems.

Third, the Fund has been able to encourage private sources of finance. They have participated, confident in the fact that the country concerned was making appropriate adjustment efforts. The Fund has been, and continues to act as, a catalyst. This is particularly relevant to the point about continuing capital flows made earlier.

As to the future, the Fund continues to have an important role to play. Beyond that, of course, it has been agreed that the resources of the Trust Fund should be made available to provide additional balance of payments assistance. In all this, the Fund will be working closely with the Bank. It is of the utmost importance, however, that the Fund maintains its identity separate from that of the Bank. Its distinct and unique function is as valuable today as ever.

The Bank also has an important role to play. In contrast to the Fund, the Bank is essentially concerned with long-term development finance. Project finance has been, and should continue to be, its main focus. Like the Fund, however, the finance that the Bank can provide can be very important to countries with debt problems. More particularly, it has been able to help through structural adjustment loans. These should be continued.

U.S. Treasury Secretary Baker has made an innovative suggestion as to how to harness further financial support. Australia supports the further study of this suggestion. Nevertheless, we believe Bank members should stand ready to finance a general capital increase for the Bank should it prove necessary. Beyond that, the Bank will need strong financial support for IDA-VIII. The Australian Government will offer that support, as we have in the past.

We attach considerable importance to the 1986 negotiations of the International Development Asssociation (IDA). A range of difficult interrelated issues must be considered, and we must get the answers right. Pressing needs in one region must not be met at the expense of eligible and needy countries in other parts of the world. The best answer is not to be found through selective or discriminatory policies but by an IDA of the size that can go a good way toward meeting the reasonable expectations of all.

There is finally the question of the international monetary system. There are two thoughtful reports, one by the Group of Twenty-Four and one by the Group of Ten, to be considered by the Executive Board. The Managing Director is to report back to the next meeting of the Interim Committee. This, I am sure, is the best way to proceed.

It would be premature for me to go further on these issues pending receipt of the Managing Director's report. There will be things which can be taken up and changes which can be made, no doubt. However, I venture to suggest that, at the end of the day, we will come to the conclusion that it is not so much the monetary system as our handling of it that is wrong. The fault, we may find, lies not in our stars, but in ourselves.

I conclude by making six brief points:

1. The world economy is in better shape than many fear. Let us be optimistic and have confidence.
2. The debt problem is capable of resolution, given goodwill and good management on all sides.
3. Despite the obvious problems, the outlook for the developing countries has hopeful aspects—adjustment is working. Congratulations to those countries which are undertaking it.
4. The Bank and the Fund can only play their roles properly if they receive proper support—and that means more than financial support.
5. Protectionism is, perhaps, the biggest threat to our common prosperity.
6. World economic problems lie more in inadequate domestic policies than in anything wrong with the international monetary system.

AUSTRIA: FRANZ VRANITZKY

Governor of the Bank

Let me join all previous speakers in extending my sincere thanks to the Korean Government for its warm hospitality. At the same time, I wish to express my appreciation to the management and staffs of The World Bank and the International Monetary Fund for the efficient arrangements made for these Meetings. I also want to welcome Tonga as the newest member of both institutions.

I shall not describe in depth the recent economic developments, since this has already been thoroughly done by others; foremost and brilliantly in *The World Economic Outlook*. However, in considering the developments described therein, I should like to make the following remarks.

There is sufficient evidence that, in 1984 and 1985, we have succeeded in overcoming the most severe international recession since the end of World War II. Even if the growth rates of past decades most obviously cannot be repeated, economic growth in real terms—though definitely not as striking as in the 1960s and 1970s—lies on the asset side.

As to the liabilities, on the other hand, let me stress those which have to be taken seriously, especially since they occur simultaneously:

1. Many countries are faced with structural budget deficits which require determined policies by governments in order to redress these imbalances.
2. Improved performances in terms of economic growth have not consequently led to lower unemployment.
3. The community of industrial countries in the postwar period to a large extent has removed barriers to the free flow of goods, services, and capital. We have thus created a new and impressive, though interdependent, community of commerce, trade, and capital markets. But most of our instruments used are still those of the national state.
4. Protectionist trends have become more apparent than before.
5. Many countries are still facing very tight conditions in international financial markets. Interest rates, though having recently declined somewhat, remain rather high in real terms.
6. Many of the items on the liabilities side hamper the export chances for developing countries, thereby making it more difficult for them to service their foreign debt in an orderly fashion.

In 1986 and thereon, policymakers will have to cope with multifaceted problems, namely, redressing their budgets while not neglecting to keep their economies going. Only growing economies promise to provide room for maneuvering to proceed with the necessary adjustments. Thus, we will positively influence economic fundamentals. This, in turn, is essential for the correction of exchange rates, which is our present aim. . . .

. . . At the deliberations of the Development Committee the other day, an almost unanimous view to support an increased World Bank lending capacity was expressed. I share this view because my Government wishes the Bank to play an expanded role.

I trust that the alleviation of social hardships that occur during adjustment periods will be considered intensively by the Bank and the Fund in their discussions with member countries, and I also trust that, in view of the urgent need to transform adjustment goals into appropriate policies, negotiations on a general capital increase should start as early as possible.

At the midterm review of IDA-VII which took place during these Annual Meetings, there was common agreement that we should now lay the groundwork for a successful IDA-VIII Replenishment. My country is willing to participate in the upcoming negotiations in a constructive manner.

The economic environment of today calls for close cooperation between multilateral and bilateral agencies in order to advance an efficient and economic use of scarce resources. New initiatives, which take a better account of terms, conditions, and objectives of different sources of finance, will have to be developed to increase the overall transfer of funds for productive use in developing countries.

Cofinancing has proven to be a useful instrument in this area. I am pleased to report to you that, on October 5, I signed a cofinancing agreement with The World Bank. It is envisaged that, until December 1988, an amount of up to 1 billion Austrian schillings can be committed for cofinancing on highly concessional terms under this agreement. In addition to this, Austrian commercial banks and our export financing agency will strive for an increase in their cooperation with the Bank. Furthermore, such intensified cooperation will enhance priority investments and should strengthen the relationship between developing countries and Austria.

Austrian companies could also assist developing countries in promoting their private sector through closer cooperation with the International Finance Corporation (IFC). I would like to compliment IFC on the larger range of its activities. The decision on its capital increase should not be further delayed.

In conclusion, let me reiterate the strong support of my country for the benevolent objectives of our institutions. Austria is confident that The World Bank and the International Monetary Fund will continue to assist their member countries to successfully meet the challenges of the years to come.

Finally, I should like to pay tribute to President Clausen who has successfully led the Bank through a very critical and difficult period.

BANGLADESH: M. SYEDUZZAMAN

Governor of the Bank

Allow me to join my colleagues in extending a warm welcome to the Kingdom of Tonga, which has joined our twin institutions very recently, and to the Hungarian People's Republic, which has extended her membership since our last meeting to include the International Development Association (IDA) and the International Finance Corporation (IFC). Allow me also to join others in complimenting our hosts, in this beautiful capital of their lovely country, on the grace and ease of their famous hospitality, which provides a good cushion for the severity of the problems we have to discuss.

The year that has passed since we last met in Washington has been one of constantly shifting movements in the world economy. These have culminated in an air of ominous uncertainty, which should give us pause and induce us to re-examine the dominant doctrines of recent years. As a precondition for providing a range of badly needed facilities, such as debt rescheduling, new lending and development finance for growth, and structural changes, one of these hitherto invincible doctrines demands the adoption—regardless of the specific capacities of the economies concerned—of stabilization programs that are hard-hitting, short-term, and have rigid tranche conditions. In the eyes of the faithful, the doctrine still remains invincible. There are recent indications, however, that with its supposed beneficiaries, including many least-developed countries, ominously bending under the weight of their stabilization programs and debt burdens, the chinks in the armor of this doctrine are becoming visible even to the true believers. This appears to be stimulating a desire to provide, by using the direct as well as the catalytic role of our institutions, some forms of relatively long-term fast-disbursing finance to make possible the continued servicing of existing commercial debt and also the return of other funds provided earlier in support of stabilization programs. Though one must weigh such ideas very carefully before accepting or rejecting them, one must also welcome the new spirit of realism and enlighted self-interest underlying them.

The Fund's updated survey of the world economic outlook underlines the air of uncertainty I have referred to and links its policy advice to this central reality. This document, like its predecessors, bears the hallmark of professionalism that we have come to expect, and find, in the work of our institutions. I would say that this year it has also been somewhat more direct and even-handed than in the past in its diagnosis of the adverse influences on the world economy. Its prescriptive parts, however, call for some further thoughts I want to share with you.

Briefly, the policy prescriptions offered in this excellent document are, for the United States, a reduction of the federal deficit; for Japan, a promotion of domestic rather than external demand to stimulate growth; for most other industrial countries, a relaxation of structural rigidities; and, finally, for the developing countries, a continuation of adjustment policies aimed primarily at better allocation of domestic resources, a further improvement in the external balance, and counterinflationary stabilization. The policy prescriptions for developing countries are marked by a greater degree of generalization than those for the developed countries. This results in part from the compression of language and contents natural in a document of this kind. But more important, it reflects a tradition of standardizing the problems of developing countries and prescribing unidirectional solutions for them. One result of this tradition is that over the years, through repetition, macroeconomic policy advice to developing countries has become uniform and unvarying. It is also becoming increasingly separated from the realities of the social and political context which sets the limits of policy actions. In contrast, the more diversified and intensive approach to the developed economies results in a greater awareness and accommodation of social and political sensitivities.

The inevitable consequence of this contrast is that the burden of restoring the health of the world economy comes to rest disproportionately on the shoulders of its weakest members. But no matter how brave their efforts, it inevitably becomes counterproductive, much like the labors of the hapless Sisyphus. Despite severe and continued adjustments by developing countries, policies in the developed economies, or their absence, have made the efforts of the developing countries ineffective through their adverse effect on many crucial commodity prices, on the volume and direction of resource flows of all kinds. They have, in most cases, suffered a decline in growth rates and living standards as well as other traumas, which are perceived by the vast masses of their people as the result of adjustment measures and policy reforms. This does not make the work of domestic economic management any easier, nor does it promote fruitful relations between our institutions and its member countries.

It is our perception that the Bank, the Fund, and almost all other multilateral institutions, in their pursuit of quiet diplomacy and the search for consensus through courtesy, do not articulate strongly enough the international responsibilities of the developed economies. In contrast, they are somewhat demanding and perfectionist in their prescriptions for the developing countries. This asymmetry has the unintended effect of weakening incentives for corrective actions on the part of the developed countries. It also has the equally unintended effect of weakening the will and ability of the developing countries to sustain their lonely endeavors. We believe that our institutions could profitably pursue their search for consensus with greater frankness toward the stronger economies and a higher degree of sensitivity to the social and political limits of adjustment and policy reform in developing countries. This year there have been some hints of progress in both these areas, but much remains unsaid and undone.

Obviously, the willing consensus of the stronger members of the international community is absolutely indispensable for any success in dealing with our common crisis. The strategic, as well as tactical, decisions in this campaign for universal recovery and resumption of sustained growth can emerge only from detailed multilateral exchanges on specific issues. But these exchanges themselves can have a meaningful start only with a recognition of the mutuality of interests between the developing and developed countries. The experience of the last four decades, as well as sheer common sense, suggests that the revival of the stalled, or nearly stalled, recovery in industrial countries in a sustainable manner requires the revival of demand and economic activity in the developing countries.

The domestic measures needed for resumption of growth in developing countries have been the overwhelming theme at many forums during the last several years and constitute a principal theme of program-by-program and project-by-project negotiations with donor countries and agencies, particularly the Bank and the Fund. Despite the difficulties inherent in achieving any viable consensus on such issues in an environment of shrinking resources, both internal and external, the developing countries have been doing their best to hammer out and implement workable programs. Their efforts, as I have said, have been largely negated by an inhospitable world economic environment radiating from policies seemingly anchored in the developed countries, and by a certain amount of perfectionism inconsistent with social and political realities in some of the adjustment and reform programs proposed.

Although the problem of perfectionism is one that can be, and usually is, addressed on a case-by-case basis, the other more fundamental problem of the hostile world economic environment can be addressed only through an international effort of the will and intellect. In organizing such a collective effort, the Bank and the Fund can, we believe, play the leading role. May I suggest that as a first step toward a renewed effort in this area, they flag once more the contemporary linkages between the economies of the developing and developed countries and the mutuality of their interests? I am aware that the current style and temper of our two institutions, as well as that of most governments in industrial countries, may not be quite sensitive to these issues. Wide sections of the business community in the industrial countries, however, have an intuitive grasp of the realities I have alluded to and in many academic circles there is an intellectual awareness of these realities. As many forward movements in collective endeavors originate in such open fields exposed to the winds of experience and ideas in real life, it would be worthwhile for our institutions to engage in a professional study of the theme I have mentioned in collaboration with the business community and academic thinkers.

For the least-developed countries, of which my country is one, the single most important element in the hostile world economic environment is the steady decay of concessional finance for economic development, which the world has been witnessing during the last several years. I cannot resist referring to our own experience of a sharp decline in fast-disbursing resources in the past year when the deterioration in our balance of payments was one of the worst because of exogenous factors. Not surprisingly, one conclusion of the balanced and sensible report of the Task Force on Concessional Flows is: "Aid's present supply crisis is only a crisis of commitment," and that "objectively, there are no major obstacles to doing what is needed."

IDA, which is the centerpiece of concessional flows, has suffered grievously from subjective obstacles to an adequate Seventh Replenishment. It is with some disappointment, therefore, that we note the absence of any examination of its adequacy in the recent mid-term review of IDA-VII. We hope, and trust, that the self-evident inadequacy of IDA-VII will be fully borne in mind prior to the negotiations for IDA-VIII, and the gloomy forebodings caused by the hesitancy and sophistry surrounding the discussions on IDA in recent years will be dispelled before the decisions on its next replenisment emerge. . . .

. . . For quite some time now, the role of The World Bank, embracing both the character and the scale of its lending operations, has been a focus of public attention as well as discussions within the Bank and in the Development Committee. Despite some recent unwelcome developments in the Bank's lending levels and projections, which can and will be counteracted by the skill and vigor of its able management, the case for an expanded role for this institution has been amply demonstrated. We should now move swiftly toward providing it with the expanded capital base through a general capital increase that would enable it to play its proper role in the future. The Bank has been the cornerstone of the international development effort through all the eventful years since its birth, and the need for a strong World Bank poised to meet the challenges of our difficult times is greater now than ever before.

The President of the Bank and his able associates, with their commendable qualities of initiative and leadership, have given us the most recent example of success in working out a framework for an international agreement—the proposed establishment of the Multilateral Investment Guarantee Agency (MIGA).

If MIGA, when established, is run in the spirit of understanding and accommodation which marked much of the deliberations on its creation, it may further strengthen the role and performance of the International Finance Corporation (IFC). During the past year, the IFC's success in syndication has been limited. The institution has demonstrated, however, a remarkable capacity for innovation and initiative for an expanded role. This had as much to do with the prospect of its substantial capital increase as with the vigor and sagacity of its management. The IFC's present vitality clearly demonstrates the healthy effect of an asssured capital increase.

But neither the scope for the flow of productive private investment to developing countries nor the growth of the private sector in their economies can be fully realized unless the Bank and IDA are provided with the means to revive and sustain the development effort in these countries, strengthening and diversifying their physical and social infrastructure. We fervently hope and trust that the wider perceptions of mutual interests necessary for constructive decisions on this and all other issues, which are the constant concerns of the Bretton Woods institutions, will not elude us indefinitely. We should like to think that some recent welcome indications of economic realism given by the authorities of several developed countries, especially the largest among them, warrant this hope. The Bretton Woods institutions and all their member governments must now constructively work together to nurture this new spirit of realism and to foster the growth of international economic statesmanship in a contemporary setting comparable with that which marked their finest years in the not-too-distant past. In organizing and assisting this uphill venture, continuity of stewardship at our institutions would be very important. We felt sad, therefore, when we heard Mr. Clausen's announcement of his decision not to continue in office beyoud his current term. His rare combination of skill and compassion, so amply demonstrated in his able piloting of the Bank's lending operations during the difficult years since he took office, and his rare insight, which helped the Bank adapt itself to the complex financial market of the 1980s, will leave a lasting mark on this institution. We wish we could have him with us in the challenging years ahead, and we also wish him the best of health and many more years of service to the cause of development.

BELGIUM: JEAN GODEAUX

Governor of the Fund and Alternate Governor of the Bank.

Since the early 1970's, far-reaching and sometimes abrupt changes in commodity prices, exchange rates, and interest rates have disrupted international trade and capital movements. This instability in such basic variables of the international economy is a source of concern, anxiety, and, sometimes, paralysis.

The recent history of international economic relations compels us to recognize that one of the basic causes of this instability lies in the fact that we can rarely manage to eliminate disequilibria without recourse to measures which call forth new disequilibria, of a different nature perhaps, but no less sizable. Thus the oil shocks of the 1970's caused major equilibria in the current accounts of the balance of payments, which were particularly marked in the case of the non-oil developing countries. Many people welcomed the fact that recycling of these surpluses by the international capital market enabled these deficits to be financed. But the seeds were being sown for the debt crisis which erupted in September 1982. The adjustment process in the debtor countries, made both inevitable and urgent by the debt crisis, was facilitated by the recovery brought about by rapid expansion of the U.S. economy. Over a period of barely three years, the developing countries' deficit was cut by more than half. During this period, the U.S. current deficit reached a level that everyone agrees is unsustainable. This disequilibrium, too, must be corrected sooner or later. Unless this correction is carefully managed, there are grounds for fearing that it will in turn produce an unstable situation that will generate new disequilibria.

If this reading of the recent past is correct, it would seem that our actions, and sometimes our inactions, have resulted in one disequilibrium being replaced by another. The lesson is that, regardless of its merits, the market is unable to resolve every problem. The "invisible hand" sometimes trembles. It may err from time to time and, instead of correcting a situation, bring about destabilization. The basic question is thus what we should do to ensure that the second half of the 1980's will be marked by conditions that will generate less instability, less tension, and less uncertainty, so that we can develop an acceptable solution to the two major problems facing us here today: the risk of dislocation of trade and international payments by a revival of protectionism, and the debt burden. We must obviously take action to guide the invisible hand. This can be done only through closer, more enlightened, and more decisive international cooperation. It is incumbent on the major industrial countries in particular to unify their views and coordinate their policies.

Thus it was with relief and hope that we greeted the decision by the five major industrial countries on September 22 to cooperate with a view to ensuring, in particular, that exchange rates would better reflect the fundamentals of the world economy. Need I say how satisfied we are, we, who have always had this conviction, satisfied to see that exchange rate levels have again become one of the major objectives of ecconomic policy. But we cannot act only on exchange rates. If we are to succeed, we must take action against the underlying causes. This is the area where international cooperation comes into its own and can prove truly effective.

We consider international organizations—and in particular the Bretton Woods organizations—to be the chosen vehicles for such cooperation. . . .

. . . As regards debt, we all know, even though we sometimes experience it differently, that the solution does not lie in a return to permissiveness and inflation or by gambling on organized insolvency. We also know that a case-by-case approach continues to be indispensable. We must beware of composite solutions and gross oversimplifications that fail to respect differences in individual situations. Correction of an excessively high debt level in relation to export earnings must come primarily from observance of the conditions spelled out in the Fund's basic scenario and, within this scenario, from the implementation within each country of development policies affecting the supply of goods and focusing on the infrastructure, both human and physical.

The World Bank can and should play an essential role in the formulation of these policies. Its actions should therefore focus resolutely on macroeconomic development options. The importance of correct economic decisions is exemplified by Korea, the level of whose achievements is matched only by the warmth of the welcome extended to us.

President Clausen deserves our thanks for recognizing that a proper macroeconomic framework is a sine qua non for effective financing, and for having made the necessary changes possible. At this time, when he has announced his intention not to seek a second term, we owe him a debt of gratitude for having held the tiller with such firmness during what may well have been the most difficult period in the Bank's history.

For proper development policy options to materialize, adequate financing is essential. A favorable environment must be maintained in which private sources can provide venture capital and the commercial banks are able to operate. In this regard, the International Finance Corporation (IFC) will have a decisive role to play, supplementing the work of the Bank as the development process reaches a certain degree of maturity; the recent increase in IFC's capital and the opening of markets to that institution are to my mind only the first step in a movement that will continue to grow.

As regards the Bank, it should act primarily where other sources of financing cannot support structural adjustment or the implementation of priority projects. For countries which cannot bear the cost of conventional financing, the International Development Association remains the indispensable development tool. For each of the sources of financing that I have just listed, it is vital that the groundwork for an increase in resources be laid in coming months. And this is the opportunity for me to say that the proposal made the day before yesterday by the Treasury Secretary of the U.S. deserves in-depth and rapid study so we can explore how it can be translated into concrete action.

Our institutions are 40 years of age. At this time of mature strength the lessons of experience should guide our choices for the future. In sum, this lesson is encouraging: economic policies succeed when they are applied resolutely and speedily. Reality responds to the stimuli of international cooperation and government decisions. Unfortunately, it also responds to inaction. It is therefore incumbent upon us, during the ten years that still separate us from our fiftieth anniversary, to seek to achieve what are now our two priority objectives, namely, stabilization of the payments system and establishment of the conditions for lasting development of the nonindustrial countries. The deliberate approach that secured the successes of the past guarantees those of the future. We must continue to refute the skeptics. This will be made all the more difficult by the fact that we can achieve our current priorities only slowly. We thus need not only courage but patience as well.

BRAZIL: DILSON DOMINGOS FUNARO

Governor of the Bank and Fund

I am greatly honored to address the Annual Meeting of the Board of Governors of the International Bank for Reconstruction and Development and its affiliates, the International Development Association and the International Finance Corporation, speaking on behalf of Argentina, Bolivia, Colombia, Chile, Costa Rica, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, the Philippines, Spain, Suriname, Uruguay, Venezuela, and of my own country, Brazil.

I would like first to express our pleasure at the appointment of Mr. Mamoudou

Touré, Governor for Senegal, as Chairman of this meeting. May I also convey cordial greetings to Mr. Clausen, President of The World Bank, and to Mr. de Larosière, Managing Director of the International Monetary Fund, and a warm welcome to the Kingdom of Tonga as a new member of the Bank.

We are grateful to the Government of the Republic of Korea and the authorities of the city of Seoul for the excellent arrangements for these meetings. To the Korean people our thanks for the friendly hospitality extended to us.

The international environment in which we meet this year continues to be negative, especially for the developing countries. This is particularly worrisome for the Latin American countries and the Philippines, which have been confronted, at different levels, with problems related to external indebtedness.

What we have seen in the first half of this year is a deceleration in the pace of economic recovery of the industrial countries, combined with a sharp decline in the price of commodities. According to the IMF, the average price of non-oil commodities is estimated to be 25 percent lower in 1985 than in 1980. These events, combined with increased protectionism, hinder the growth prospects for our export earnings, meaning harsher adjustments for our countries at a moment when we need to resume economic growth.

The situation calls for an equitable distribution of the burden of adjustment between creditors and debtors. Alternative mechanisms and viable solutions should be devised to tackle the problem of foreign indebtedness. In this connection, I would like to raise the following points:

1. Regulatory and other governmental agencies should proceed to review their rules concerning banking practices, with a view to reconciling those rules with the requirements of refinancing and new lending.
2. Governments and agencies of industrialized countries should adopt a more constructive approach in rescheduling the debts of developing countries under the aegis of the Paris Club and in extending new credits to them.
3. International financial organizations should be provided with enough capital resources to enable them to act more effectively in the adjustment process of indebted countries, and at the same time they should adopt flexible mechanisms to help those countries to service their debt with these organizations when adverse exogenous factors arise which affect their repayment capacity.

I think that we all agree that The World Bank has a major role to play.

The main instrument to strengthen the position of The World Bank and, consequently, improve the quality of assistance extended to its borrowers seems to be an increase in the resource base of the Bank. The last overall review of its capital took place six years ago. Since then, the conditions of the international financial system have been altered, leading to substantial shrinkage of voluntary commercial lending and weakening of the growth prospects of countries which were market borrowers. Under these circumstances it is imperative to maintain net positive transfers from the institution to its member countries, at levels commensurate with development requirements.

The countries I represent are looking forward to the beginning of fruitful negotiations on the size of a general capital increase to permit an increased lending program for the coming years. We strongly support the recommendations of the Bank's management for pursuing an increase in the capital base of the institution, sufficient to fund the upper range of the proposed lending program, and we urge the management to take concrete steps to initiate immediately the quantitative general capital increase exercise in order that an early agreement can be reached on the matter.

In this context, our attention is drawn to some figures in the Annual Report, particularly those related to the undisbursed portions of loans, amounting to nearly 50 percent of total commitments. It so happens that almost all developing member countries are undergoing severe adjustment programs and thus lack counterpart funds. Consequently, an increase in the nonproject lending portion of the lending program is more than justified.

We would also like to comment on structural adjustment lending. Perhaps it is time for the Bank to reassess the conditions placed on its policy-based operations, such as structural and sector lending, considering basically a more gradual timing for adjustment as well as abandoning the practice of requiring an IMF-supported program as a precondition for a structural adjustment loan. It is also of utmost importance to avoid cross-conditionality, especially in case of enlargement of The World Bank's role in assisting indebted member countries.

The countries that subscribed to the Cartagena Consensus have been supportive of a series of measures, the most important being the wider use of special accounts in order to accelerate disbursements of funds; a substantial reduction of domestic counterpart requirements; flexibility in reassigning undisbursed resources; a substantial reduction in commitment fees; and adequate use of cofinancing as a mechanism for channeling additional funds to the developing countries.

In the trade field we wish to encourage the Bank to pursue its efforts to support the development of the Latin American Integration Association. In addition, it is our view that Bank projects in support of foreign trade expansion should not be conditioned by unilateral trade concessions on the part of the borrower.

Although all of us agree on the need to increase the flow of foreign investments to the developing countries, there is no strong evidence that the Multilateral Investment Guarantee Agency would provide the desired additionality. Countries that are more confident in the success of the initiative have given their support. The skeptical ones preferred to express serious reservations for a number of reasons, namely, conflict with national legislation, preferential treatment to foreign investors, financial viability, and voting power structure.

Still in the field of additionality, I wish to refer to the plight of the least developed countries, recently aggravated by a serious deterioration in their terms of trade. Concessional flows are the only solution for many of these countries. In this sense, we endorse the conclusions of the Task Force on Concessional

Flows and urge developed countries to accelerate the allocation of larger portions of their gross domestic product to this end.

As this is the first time a member of the recently elected Government of Brazil addresses the Annual Meetings of the Bank and the Fund, allow me to present some considerations on my country's economy.

We have set a target rate for economic growth of 6 percent a year, from 1986 onward. Lower growth rates would hinder adequate labor absorption and delay the process of recovery of per capita income to the levels prevailing before the recession of the early 1980s.

The accomplishment of such a target for sustained economic growth is contingent not only upon the control of inflation but also on the Government being able to promote a significant reduction of the domestic interest rate, in real terms, which, in turn, depends on a satisfactory solution of the financial imbalances of the public sector and of the external debt renegotiation process—problems that have to be tackled together. An adequate refinancing of our external debt appears, then, to be the key to successful management of the economic problems challenging Brazil. Attaining projected levels of economic growth, however, cannot be an objective in itself. We will also pursue an equitable distribution of its benefits.

I would like to avail myself of this opportunity to put on record that one of the commitments my Government has taken upon itself is the reduction of regional disparities within Brazil. This, I think, is a matter that could lead to fruitful dialogue between my country and The World Bank, the positive results of which could be extended to other countries.

I cannot end this statement without expressing our solidarity with the Mexican people for the tragic disaster which befell their country. We call upon the international community to support Mexico's reconstruction effort.

BOLIVIA: STATEMENT PRESENTED BY THE DELEGATION

It is disheartening to note the fragility of the world's economic recovery, because of its negative repercussions for the less developed countries, especially as the prices of our exports remain depressed. Economic activity in Latin America is today at levels far below those recorded during the two previous decades, on the order of 6 percent on average. Even under the most optimistic scenario, there are no prospects for an adequate economic revitalization of the region, one that would ensure social and economic well-being for its inhabitants. On the contrary, per capita income levels and unemployment and underemployment rates have deteriorated substantially.

One of the factors that will determine the future of the region is financial flows. It is a widely known fact that the flows of official financing from multilateral agencies as well as concessional and commercial flows have been reduced, which has had a serious impact on our countries' capacity to import and to maintain output. An increased flow of resources to the region is essential in order to help its adjustment process. To this end, we believe that the multilateral institutions will continue to play a predominant role, but at the same time, increased resources, particularly from The World Bank, will be required to meet financing needs. In addition, direct private investment and concessional flows will make an enormously significant contribution toward a long-awaited economic recovery. We believe that a concerted international effort will be able to lay the foundations for improvement in the current world economic outlook. In this regard, it is crucial that the industrial countries avoid protectionist measures, and that steps be taken toward a new allocation of SDRs.

As regards the problem of the external debt, we believe that efforts must be continued in the search for lasting solutions, within the framework of responsible negotiations that take into account the real needs and possibilities of the debtor countries.

There is a pressing need, given the financing requirements of the developing countries, to expand TheWorld Bank's lending program for the next five years. To this end, we believe that the program should be increased by 9 percent a year over the next five years so as to meet the requirements of development programs. It is essential, therefore, to accelerate the steps toward initiating a new capital increase for The World Bank. Failure to do so will reduce the Bank's real credit-worthiness, to the detriment of the economic development possibilities of member countries.

Similarly, private investment is a necessary complement to public investment. Accordingly, the past efforts of the International Finance Corporation must be expanded by providing this institution with the resources it needs. In this regard, the Multilateral Investment Guarantee Agency is a significant initiative which we support, as it is a positive step toward increased flows of direct private investment.

It will be impossible to restore confidence in the capital markets unless there are increases not only in concessional or official flows of financing, but also in commercial flows, to countries such as Bolivia which have embarked upon serious economic adjustment programs but necessarily require effective international cooperation. This effort is not limited to the short term; it has a medium- and long-term horizon, and specifically concerns the financing of projects aimed at increasing exports or mitigating the negative impact of adjustment, especially the social cost stemming from the adoption of measures intended to correct real and financial imbalances.

The problems faced by Bolivia's economy in recent years include recession, high inflation rates, and large balance of payments deficits; these problems, in turn, are related to that of the external debt.

The problem of recession is reflected in large negative rates of growth of real GDP: 6.6 percent in 1982, 8.6 percent in 1983, and 3.7 percent in 1984. The decline in investment was the main factor behind the recession, as negative rates of 16.9 percent, 2.5 percent, and 11.8 percent were recorded in 1982, 1983, and 1984, respectively.

The average rate of inflation, as measured by the consumer price index, was 123.54 percent in 1982, 275.56 percent in 1983, and 1,281.34 percent in 1984. In the first seven months of 1985, inflation reached 4,000 percent. Had this trend continued in later months, the anticipated inflation rate for 1985 would be 44,000 percent.

Among the most important factors causing these economic problems are the large fiscal deficits, distortions in the overall price system, and inadequate monetary and exchange policies. As for the problem of investment, poor resource allocation was the main factor behind the inability to pay the high level of debt.

The level of general government expenditure relative to revenue gave rise to substantial deficits, which amounted to 8.8 percent of GDP in 1982, 18.2 percent in 1983, and 17.0 percent in 1984. Also in terms of GDP, the Central Government's current expenditure represented 12.7 percent, 19.7 percent, and 15.0 percent in the same years. The rising level of expenditure is explained by an irrational subsidy policy and excessive spending on wages and salaries. On the other hand, revenue was kept down because the administered prices of public enterprises were held below their real level and because the exchange rate was set at considerably overvalued levels. As a result, the Central Government is unable to collect larger resources in the form of taxes and royalties that ought to have been paid by the public enterprises.

The price and tarriff control policy whereby their levels were kept below their real values meant lower revenues and large deficits for the public sector, besides giving rise to supply shortages, hoarding, and smuggling of essential goods to neighboring countries.

The policy of keeping the Bolivian peso overvalued caused the demand for international reserves to significantly outstrip the supply, causing deterioration of the balance of payments and virtually exhausting the Central Bank's international reserves. This gave rise to a parallel market in which the dollar was quoted progressively higher than the official market rate. At times, the official market rate for the dollar was only 5 perent of its price on the parallel market. This policy constitutes a disincentive for exports and provides a sizable subsidy for importers, and has a negative impact on public sector revenues.

Furthermore, the supply of foreign exchange available from the Central Bank became extremely limited in view of the reduced inflows of foreign exchange from sales abroad, compounded by smuggling and the underinvoicing of export goods.

In addition, beginning in 1979, the rate of inflation began to rise more rapidly than interest rates, making real interest rates progressively more negative. The implicit public subsidization of monetary assets to the benefit of users of credit contributed to reducing the money supply in recent years in real terms, thereby reducing the degree of monetarization.

Finally, the investments of the public enterprises failed to produce a return. The national oil corporation increased its recourse to foreign borrowings twofold between 1975 and 1979 while oil production fell drastically. Massive investments were made in refineries on the strength of projections of large exports of oil and petroleum derivatives. Indeed, while it was estimated that Bolivia's oil exports between 1976 and 1979 would amount to US$1,105 million, this figure was not reached because production slumped sharply as of 1977; as a result, exports totaled US$226.5 million over the period and were halted altogether in 1980.

Other projects with low returns that received considerable volumes of external resources were the Karachipampa Metallurgical Complex and the Villamoentes Oils Plant, and others, entailing a significant increase in the Government's external obligations. Moreover, since these investments do not gernerate the surpluses necessary for repaying their debts, the Government is currently severely constrained in its ability to cover the corresponding debt service.

The New Economic Policy put into effect as of August 29, 1985, is designed to eliminate the distortions that gave rise to these problems. In other words, by applying this policy, the Government is seeking to reduce inflation drastically, deal with the external debt problem, and lay the groundwork for reactivating the economy.

To achieve these aims, an exchange rate policy based on a real parity has been established. To this end, a free exchange system has been instituted, with a single, real and flexible exchange rate the level of which is determined by means of public foreign exchange auctions conducted periodically by the Central Bank. Successful bidders may freely dispose of foreign exchange acquired in this way.

In addition, all financial agents and, in general, all individuals or legal entities, are now authorized to be party to all kinds of legal acts, transactions, and contracts in Bolivian currency and foreign exchange with a value-maintenance guarantee with respect to the U.S. dollar. This will create greater confidence in the Bolivian peso, backed in turn by the measure deregulating the setting of interest rates.

Goods may now be imported and exported freely, with the exception of those affecting public health and national security. Customs duties have been fixed at 10 percent, above and beyond the 10 percent levy previously in effect.

Labor may now be contracted freely, which means that public and private bodies and enterprises can rationalize staffing more efficiently. It has been determined that the prices of goods and services throughout Bolivia may be fixed, except for those produced by public service monopolies or oligopolies.

The public enterprises COMIBOL (Corporación Minera de Bolivia), YPFB (Yacimientos Petroliferos Fiscales Bolivianos) and CBF (Corporación Boliviana de Fomento) have been decentralized with a view to converting them into undertakings that will generate surpluses.

Even in the short time since its inception, the New Economic Policy is already showing positive results, negative inflation rates have been posted, the exchange rate is stable, international reserves have grown and the real demand for money has increased.

With these measures we are sure that Bolivia will regain its financial solvency in the international capital markets, since it is making a resolute, responsible, and consistent effort that warrants the support not only of the multilateral financing institutions but of the entire financial community.

Bolivia fully intends to meet its external obligations; to do so it will seek to ascertain whether a possible renegotiation might be appropriate in light of its serious economic situation and its financial possibilities.

CANADA: MICHAEL H. WILSON

Governor of the Bank and Fund

Let me associate myself with the previous comments of thanks to our hosts, the Government of the Republic of Korea and the city of Seoul, for the excellent arrangements and facilities they have provided to make our Meetings here both productive and agreeable.

Since the Annual Meetings of The World Bank and the International Monetary Fund held in Toronto in 1982, we have concentrated on drawing up and refining a road map to steady noninflationary growth in the economies of the industrial countries and to adjustment and renewed growth in the developing countries. We can note with satisfaction today that we have made much progress along this path. However, we still are walking along a bumpy road and there are some troubling signs ahead.

These worrisome signs include the risk of an excessive slowdown in the U.S. economy and of an insufficient pickup in growth in other major economies; they are reflected in continued high real interest rates and difficulties in coming to grips with high structural budget deficits. They also encompass large external imbalances between major economic powers and the menace of growing protectionist forces.

For the developing countries, the burden of high debt-servicing costs and domestic financial imbalances are creating serious social and political strains in their societies. Debt service difficulties are being compounded by weak and declining commodity prices, difficulties in securing new financial flows, and the prospects of slower export growth.

With that as a backdrop, let me concentrate today on three general topics, namely, macroeconomic policy management, international trade, and the international debt situation.

First, it is clear that the U.S. economy has played a key role over the past three years in moving the global economic system out of the depth of the 1981-82 recession; however, the United States on its own could not sustain this impetus indefinitely. The slowing in the U.S. economy was to be expected and should not be seen in itself as a cause for concern. It is clear that the United States' main responsibility to the system now is to continue its efforts to reduce its structural budget deficit. At the same time, the other large and powerful economies must continue to preserve the growth momentum that has been established so far.

In their latest statement the Group of Five have explicitly recognized that there exist serious financial imbalances and currency misalignments among them. They have also rightly concluded that the only lasting corrective solution is the redirection and adaptation of underlying economic policies to improve policy coordination and secure a greater convergence of economic performance. The essential questions that remain to be answered by all of us are whether, and how effectively, our good intentions will be put into practice. That is, will those countries that need to provide more stimulus to global demand put in place policies that will achieve that objective? Will countries that need to exercise restraint have the political will and stamina to carry through with their program?

Turning to international trade, we are all preoccupied by the serious imbalances which have developed and are persisting. These imbalances are not an accident of history; they are caused in part by the interaction of economic policies geared to domestic objectives but which failed to take account of their broader international repercussions. Even more threatening is the potential political response to this situation; instead of addressing the root causes of the problem, many interest groups are pressing for a quick-fix solution through broadly based protectionist measures. Not only would such short-sighted solutions fail to solve the problem at hand, but they would also surely bring on the gravest consequences for the international trading system, the level and structure of global output, and the generation of world income.

In both these areas—economic policy management and trade policy—Canada is making every effort to adapt to existing difficult circumstances. Without question, we have made significant progress. Our GNP rose by 4.5 percent over the past year, one of the highest growth rates among the industrial countries over that period. Nearly 340,000 jobs have been created. Unemployment, while still unacceptably high, has begun to move in the right direction. It declined to 10.4 percent in the most recent three months, from 11.0 percent in the corresponding period last year. Inflation is now running at less than 4 percent.

The major challenge still facing us is to reduce our structural public sector deficit and thus permit the more efficient operation of market forces in our economy. These objectives are fundamental to the medium-term adjustment strategy which I outlined in the Government's first budget last May.

Canada is also committed to a strong multilateral trading system buttressed by the rule of law. We believe, therefore, in the overriding importance of continued trade liberalization, and we strongly support the early launching of a new round of multilateral trade negotiations. Hand in hand with multilateral solutions, we are also pursuing trade liberalization bilaterally with the United

States, our largest trading partner. These bilateral and multilateral actions are complementary and mutually reinforcing.

The third area where all of us who are meeting here are facing major challenges is the international debt situation. While many debtor countries have achieved a remarkable turnaround in their external positions over the past few years, a number still face a heavy debt service burden. Some of them are becoming discouraged with this situation and with the economic, social, and political problems that it entails.

The international debt problem appears to have entered a new phase. Today we are less concerned about temporary liquidity crises. Instead, we are now looking at a long-term debt service burden in many countries, which drains a large proportion of export earnings, depresses standards of living, and impedes development programs and strategies. The challenge before us is to review our strategy and take account of these longer-term problems.

An essential element in improving the growth and development prospects for the stronger and more diversified debtor countries is a restoration of creditworthiness leading to increased voluntary commercial lending in support of worthwhile investments. This will require policies that not merely deter capital flight but that are successful in mobilizing domestic savings for internal investment. More attention must be paid to the effective functioning of the private sector in the heavily indebted countries. We have already made a good start in this direction and gained much experience over the past several years; we must now persevere in these efforts.

If we wish to encourage new private lending, it must be accompanied by adequate levels of official lending. If the national authorities of creditor countries give a signal—either individually through their own agencies or collectively through their multilateral institutions—that financing activities need to be or are being trimmed, the private sector will surely follow suit. It is possible however that we can turn this around by providing new export credits, new fast-disbursing program and structural adjustment lending, and additional concessional loans in support of major restructuring efforts. Clearly the actions of both governments and multilateral lending institutions together with the commercial banks are interdependent.

For those countries that do not have access to commercial credit and are facing severe economic hardships, it is particularly important that adequate aid and concessional financing be provided. This must be done to support ambitious and courageous structural adjustment programs if these economies are to be set on a sounder and more self-reliant footing.

I have already touched on the question of protectionism in relation to the imbalances among the industrial countries, yet this is equally relevant and crucial in relation to the exports of the developing countries. The point has frequently been made that to maintain their debt service capacity, the developing countries must have continued access to the markets of industrial countries to ensure the adequacy of their export earnings.

We, as Governors of the Bank and the Fund, have particular responsibilities in ensuring that our institutions can respond adequately to the challenges I have outlined above. The Bank and the Fund must work in even closer cooperation, not only to address short-term problems but also to adopt measures and policies that will assure greater economic stability and growth in the future. . . .

. . . The Bank has played a productive role in assisting developing countries by providing financing for hundreds of essential development projects. This role must continue. But the Bank is also well placed to assume an enhanced role in helping developing countries improve their overall economic performance. Canada, therefore, supports increased Bank lending in the next years in a way that will serve to promote improved economic policies, structural adjustment, and a more efficient use of resources on the part of its borrowers. This expanded lending program must lead us quite soon to discussion of a general capital increase for the Bank.

Turning to the International Development Association (IDA), I am encouraged by our agreement to begin the negotiations on the next replenishment very soon. We want to see IDA regain its position as the premier multilateral concessional lender. We welcome the efforts which the Bank is making through IDA and the Special Facility for Sub-Saharan Africa to alleviate hardship and improve economic performance in those countries. We hope the next Replenishment will enable this emphasis on Africa to be carried forward while still permitting IDA to meet the needs of other recipients.

Over the past few days we have spent a great deal of time focusing on the problems of the poorest and of the most heavily indebted. Is there not some risk, however, that we may inadvertently be forgetting about the countries that fall into neither category?

I welcome the increased sensitivity on the part of the Bank and the Fund to the difficulties faced by these countries. As a first step toward a greater understanding of this problem, I have proposed that the Bank undertake an in-depth analysis of the challenges facing the lower middle-income countries.

The problems faced by the world economic community are numerous and their complexity and difficulty constitute major challenges. Irrespective of our individual situations, we each have our own responsibilities to adopt domestic policies that are conducive to a lasting improvement in our own national economies and also, by extension, in the world economy. We cannot escape our individual responsibilities. At the same time, the stronger countries must help the weaker countries to benefit from our actions in a way that not only provides them with the necessary financial flows, but also improves their growth prospects in the most efficient manner possible. We have two powerful institutions to help us in meeting these challenges: the Bank and the Fund. Let us support them and strengthen their role further. Let us also bear in mind that private investors and lenders have a critical role to play. It is essential that all of our efforts are closely and carefully coordinated so that our actions are mutually reinforcing. But, in the last analysis, the private sector, governments, and multilateral institutions are looking to us for leadership. Let us not fail in these tasks.

CHINA: LIU HONGRU

Governor of the Fund

First of all, on behalf of the Chinese delegation and myself I wish to extend our heartfelt congratulations to you on assuming the chairmanship for the current Annual Meetings. I am convinced that under your chairmanship the present Meeting will be a successful one. We would also like to express our appreciation to Mr. de Larosière and to Mr. Clausen for their commendable work during the last year. In addition, we welcome the Kingdom of Tonga in joining the Fund and the Bank. We would also like to thank our host for the excellent arrangements made by them for these Annual Meetings.

Mr. Chairman, it is clear from the recent developments in the world economy that difficulties which beset many countries have increased in recent months, and the economic prospects for the world as a whole have become less optimistic than we anticipated at this time last year. Most importantly, the rate of economic growth in the major industrial countries has shown a significant decline. Fiscal deficits are still very large, and real interest rates remain high. There are sharp fluctuations in the foreign exchange rates, and protectionism has become widespread and is increasing. There has been no improvement in official development assistance, and commodity prices are weakening in world markets. All these problems have inevitably accentuated the economic difficulties which the developing countries are facing in recent years. Among the developing regions, in Sub-Saharan Africa the economic situation is especially alarming, not only because economic growth in these countries has always been extremely slow but also because successive disasters in recent years have brought hundreds of millions of people to starvation. Therefore, urgent efforts must be made by the international community to increase the transfer of real resources, particularly official development assistance to these areas.

Since all countries are economically interdependent, the improvement of the world economy will not be on a sustainable basis unless the economic difficulties of the developing countries are solved. In this context, it is important that industrial countries must take into account the impact of their policies on the world economy as a whole, and on the developing countries in particular.

Now I would like to turn to those questions of concern to all of us. . . .

. . . Fifth, the future role of The World Bank and the general capital increase. At present the developing countries are still in a difficult economic situation, and they urgently need capital inflows. As the largest development financial institution, The World Bank should strengthen its financial and technical assistance to its member countries and should also promote flows from other sources to them. This is the role that the Bank should play in the future. We support the proposed lending program for the next five years by the World Bank management. In our opinion this is the minimum acceptable magnitude, considering the prospective requirements for funds needed by the developing countries. For The World Bank to materialize its proposed lending program, we believe that a general capital increase is absolutely necessary and that negotiations on the modalities, size, timetable, and so forth should be initiated immediately after the conclusion of the Annual Meetings.

Sixth, concessional flows and Eighth Replenishment of IDA. In recent years, there has been serious shortage of concessional flows, which create difficulties for the adjustment process in the low-income developing countries. We support the recommendations made by the Task Force on Concessional Flows and that donor governments as a matter of urgency redouble their efforts to increase the supply of official development assistance. We would like to urge donor countries to respond positively to these recommendations. Given the fact that IDA credits have been the most important source of concessional funds for the low-income countries, we urge IDA management and donor countries to begin formal negotiations as soon as possible on IDA-VIII so as to reach an early agreement on the Replenishment. Moreover, the size of IDA-VIII should represent a real increase over that of IDA-VI.

We fully support a transfer of $150 million out of the Bank's fiscal year net income to strengthen the Special Facility for Sub-Saharan Africa. It is our sincere hope that the Facility will help Sub-Saharan African countries to make the necessary adjustments to restore their economic growth.

Seventh, the question of the Multilateral Investment Guarantee Agency. We have noted that the efforts of all concerned have resulted in an agreed convention of MIGA submitted to the Board of Governors for consideration at this Annual Meeting. It is our hope that once coming into being, the Agency will closely cooperate with both investors and host countries, will actively carry out its operations, and will promote resource flows to the developing countries.

Mr. Chairman, we are still facing many difficult problems, and there are numerous urgent tasks to be acomplished. China will continue to cooperate with these two institutions and member countries in our common endeavor.

DENMARK: PALLE SIMONSEN

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. Let me first express our gratitude and appreciation to the Government and the people of the Republic of Korea for the warm hospitality extended to us here in Seoul.

In recent years, the world economy has seen a number of positive developments. Growth has picked up while inflation and nominal interest rates have come down in most countries. However, these improvements have taken place against the background of increasing imbalances among the industrial countries. Although it is gratifying that there are signs of a more balanced pattern of growth among the major industrial countries, we are concerned about the likelihood that the growth rate in the industrial world—at a time when unemployment is still high—may go down compared with the recent past.

The slowdown in the United States this year has been stronger than anticipated, and economic activity in other industrial countries has not increased sufficiently to compensate for the lower growth in the U.S. economy. In Europe, there are no prospects for an early improvement in the unemployment situation. Faced with debt-servicing problems, many developing countries have had to undergo painful adjustment. The results achieved are still fragile. The risk that the debt situation may take a turn for the worse is still with us with all the consequences this may entail, not only for the indebted developing countries, but also for the economic and financial stability of the world economy in general.

Against this background, it is of paramount importance that the major industrial countries as a group strengthen their endeavors to secure a higher level of economic activity. We see the outcome of the Group of Five meeting in New York in September as an important step forward in this direction. A better coordination of economic policies of the major industrial countries would not only help to reduce large imbalances among industrial countries, thereby easing protectionist pressures, but would also be a major contribution in alleviating the problems of the developing countries.

We share the view presented by the Managing Director that it is of great importance—both for domestic and external reasons—that the budget deficit of the United States should be reduced faster than anticipated at present. At the same time, Japan and some European surplus countries are now in a position in which they could pursue somewhat more expansionary policies. We do not believe that such policies would be inflationary given the slack that exists in most European countries. Such measures do not obviate the need to continue to pursue supply-oriented policies, which will improve the flexibility of their economies. Japan could also make a significant contribution to global adjustment through further opening of the domestic market for imports. We note with satisfaction that, in the aftermath of the New York meeting in September, the yen has strengthened against the dollar, and we hope that the Japanese authorities will pursue policies which will be conducive to a further strengthening of the exchange rate of the yen.

An extremely worrisome feature in the present economic situation is the growth of protectionist pressures in many countries. As has been amply documented in reports and analyses from international organizations, protectionism implies high costs and yields no benefits either in the short or in the longer term. Nevertheless, countless measures are being implemented to restrict the free flow of goods and services: administrative hurdles, quotas, bilateral arrangements, and countertrade deals, just to mention a few examples.

In our opinion, an immediate reversal of protectionist trends is called for. The Nordic countries strongly support the efforts to convene, at the earliest possible date, a new round of multilateral trade negotiations within the framework of GATT, on the basis of a balanced agenda which reflects the interests of all Contracting Parties, and which covers all the important issues in international trade. Such negotiations will necessarily take some time. In the meantime, it is important to create a momentum toward reversing the present protectionist trends. To this effect, previous arrangements on standstill and rollback of protectionist measures should be implemented. Furthermore, there is no doubt that a more satisfactory growth rate supplemented by a change in exchange rate relationships, particularly between the dollar and the yen, could contribute importantly to endeavours to combat protectionist tendencies.

For developing countries, free access to markets in the industrial world is of fundamental importance in their development process. As has been documented by the Fund staff, these countries will suffer the most, if protectionism spreads.

Recent developments in the international debt situation give rise to serious concern, as many indebted developing countries still have a long way to go before relations with creditors are normalized. In some important cases, the difficulties have even increased.

The Nordic countries continue to endorse a solution of debt problems based on a case-by-case approach, and we appreciate the crucial role the Fund is playing and should continue to play in this process.

In addition to internal adjustments, it is equally important that the external environment be conducive to export growth and that adequate financing be made available. A high and stable rate of economic growth in the industrial countries, together with a liberal trade policy, is necessary to secure sound adjustment in both developing and developed countries. Although nominal interest rates have come down during the last year, real rates are still high by historical standards. A continued decline in international interest rates, in particular for the U.S. dollar, would not only be beneficial for the recovery in the industrial world, but would in itself make a significant contribution to the orderly solution of debt problems. . . .

EGYPT: KAMAL EL-GANZOURY

Governor of the Bank

It is indeed a great pleasure and honor for me to address this distinguished gathering. On behalf of the Egyptian delegation and myself, let me first extend my sincere thanks to the Government and people of Korea for their warm hospitality. I also would like to extend a warm welcome to the delegates from our new member country, Tonga.

The significant expansion of world output and international trade that took place in 1984 is giving way to more modest rates of growth in 1985. Presently, the international economic scene is clouded with many uncertainties and imbalances. The real victims of the international economic forces at work today are, as always, the weakest, that is, the developing countries who perennially bear the heaviest burdens of adjustment. The debt burden, the high interest rates, the costly dollar, deteriorating terms of trade, and protectionism have combined to erase many of the gains made during the 1960s and 1970s. Current economic forecasts envisage a recovery in many developing countries so slow that the per capita income of 1980 will be barely regained by 1990. For Sub-Saharan Africa, The World Bank foresees that, without action, per capita income in the year 2000 will actually fall below the level of 1960.

The external debt situation continues to be a major concern to a large number of developing countries threatening their growth prospects as well as the health and integrity of the international credit system. The recent successful reschedulings have provided breathing space. It is clear, however, that such an approach does not solve a crisis that will be with us for many years to come. The situation in many of the major debtor countries is extremely critical, and elsewhere, particularly in the low-income countries, there are grave difficulties in servicing foreign debt obligations.

Developing countries continue to undertake strenuous adjustment efforts in the face of an adverse external environment. The cost of this adjustment in terms of low or negative growth, fall in the standard of living, and social instability has been excessively high. Such a situation may be tolerated for a short period. In the long run, it is evidently unsustainable.

International trade relations have continued to suffer from increasing protectionism in the industrial countries. It is estimated that over one third of developing country exports to the developed countries are subject to one or more kinds of measures which constrain export volumes. In some sectors where developing countries are generally acknowledged to have a comparative advantage, the value of trade subject to such measures is far higher. Moreover, nontariff measures are applied with particular force to goods originating in developing countries. Recent years have seen the emergence of new trade restrictions in markets where developing countries have been particularly successful. The deterioration in conditions of market access for exports of developing countries inhibits export-oriented strategies and damages the capacity to service external debt.

The continuing volatility in exchange rates has added to the problems of developing countries. Well over a decade's experience with the present floating exchange rate system has shown its limitations. It cannot claim to have succeeded in improving the operations of the adjustment process nor can it be said to have helped the growth of world trade and output.

These problems call for urgent remedial action by all concerned. Special responsibility falls upon the major industrial countries whose policies have far-reaching repercussions on the world economy. Without major policy changes, which will have to be coordinated and carefully planned, the world economy remains on a course that is unsustainable and financially perilous.

Let me turn now to some of the current issues under consideration by the Fund and the Bank. . . .

. . . My delegation welcomes the proposal to use the Trust Fund reflows for the benefit of the poorest countries. The use of the special disbursement account should be additional to other concessional assistance. It should be provided on the same terms and conditions as the original Trust Fund loans to low-income countries. We appreciate the statements made by the representatives of China and India that they will not avail themselves of this facility in the period 1985-91.

It is recognized that the transfer of resources to developing countries is of crucial importance to facilitate adjustment and accelerate development. However, the recent record in this area has been disappointing. The transfer of resources from official sources, both multilateral and bilateral, has been inadequate. In fact, it has not made up for the unprecedented losses incurred by developing countries on account of the adverse movements in terms of trade and high interest rates.

The recent decline in the level of commitments by The World Bank is a cause of concern. The World Bank has an important role to play in the promotion of development, growth, and poverty alleviation. The decline in Bank lending has come at a particularly difficult time for developing countries. Against the background of a sharp decline in the level of commercial bank lending and the virtual stagnation in official development assistance, The World Bank was expected to step up, not to reduce, its lending activities. We recognize that the cutback in investment in borrowing countries on account of the global recession might have weakened the demand for Bank loans. There is no doubt, however, that the recent emphasis on macroeconomic conditionality has been a major factor. We recognize the role of this type of conditionality in structural adjustment loans. But there is no justification for such a policy in traditional project lending. This is a regrettable development which, in our view, is likely to produce the opposite of what is intended.

My delegation supports a significant increase in the level of lending by the World Bank over current levels. It is estimated that World Bank commitment levels would have to increase at an annual rate of at least 6.2 percent in real terms over the levels reached in fiscal year 1984, if net disbursements and net transfers are to remain relatively steady. This calls for a general capital increase well in excess of the amounts projected by the Bank. We believe that doubling the present authorized capital of the Bank is fully warranted by the needs of the borrowing countries.

We welcome the proposal to establish a Third Window on terms and conditions more liberal than standard Bank loans. Third Window loans should be made available to lower-middle-income or blend countries especially those with heavy debt service burden.

There is an urgent need to accelerate the flow of concessional development assistance. Despite recent recovery, significant benefits from it have not accrued to many low-income countries. Growth has not rebounded and per capita incomes continue to fall. Within the framework of official development assistance, IDA constitutes a major source of concessional assistance and has played a crucial role in the development of low-income countries. We would like to express our deep disappointment at the steep decline in the availability of IDA resources and at the lack of political will in arranging supplementary financing for IDA-VII. Such a decline can only have negative consequences for IDA recipients. It is essential to redress the imbalances between increased need for concessional flows and the low level of availability of funds under IDA-VII. For this purpose preparatory work and negotiations for IDA-VIII should be started as soon as possible.

The plight of sub-Saharan Africa poses a serious challenge to the international community. Most countries in the region continue to face extremely difficult economic conditions. Their deep-rooted development problems, particularly in agriculture, are being aggravated by a protracted drought and desertification in many areas. At present, nearly 30 million people face hunger and starvation in the region. Development efforts are hampered by lack of resources. The problem is further compounded by an exorbitant debt service burden. True, the absolute amounts involved are much smaller than those of the major debtors. But the problem is no less serious in relative terms. For many African countries, the debt service ratio is too high. In some cases it accounts for well over one half of their export earnings. More disturbing is the fact that, according to current projections, the ratio is expected to increase. We hope that the debt problem of Africa will soon receive the attention it deserves from the international community.

The establishment of the Special Facility for Sub-Saharan Africa is a positive step. We would like to pay tribute to all donor countries who have contributed to it directly or indirectly. Admittedly, the amount is far from enough to meet the immense needs of Africa. Further efforts are necessary to assure that African countries have the additional resources commensurate with the magnitude of the problem.

Direct and portfolio investment has an important role to play in promoting economic development. We would like to express our appreciation for the considerable effort that went into the preparation and finalization of the Draft Convention for the Establishment of a Multilateral Investment Guarantee Agency (MIGA). We consider the establishment of MIGA an important landmark in international development cooperation. In our view, the Draft Convention is a workable arrangement that will benefit both developed and developing countries. As it is formulated, it goes a long way toward meeting the concerns of some member countries. We urge all member countries to support the Draft Convention establishing MIGA and to ratify the Convention as early as possible.

We are encouraged by recent reports on closer cooperation among the major industrial countries to bring about more realistic exchange relationships. This is a welcome development which we applaud. Let us hope it is only the beginning of a broader and deeper cooperation that would include both industrial and developing countries and would cover, not only exchange rates, but all aspects of the international monetary and financial system.

We regret indeed the annoucement of Mr. Clausen that he has decided not to seek the renewal of his mandate. He assumed the leadership of The World Bank at a very difficult time. We would like to take this opportunity to pay tribute to Mr. Clausen for his efforts in making MIGA a reality, for his leadership in mobilizing support for Sub-Saharan Africa, and for expanding the role of IFC. We wish him all the best.

FIJI: JONE KUBUABOLA

Governor of the Bank

May I first extend a warm welcome to our neighbor and friend in the South Pacific, Tonga, which has become the newest member of The World Bank and the International Monetary Fund. May I also express my appreciation and gratitude to the President of The World Bank, Mr. Clausen, who has done an outstanding job during one of the most difficult periods in recent economic history. I wish him well. On this occasion, I would like to express my deep appreciation to the Government and the people of the Republic of Korea for the warm welcome and cordial hospitality extended to us and for the excellent meeting arrangements.

When we met this time last year, there was a widely shared optimism about the prospects for the world economy in 1985. Developments in the world economy so far suggest that the growth in the global output in 1985 will be significantly below what was achieved in 1984 and somewhat less than what was expected in the spring of this year. Nonetheless, the growth in world output is expected to be at a respectable level of 3.1 percent, which is far in excess of the average growth rate for the recession years, 1980-83.

There is no doubt that the medium-term financial strategy of industrial countries has been successful in reducing inflation and inflationary expectations, and in increasing investment, employment, and output. Some recent developments, however, tend to suggest that the prospects for a strong and durable recovery are clouded by a number of uncertainties. There is a risk of a slowdown in the growth of industrial countries, since fiscal policies in these countries are not likely to provide much stimulus to future growth; there are uncertainties regarding the prospects for the reduction in the U.S. fiscal deficit; there are uncertainties regarding interest and exchange rate developments, the manageability of the external debt situation, and the easing of protectionism; and there are uncertainties regarding commodity prices. Given these uncertainties, there are at least three areas in which action on the part of industrial countries could reduce uncertainties and improve prospects for a strong and sustainable economic growth.

First, any slowdown in economic activity may justify acceptance of a somewhat larger fiscal deficit and a somewhat more expansionary monetary policy. This change will have to be introduced cautiously and selectively: cautiously, because it is important to avoid wrong signals to market participants, and selectively, because some industrial countries are in a better position to provide fiscal and monetary stimulus than others.

Second, a lower level of interest rates would improve the prospects for a durable recovery. Therefore, meaningful progress in reducing the U.S. fiscal deficit could contribute toward a significant easing of interest rates.

Third, much greater progress needs to be achieved in tackling structural rigidities in a number of industrial countries. Measures aimed at a reduction in labor market rigidities, reduction in distortions created by government regulations, reforms in wage setting mechanisms, elimination of subsidies and protection granted to uneconomic industries, and manpower training in new skills are to be adopted if a sustainable noninflationary growth is to be achieved in many countries. With the risk of a slowdown in economic recovery in industrial countries, the task of addressing the structural problems has become even more urgent.

The growth and balance of payments prospects of developing countries are closely tied up with economic prospects in industrial countries. Therefore, a sustained strong economic growth in industrial countries will be crucial for the achievement of higher growth rates and improved external balance in developing countries. Recovery in industrial countries alone, however, will not improve the prospects for developing countries. Progress in a number of other areas will be necessary before developing countries can achieve a higher level of growth together with a sustainable external balance. A lower level of interest rates in capital-exporting countries, a rollback in protectionism in industrial countries, an increase in the flow of non-debt-creating capital and a multiyear debt rescheduling for heavily indebted countries will be crucial for achieving higher growth and an improved balance of payments position. Unfortunately, progress in all these areas has been either absent or inadequate. Without significant progress in these areas, the prospects for developing countries will remain bleak.

The Bank and Fund have a vital role to play in the transfer of resources and in the adjustment process. I believe that if these institutions are to continue to play an effective role in these changing and difficult times, changes may have to be introduced in at least four areas: first, these institutions will have to be adequately funded; second, the policy on access to the resources of these institutions must provide for access on a scale sufficient to meet the development and adjustment needs of member countries; third, the conditionality associated with the provision of assistance must be reasonable and realistic in the context of the economic, social, and political circumstances of member countries; and finally, new policy initiatives will be required to enhance the flow of resources from capital surplus countries to capital deficit countries.

A general capital increase in the Bank is urgently required to enable it to play a more effective role in the development process. I hope a decision on this can be reached at an early date. The accentuation of poverty in a number of countries has made the role of the International Development Association (IDA) more important. I hope that the decision on the replenishment of IDA-VIII will be accelerated and the amount of replenishment will take into account the very difficult and worsening situation of many developing countries. Meanwhile, liquidity is not likely to be a constraint to the Fund's operations in the next few years; but, beyond that period, a substantial increase in Fund quotas under the Ninth General Review will become crucial if the Fund is to continue as an effective institution. In the meantime, the multilateral institutions must continue to provide greater access to their resources. It is a matter of regret that the level of Bank lending in fiscal year 1985 has been lower than what had been envisaged earlier. Similarly, the average annual access to the Fund's resources has been curtailed substantially from 77 percent of quota in 1982/83 to 52 percent in 1985. It is indeed revealing that the present access limit is only 10 percentage points above that which was granted to members in the three-year period preceding the introduction of the supplementary financing facility. While I welcome the decision of the Interim Committee to make only a modest adjustment in 1986 to the present access limits under the enlarged access policy, I believe that a more liberal interpretation of the guidelines on access could contribute toward a more effective role of the Fund in the international adjustment process and in providing stability to the international monetary system. I also believe that the usefulness of the compensatory financing facility has been eroded considerably by changing it from an unconditional facility into a conditional facility. I believe it would be appropriate to restore the unconditional character of the compensatory financing facility to provide timely assistance to members facing balance of payments difficulties arising from a temporary shortfall in exports.

I appreciate that part of the reduction in the use of resources from multilateral institutions has been associated with the slow recovery in industrial countries. At the same time, I believe that a good part of the reduction can be attributed to the tightening of conditionality.

Adjustment measures in developing countries which entail drastic cuts in the standard of living over a short period of time can be very difficult both socially and politically, and it could lead to undue postponement of adjustment in many countries. Therefore, it is important that the design of programs take into account the social and political circumstances of member countries. In many cases, the pace of adjustment will have to be more gradual so as to avoid severe hardship to the general population. In this context, I believe that a greater use of the extended Fund facility would be both appropriate and desirable.

I warmly welcome the initiatives taken by the Fund and the Bank to enhance the flow of resources. The catalytic role of the Fund in putting together financing packages for indebted countries and its role in providing enhanced surveillance intended to preserve and strengthen the confidence of private creditors have contributed much toward the management of the debt problem and toward the stability of the international monetary system. I also welcome the new initiative of the Bank for the creation of the Multilateral Investment Guarantee Agency (MIGA) to promote the flow of resources to productive investments in developing countries. I look forward to its establishment in the near future. I also welcome the Bank initiative in establishing the Special Facility for Sub-Saharan Africa to alleviate poverty and hunger in some very poor countries. . . .

FRANCE: PIERRE BEREGOVOY

Governor of the Bank

Since our last Annual Meetings, the world has been hesitating as to what path to take. The improvements foreseen in the middle of last year have given way once again to uncertainty. The economic recovery is marking time and the hopes placed in it for reducing still very high levels of unemployment and resolving the debt problems of the developing countries have been dashed.

However, some grounds for hope have appeared in recent weeks, because our views have moved closer together on two essential points: the need, after the sharp rise in the dollar earlier in the year, for a readjustment of the parities of the major currencies; and the crucial need for a general and rapid resumption of growth.

We sometimes tend to dwell on what divides us. Let us take a look at the views we share, beyond the concept that each of us has of the future shape of society. What draws us together is, in fact, the conviction that it is increasingly difficult to preserve islands of growth when the world economy is in crisis. Even the countries showing the best economic performance suffer when activity slows down in any given part of the world. The interdependence of national economies is the new fact of this latter half of the century. This is not to say that the best will not manage to emerge relatively unscathed. But they, too, are becoming more and more aware of the fact that this situation can last only so long.

We are all in the same ship. The unemployment problem is common to all countries but is of course more acute in the developing countries where so much remains to be done as regards basic infrastructure; moreover, because of the crisis, these countries are facing the risk that the gap between themselves and the industrialized countries may become even wider. A slowdown in the world economy hits the developing countries more rapidly than others; each downward movement is reflected in a reduction in the volume of trade, falling prices of raw materials, and a debt burden made heavier as a consequence of high interest rates.

There is cause for concern here: if worldwide economic growth does not meet expectations in the years ahead, the sacrifices that the people of the debtor countries have been asked to make will be lost. How could we fail to consider the social and economic consequences of such a turn of events? How can we not be concerned by the risks of destabilization of the financial system that are inherent in this situation? How can we not see that political equilibrium in these countries may well be jeopardized even as several of them have just returned to the path of democracy?

It is not enough to analyze a situation correctly. We must provide the tools needed to improve it. In politics, how is at least as important as why.

It seems to me that we must set ourselves three objectives: first, to speed up growth; second, to ward off the threat of protectionism; and third, to build up the conditions for optimum financing of development.

1. Growth is today being held back by weak domestic demand in countries with major trade surpluses and by interest rates that are too high. It should therefore be a matter of priority to return to more balanced growth between domestic demand on the one hand and exports on the other. The commitments entered into in New York by a number of industrial countries are extremely important from this point of view. But let us not forget that growth would be short-lived if inflation were to flare up again. This explains why we, for our part, attach such great importance to curbing public outlays. France has embarked on a vigorous policy designed to reduce inflation and modernize its industrial and financial structure. More sustained worldwide growth would strengthen the results we have achieved.

2. Free trade has been a decisive factor in the development of the world economy. Customs barriers still exist, to be sure, and certain countries are past masters at selecting their imports. However, movement in the direction of free trade has been continuous up until recently, when the intensification of trade imbalances revived the threat of protectionism.

As you know, France has always held that there is a link between monetary and trade problems. We pointed out that overvaluation of the U.S. dollar led to relentless speculation on the capital market and lopsided terms of competition between economies. The recognition, in New York, that exchange rates as fixed by the market did not reflect underlying economic realities serves as confirmation of what we had long been thinking, as forcefully expressed by the President of the French Republic, Mr. François Mitterrand, at the Versailles and Williamsburg summits. We welcome this development. It is good that realism and pragmatism are winning out over earlier certainties. Dogmatism has never been a good counselor.

The French Government has pointed the way toward a possible reform of the monetary system. As I have already had occasion to observe, this does not mean that France advocates an all-or-nothing approach. Concerted management of floating exchange rates constitutes an important step forward in the search for greater monetary stability. Differences remain on what is desirable in the long term. There is a vast area—which has barely begun to be explored—between a system of floating exchange rates that has demonstrated its inadequacies and a return to a system of fixed exchange rates. Two reports are currently under review, prepared by the Group of Ten and by the Group of Twenty-Four, respectively. France trusts that next spring's meeting of the Interim Committee, which will be called upon to arrive at preliminary decisions, will be carefully prepared not only through intensive work in the Fund's Executive Board, but also through regular contacts among all the responsible authorities.

This progress in the monetary sphere has created a favorable climate for the preparation of new multilateral trade negotiations. The meeting of experts in Geneva a few days ago has made a useful contribution. What is important in this area is for all the issues to be put on the table and to ensure that all the developing countries participate fully in the preparatory negotiations within GATT. These are the main conditions for success of the upcoming new round of trade talks.

3. I now come to the third issue I raised a few minutes ago, namely that of development financing, the focus of discussion at our Annual Meetings. Experience shows that the efforts made by the developing countries to re-establish financial equilibrium have no chance of achieving lasting results unless they are accompanied by a strengthening of their production system and improved living conditions for their people. The path that, in my opinion, the international community should take is therefore self-evident.

How can we secure larger capital flows? To open an academic discussion on the respective merits of official aid, commercial bank lending, and private investment would not serve any useful purpose. All forms of investments and financing need to be mobilized. But it is obvious, as many representatives of developing countries have pointed out within the Development Committee, that it would be mere illusion to believe that private finance can take the place of public finance. In fact, I am convinced that private capital will flow more readily to developing countries as public financing increases.

Public multilateral financing has an essential role to play: this is true both of the Fund and of the development banks. In this context, priority should be given to providing The World Bank with the resources it needs to take the lead in development financing. This would imply a rapid decision on a capital increase.

On the question of Sub-Saharan Africa, we are pleased by the speed with which the Special Facility for Sub-Saharan Africa has gotten under way. This is a positive development, and we recognize it as such. This first step should be followed by many others in the same direction and, in this regard, negotiation of an Eighth Replenishment of IDA is of great importance. We hope that agreement can be reached on a sizable amount and that the percentage earmarked for Sub-Saharan Africa will be commensurate with its needs.

The forthcoming implementation of the procedure for onlending Trust Fund reflows, which France had proposed last April, is a further argument for a sizable IDA replenisment which would facilitate increased cooperation between the Bank and the Fund in this area.

While the prospects opened by the Trust Fund are encouraging for the poorest countries—and here I welcome the position taken by China and India in waiving exercise of their rights—the case of certain major debtor countries with higher per capita incomes continues to pose a formidable problem.

In their case, the idea of involving the commercial banks more directly seems attractive to me. This presupposes, as has been pointed out, that cofinancing operations can be arranged with The World Bank's support. I hope that this will be translated into concrete decisions as rapidly as possible, and France for its part is prepared to encourage its banking system to be forthcoming.

To give more flesh to this idea, I would have liked it to have been preceded by a number of meaningful decisions evidencing our will to implement an integrated approach to development financing, for example, by asking the Bank to raise its proportion of nonproject lending to one third and, even more important, by reaching agreement in principle, here and now, on a capital increase. We would have been more convincing vis-à-vis the banks; we would have gained credibility.

For the same reason, I regret that it has not been possible to reach agreement on a new allocation of SDRs, even though the reserves of the developing countries are shrinking, and I even more deeply regret the decision to reduce, even symbolically, the limits on access to Fund resources. This decision was not justified on technical grounds, as the Fund has adequate resources available. Politically, it was inopportune.

There is nothing inevitable about monetary disarray. There is nothing inevitable about underdevelopment. There is nothing inevitable about poverty. Misery is all too often the result of our weaknesses or our rivalries.

Everything depends on us, on our ability to overcome our national antagonisms, on our willingness to rise above our doctrinal differences.

For years now, we have been discussing the North-South dialogue, the new international economic order, and reform of the international monetary system: progress has been distressingly slow. In this forum too, year after year, these issues have to be tackled again. Let us not lose heart; we should always remember that servitude is not only a consequence of despotism but is frequently also the bitter fruit of poverty. This dictates what we must do. It is our duty to do everything in our power not to shatter the hopes that hundreds of millions of men and women still place in international solidarity.

GERMANY: GERHARD STOLTENBERG

Governor of the Fund

I join others in expressing to the people and Government of Korea my thanks for the warm welcome extended to us. We are fortunate to meet in this beautiful land. Korea is among the many countries which, over the years, have been notably successful in maintaining and strengthening the underlying dynamism of their economies in spite of a difficult external environment. Their progress demonstrates the key role of domestic policies in securing a stable development path.

Worldwide, recovery is about to enter its fourth year. Important foundations have been laid for continuing improvement and a more balanced expansion. At the same time, urgent tasks have yet to be addressed. In many countries, progress remains painfully slow, or economic conditions have even worsened, testing the patience of their peoples and straining the political fabric of their societies.

The challenges are clear enough: we must sustain the recovery and work to restore a more satisfactory pace of growth in the coming years. We have to increase the positive impact of growth on employment. In particular, we must achieve a more acceptable rate of expansion in the Third World. Continuing growth is essential to support the struggle for social justice, personal freedom, and democracy upon which economic progress, in turn, depends.

Germany will continue to play its part in the common effort to achieve lasting prosperity in which all countries can share. The German economy is embarked on a course of steady recovery. It is growing at a current rate of over 3 percent. Domestic demand is gaining momentum. Investment is strong. Private consumption is picking up. Inflation is down to just over 2 percent. The German economy provides expanding export markets for its partners abroad. Our imports from developing countries are outpacing the growth of German exports to these countries.

Our key objective is to ensure a stable framework for the continuation of vigorous, domestically generated growth. Toward this end, we have brought about a fundamental improvement in the finances of the public sector. We have reduced the weight of government in the economy. We are tightly controlling public expenditure. We have enhanced the incentives for individual citizens to work, to invest, and to achieve. My Government will sustain and, where necessary, strengthen these policies in the years to come.

Germany will remain a strong voice for strengthening the multilateral system of free trade which is a necessary underpinning of prosperity. We will continue to cooperate with developing countries in a spirit of true partnership. Their progress is essential to the success of our own efforts.

We recognize the crucial role of external financing in development. Our capital markets are wide open. Access to borrowers from industrial and developing countries is completely unrestricted. In fiscal year 1985, The World Bank raised about 17 percent of its borrowed funds in the deutsche mark (DM) market alone. My Government is mindful of the critical situation facing many of the poorer countries in particular. We are increasing our official development assistance at a higher rate than overall budgetary expenditure.

German development assistance is based on the principle of international solidarity. It aims at achieving a genuine balance of interests between North and South. It supports the fundamental right of Third World countries to develop in accordance with their own traditions, values, and preferences. Germany is committed to cooperating with developing countries as partners in a pluralistic world.

Let me again turn to the international environment which critically affects the chances for our individual efforts to succeed. On the positive side, there is steady progress in Europe. As in previous years, the Japanese economy is likely to expand at above average rates. A reacceleration of activity in the United States is not an unlikely possibility. Developing countries, too, are once again participating in, and contributing to, the recovery; average figures, of course, conceal the extremely difficult situations with which many of them are faced.

We can take encouragment from the substantial and widespread reduction of inflation in the industrial countries. Although interest rates remain relatively high in many countries, they have come down from previous peaks. Greater emphasis is now being placed on market forces. And some countries have taken decisive action to enhance fiscal discipline.

At the same time, external imbalances have grown unsustainably large. In some countries, growing fiscal disequilibria could pose threats to sustainable growth. Lasting resolution of the problems of international debt will require effort and patience for years to come. Slower expansion of world trade and weakness of commodity prices are seriously complicating the adjustment task of many developing countries.

We must seize the opportunity which these Meetings provide to understand each other's problems and to help each other overcome these problems.

We can build on the progress achieved. Stable prices, fiscal discipline, efficiently functioning markets, and free trade are keys to success. Attempts to force the pace of recovery by short-term—and short-lived—stimulation of demand would accelerate inflation rather than growth.

European countries, including Germany, must continue their efforts to enhance the responsiveness of their economies to structural change. It is essential that Japan persist with its policies to facilitate access for foreign suppliers and to liberalize its financial markets.

Recovery in the United States has imparted a strong boost to economic activity abroad. This has facilitated the adjustment task of developing countries. The recovery has been supported by important underlying strengths of the American economy, including low inflation, a favorable investment climate, and a fundamental belief in the central importance of market forces in guiding decision making. At the same time, it has been associated with an unprecedented rise in the budget deficit. This has created pressing problems and policy dilemmas for the United States and the world at large. We can take encouragement from the deficit-cutting measures agreed upon in the U.S. Congress. Continuing credible progress toward greater fiscal balance is the best contribution the United States can make toward healthy growth at home and abroad. However, the need to improve fiscal performance is almost universal. It is not confined to one country alone.

Major industrial countries should give higher priority in their domestic policies to providing a framework conducive to a lasting reduction in interest rates. A further substantial decline especially in dollar interest rates is essential to a constructive solution of the international debt problem.

Trade liberalization is another area where failure to act could put the recovery at risk. As stated at the Bonn economic summit, "protectionism does not solve problems; it creates them." The agreement reached in Geneva, earlier last week, to initiate the preparations for a new round of trade negotiations in GATT constitutes a welcome step. Such negotiations offer the best chance of achieving real progress, based on a genuine balance of interests between all parties concerned. The new GATT round should begin at the earliest possible time.

Industrial and developing countries have a high stake in strengthening GATT. The multilateral framework of GATT provides an essential forum for all countries—including medium-sized and smaller economies—in which they can effectively bring their interests to bear.

Free trade is essential also to the success of the adjustment efforts of developing countries, many of which depend on export growth to pay for their imports and to service their debt.

Regarding the debt issue, recent developments have underscored the persisting economic, social, and political risks. However, looking back to 1982, we can see what progress has been achieved. Debtor countries have sharply brought down their deficit on current account. They have gone a long way toward reducing the growth of their external debt. At the same time, they have undertaken to attack inflation, to curb budget deficits, and to encourage the efficient use of resources in the private and public sectors. Here, too, progress has been achieved, although internal adjustment has tended to be less strong and more uneven.

Creditors have responded quickly and flexibly. Maturing debt has been stretched out. Fresh money packages have been arranged. Where warranted, export credit cover has been continued or resumed. The Bank and the Fund have risen to the challenge, assuming their central roles as forums for dialogue and cooperation.

But the debt problems will remain with us for years to come for a period that may be longer than initially foreseen. We will have to cope with unexpected difficulties and temporary setbacks. The debt strategy which has been adopted and evolved in the wake of the payments crises in 1982 provides the framework for dealing effectively with the challenges ahead. Its essential elements include cooperation and partnership, the willingness of each country to assume responsibility for the consequences of its domestic policies, and respect for the legitimate interests of other parties involved. Confrontation and unilateral action would only postpone the return to normal financial relations.

A stable domestic policy environment in debtor countries remains a key to restoring the confidence of foreign lenders as well as of their own citizens, so as to encourage a return of flight capital and to promote increased direct investment from abroad. Creditors must recognize the very real social and political constraints which debtor countries face and the limited capacity for adjustment especially of the poorer economies. External financing must continue to be provided in amounts and on terms appropriate to the varying situations of individual countries.

In their own and in the general interest, industrial countries must work toward sustained growth, low interest rates, and open markets. In their September 22 announcement, the countries whose currencies constitute the SDR basket have pledged their commitment to work among themselves and with others toward achieving these goals.

Secretary Baker, in his statement yesterday, has developed these principles in considerable detail. I would like to support his view that "market-oriented policies to foster growth and adequate finance to support it" should be essential elements of the debt strategy. There is no inherent contradiction between adjustment and growth: Countries which have maintained a sound external position have generally been those which have made the greatest progress domestically. The international community should be willing to give the necessary financial support to countries which implement sound policies.

The Bank and the Fund must, therefore, continue to perform their roles in encouraging policy reform, promoting development, and catalyzing cooperation. The continuation of the enlarged access policy in 1986 will enable the Fund to provide substantial support for adjustment, where necessary. . . .

. . . As far as The World Bank is concerned, concrete negotiations on a capital increase should begin as soon as possible. A substantial strengthening of the capital base of the Bank is essential to enable this institution to play its increasingly important role in promoting development and prosperity in its member countries.

At the same time, Germany reaffirms its continuing support for an increase in the resources to be made available to the International Development Association (IDA) in the context of the Eighth IDA Replenishment.

The doubling of the capital of the International Finance Corporation will enable this institution to take a more active part in mobilizing private initiative and enterprise for development.

The policies needed to sustain growth and restore financial stability are within our ability to implement. We have proven institutions. We have efficient instruments. We know the strategy. And we are moving forward.

I should like to conclude with a personal remark: President Clausen has steered The World Bank skillfully through the troubled waters of a turbulent world economy. This was and still is a most difficult task. We are grateful to him for his leadership and dedication. We will miss his sound professional advice and wish him all the best for the future.

GREECE: IOANNIS PAPANTONIOU

Governor of the Bank

In the Annual Reports of The World Bank and the International Monetary Fund, the international economic situation was adequately discussed. Thus, I intend to make only a brief reference to recent developments and then I shall express some thoughts regarding international policy options.

In 1984 there were some encouraging signs of economic recovery. Output grew faster than it had for almost a decade, while inflation rates continued to decline. The recovery of world output was largely due to the rapid expansion of the U.S. economy during 1983 and 1984. Growth in the OECD area as a whole, however, was not sufficient for making inroads into unemployment, which remained at very high levels. Moreover, recent developments suggest that the expansion of economic activity in the United States has reverted to a considerably slower pace, pointing thus to a worsening of the global outlook for output and employment.

In late 1984 a downtrend for nominal interest rates in the United States was established. Real rates of interest, however, are still at historically high levels, reflecting the large size of the U.S. budget deficit. The persistence of high real interest rates in the United States has produced a reversal in the direction of international capital flows in favor of dollar-denominated assets and lies at the root of the dollar's overvaluation. This, in turn, has led to a widening of the U.S. external deficit while giving rise to a considerable and worrying intensification of protectionist pressures.

In spite of the adjustment efforts made by several developing countries, insufficient progress has been realized in correcting external imbalances. Persistent balance of payments deficits, coupled with high real rates of interest in the United States, accentuate the problems of the heavily indebted countries thus hampering their development efforts and, in some cases, leading to drastic reductions in living standards. It must be emphasized that the developing countries have limited capacity to withstand the economic and social costs associated with the pursuit of adjustment policies, especially if a new slowdown in world economic activity occurs.

Urgent action has to be taken if a new world recession and debt crisis are to be avoided. Policy coordination and closer cooperation among the industrial countries is an essential condition for achieving our objectives.

Corrective action should be taken by countries with high public sector borrowing requirements, particularly if such borrowing leads to a crowding out of the private sector. A reduction of the U.S. budget deficit will bring a fall of real interest rates in the United States which, in turn, will help to produce a more balanced and sustainable pattern of international capital flows and exchange rates while easing the developing world's burden of servicing its external debt.

Further measures should be taken toward the elimination of structural rigidities that lead to inefficient allocation of resources and undermine the efforts in reducing unemployment. These measures should be part of a program of concerted action designed to encompass both the economic and social aspects of structural change.

Clearly, pressures for the adoption of protectionist measures should be firmly resisted. Our economies have become so interdependent that no country has anything to gain by a return to trade wars.

Since the United States has currently ceased to act as the locomotive of the world economy, positive action should be taken by other major industrial countries that have restored internal and external balance. They could and should lead the recovery of the world economy by cautiously implementing expansionary policies.

The measures I have just outlined will be more effective if taken as part of a wider policy at the international level, aiming at improving the structure of international liquidity and satisfying the capital needs of the developing countries. In this context, I am not satisfied with the decision of the Interim Committee not to allocate new SDRs and reduce the access limits under the enlarged access policy.

The problem of servicing external debts is particularly serious for some Third World countries. It is clear that greater cooperation and better understanding among governments, the Bank, the Fund, and the commercial banks is needed to alleviate the debt-servicing burden and to improve the foreign exchange position of these countries as part of a longer-run program of adjustment that takes due account of the structural problems of their economies. The Bank is entitled to claim a substantial role in designing and implementing such a program.

We support, therefore, the proposal that the Bank's capital should be increased. We also think that the creation of the Multilateral Investment Guarantee Agency is a step in the right direction. Low-income countries are in great need of development aid, particularly in the form of concessional assistance. We reaffirm our support of the International Development Asssociation (IDA) as the most adequate international institution for transferring such assistance and join those who have called for timely negotiations for IDA-VIII.

Finally, there is a need for improving the functioning of the international monetary system. Since a return to fixed exchange rates cannot be currently envisaged, there should be closer cooperation and better coordination of the economic policies of the industrial countries. The decision of the Group of Five to intervene in the foreign exchange markets to depress the value of the U.S. dollar is a necessary but not sufficient step. It put a brake on speculative expectations, but only a change in economic policy aimed at the elimination of internal imbalances and the establishment of a sustainable pattern of international capital flows is likely to prevent the emergence of similar expectations in the future.

In concluding, I would like to stress, once again, the need for a global strategy that aims at establishing the conditions for a return to durable growth. The time is ripe to build on the progress made during the last decade in adjusting our economies to the new economic conditions. We should meet the challenge by coordinating our policies and mobilizing the resources necessary for a sustained recovery of world output.

HUNGARY: JANOS FEKETE

Governor of the Fund

It is a great honor to address the Fortieth Annual Meetings of the Bretton Woods institutions.

I associate with my fellow Governors to welcome Tonga as a new member of the IMF and the World Bank. May I also be allowed to thank the host country for the excellent arrangements under which we meet this week.

I wish to congratulate Chairman Toure for his excellent opening address. It is a pleasure to join previous speakers to express our thanks for the remarkable speech of President Clausen. We heard with great regret that he will not be available for the next term as President of the Bank. He did an excellent job, and I think the standing ovation that he got after his speech witnesses that it is the general view of all of us.

I wish to thank also to the Managing Director for his enlightening and sincere remarks and express my gratitude that he took a bit of his previous time to visit our country. I hope he felt the high respect and esteem which we feel for him and for the institution he represents.

I would like to report to you first on recent developments in the Hungarian economy and then outline our position concerning some problems of the world economy and the international monetary system.

Since the early 1980's, Hungary has made several important steps to join the international monetary system. In 1982, we joined the Bank and the Fund and, in the spring of 1985, Hungary became a member of IFC and IDA. I would like to use this forum to emphasize the close relationship and fruitful cooperation that have developed between Hungary and these international financial institutions, which was shown in practice, when the policy of external and internal economic adjustment pursued by us since 1979 was seriously disturbed by the international debt crisis of 1982. Our country successfully solved its liquidity shortage by the help of both the acceleration of the adjustment already under way and the coordinated assistance given by central banks and the international financial institutions.

Hungary concluded two stand-by arrangements with the Fund in two consecutive years and completed all the undertakings we had agreed upon.

During those two years, the Hungarian economic policy aimed to achieve a sizable surplus in the convertible current account and to increase the level of foreign exchange reserves. Domestic demand has been restrained through strict fiscal, credit, and income policies. Exchange rate and price policy measures were also taken to promote transfer of resources to the external sector. The strength of adjustment is indicated by a shift of real resources into the external sector, that was equivalent to 16 percent of GDP between 1978 and 1984. This, according to the Fund staff appraisal, was a "striking degree of adjustment by any standard."

As a result of these achievements, the commercial banks' voluntary lendings to Hungary resumed, making possible a substantial increase in medium-term and long-term capital inflows. Our reserves are today at a higher level than before the international debt crisis, and cover about eight months of imports in hard currencies—a high level by any international standard.

Hungary progressed also in the process of structural changes and increasing efficiency in the economy. Several measures were taken which strengthen the role of market forces and improve the ability of the economy to adjust itself to the changing conditions of the external markets. New projects were implemented in the agriculture, industry, and energy sectors—projects supported by World Bank "A" loans and "B" loans and by commercial banks. During the completion of three successful cofinancing operations, we received much needed help and advice from the management and staff of The World Bank.

The Fund appraisal, under the recent Article IV consultations, stated that by early 1985, Hungary was thereby well placed to forgo further Fund assistance on the expiration of its second stand-by arrangement. In line with the Fund policy we shall make early repayments this year of our 1986 obligations to the Fund.

Our cooperation with the Fund proved to be fruitful because the aim of our Government's economic policy, launched in December 1978 to achieve external and internal equilibrium, coincided with the suggestions of the Fund. We are convinced that Fund support can only be successful if it meets with the political will of the government involved and the conditionality does not exceed the limits of the social tolerance of a given country.

To continue the adjustment efforts to achieve an enduring improvement in the current account in convertible currencies while accelerating the process of improvement of the economic management system are the main objectives of our economic policy in 1985 and will also remain the same for the five-year plan period.

However, earlier policy instruments of adjustment used up to now—reduction in real wages and investments—no longer constitute a realistic policy option because they undermine the basis for future growth and also imply unacceptable social costs.

Therefore, the path of adjustment to be followed is to increase productivity and efficiency in order to attain a reasonable growth of investments and consumption.

This needs further restructuring of the economy. Therefore, in the next medium term, the Hungarian economic policy will allocate a greater part of resources in support of economic growth and the acceleration of structural changes.

At the same time, greater emphasis will be given to the process of further improving the economic mangement system:

(a) to accelerate the elimination of consumer price subsidies;

(b) to make wages correspond more to performance, thus creating the possibility of real wage differentiation;

(c) to introduce adequate personal income taxation and a VAT-type tax system which are under consideration. In this respect, we expect the professional advice of Fund staff;

(d) to introduce external convertibility for the Hungarian forint which is envisaged in the medium term;

(e) The changes are accompanied by the modernization of the institutional system of macroeconomic guidance of the economy and enterprise management; and

(f) An important component of this process is the Hungarian financial system. Steps were taken to introduce more competition into the banking system and to develop a system of capital market intermediation

Restructuring the economy is an import-and capital-intensive process; therefore, we shall also need external financial resources for the next medium-term period. Hungary intends to go ahead with its active participation in the international capital and money markets and wants to continue its cooperation with the international financial institution by utilizing their policy recommendations and technical assistance, and, in the case of need, financial assistance.

However, achieving our economic policy objectives depends largely on external conditions. Up to now, the cooperation of international institutions, governments, central banks and commercial banks made it possible to keep the international debt crisis under control. The moderate and uneven recovery, which peaked in 1984 in the industrial countries, alleviated to some degree the pressure on a number of indebted developing countries.

Unfortunately, there is growing evidence that this recovery and the first phase of debt rescheduling brought only temporary relief: the fear exists that the breathing space the world has gained during the past two years is vanishing.

Since the beginning of this year, we witness declining growth rates namely in the United States which cannot be compensated by the modest improvement in some other industrial countries. Growth forecasts are repeatedly down-scaled. Expansion of export markets is hindered by growing protectionism. The terms of trade for developing countries continue to deteriorate and real interest rates are still very high. Official support and private lending to developing countries continue to decline. We could witness a negative transfer of resources from a number of developing countries that is like a "reverse blood transfusion" whereby the healthy one gets blood from the unhealthy.

In order to avoid an outright recession which would surely trigger a second debt crisis, it seems to be of great urgency to address energetically the severe and growing imbalances in the world economy and to share more equally the burden of adjustments.

I don't, myself, feel entitled to criticize the policy of any other member country. But I ask myself why do governments of some major shareholders object—in the prospect of dangerous debt crises—any proposal aimed at the increase of the lending capacity of the IMF and The World Bank. This hurts the interests of many debtors—which badly need liquidity because they are unable to borrow on the market--*but it hurts,* at least to a certain extent, the interests of the creditors, also, making it more difficult or even impossible for debtors to service their debts.

The policies followed by the international financial institutions hold an outstanding importance for all the member countries. The Fund must play a pivotal role in promoting international financial stability and external adjustment. The Reports of the Group of Ten and Group of Tweny-Four also came to this conclusion. We fully agree with this. We think it is necessary to strengthen the Fund's role in its surveillance function and its balance of payments assistance.

The Fund surveillance function is most important in the case of countries which have a large impact on the world economy through their national policies. Hungary therefore supports the proposal that, in order to ensure a greater symmetry of adjustment, existing surveillance procedures toward major currency countries have to be reinforced. We should move ahead toward a new exchange rate system which can overcome both the destabilizing uncertainties of floating exchange rates and the rigidity of the former par value system.

As for the Fund's balance of payments assistance, serious debt-service burdens in several member countries fully justify the maintenance of the Fund's enlarged access policy. Countries that have carried out a successful adjustment should be supported to enter the phase of sustained economic growth. International financial institutions are delaying the formulation of their policies to support this process in both policy guidelines and adequate financing resources. The responsibility for this delay falls on some major shareholders of the Bank and the Fund.

Hungary supports the continuation of the Fund's enlarged access policy and the maintenance of the present access limits for 1986 and considers the reduction of these limits as untimely, giving wrong signals to the financial markets.

We also support revival of SDR allocations which would reduce the dependency on borrowed reserves. Such allocations would not be inflationary in the present economic environment. We support the use of resources arising from the reflow of loans that were made by the Trust Fund.

Hungary strongly supports the strengthening of The World Bank as well. The unique role of the Bank cannot be maintained without a considerable increase of its lending. Hungary is in favor of a new general capital increase.

Our country, since joining the Bank and in line with Hungary's modest possibilities, has tried to contribute to the strengthening of the Bank's capital base. Hungary has subscribed to all shares authorized for us, including those authorized by the resolution on the latest selective capital increase, and regularly subscribes to the Bank bond issues and the Bank's central bank facility.

Some people believe we have passed the crisis—I think we only gained time to be used to build up our defense line against a worldwide economic recession and debt crisis. We remain confident that the Bank and the Fund will play an efficient role in it.

We have a heavy responsibility. We have to act now.

INDIA: VISHWANATH PRATAP SINGH

Governor of the Bank and Fund

I would like to join my fellow Governors in congratulating you on your election as Chairman of the Annual Meetings. We thank the Government of the Republic of Korea for their warm hospitality and for the care taken to make our stay comfortable.

We warmly welcome the Kingdom of Tonga as a member of the International Monetary Fund and The World Bank and the Hungarian Peoples' Republic as a member of the International Development Association and the International Finance Corporation.

We are grieved by the tragedy that has befallen the people of Mexico. We extend to them our heartfelt sympathies.

We heard with regret of Mr. Clausen's decision to step down at the end of his term. During his tenure, Mr. Clausen served the Bank ably and responded constructively to difficult world economic situations. We wish him well.

The economic recovery in industrial countries in the last two years gave a false sense of complacency about the working of the international economic system. During this period, the recovery was uneven. In many industrial countries, unemployment ruled supreme. Interest rates were excessive, movements in exchange rates of major currencies were highly volatile and misaligned and protectionism intensified. The economic performance of the industrial world in the first half of 1985 has further exposed the fragility of the recovery. There has been a slowdown in growth, a sharp drop in the prices of primary commodities, worsening of the terms of trade, and a decline in export capacity of developing countries. There has been no improvement in the flow of resources from bilateral donors, multilateral financial institutions, commercial banks, and other creditors. As a result, the growth prospects of developing countries are bleak.

The key issue before us now is how to revive the faltering recovery and make it durable and self-sustaining. In view of the predominant economic impact of the policies of major industrial countries, the situation calls for consistent and coordinated actions by them. This message has been brought out eloquently in the Group of Twenty-Four Report on the Functioning and Improvement of the International Monetary System. Equally important is the urgent need to meet the liquidity requirements of developing countries. It is essential that resource transfers to developing countries are enhanced. Recent experience has shown that emphasis only on adjustment has often led to import reduction, financial stringency, lowering of growth, and spread of unemployment and economic deprivation among the poor, causing social and political costs which no government based on democratic principles can ignore. And it is often forgotten that it is not only the developing countries but also industrial countries who need to adjust. In fact, protectionist pressures in industrial countries arise because of their reluctance to adjust. These are then projected as political compulsions. . . .

. . . I now refer to some issues concerning The World Bank. We are happy that the Development Committee has agreed to expand the lending program of The World Bank to meet the increased needs of developing countries. However, we are disappointed that the Committee could not agree on the size of the increase in the Bank's capital and a firm time frame for its implementation.

The decision to commence negotiations for the IDA-VII Replenishment and to set up an agreed timetable is welcome. We are all aware that allocations under IDA-VII were grossly inadequate. We hope that the size of IDA-VIII will take into account the requirements of all low-income countries.

We are happy that the Special Facility for Sub-Saharan Africa has been activated and decisions arrived at for the use of Trust Fund reflows which would be of special assistance to low-income countries facing especially difficult prospects.

We are also glad to note that there is an increasing realization that commercial banks need to do more in the way of new financing to help highly indebted countries.

While we are aware that multilateral development institutions have a catalytic role to play, we must ensure that this is not at the expense of their primary role of providing development finance. There is a tendency to offer policy advice when financing is needed, ignoring the special circumstances of different developing countries. Increasingly, we get the impression that the advice is given on the basis of the presumed infallibility of free market forces. There is admittedly a scope for nondiscretionary decision making. However, exclusive reliance on market forces is not a panacea for all economic problems.

We believe that the relative mix of the public and private sectors is a matter for each country to decide. Countries which rely primarily on the private sector have not always done better in the matter of development and poverty alleviation. The structure of the economies inherited by many developing countries on attaining independence from colonial rule was such that state initiative was essential to provide an impetus for economic development. Such impetus would not, in many cases, have come on its own through the free play of market forces.

It is the responsibility of governments to formulate policies appropriate to the conditions of their own countries. Given the state of the art, there can be an honest difference of opinion on what constitutes the right policy in a given situation as well as the pace of transition. These differences exist in the developed as well as in the developing world. It is, therefore, appropriate that the responsibility for making policy decisions should lie with those who have to bear the consequences of such decisions. There is no single prescription for problems faced by different developing countries.

We, in India, had fashioned our development strategy that placed emphasis on self-reliance based on larger domestic investment efforts in agriculture, machine building, and infrastructure. These investments were financed mainly by domestic savings. Foreign borrowing was kept within manageable limits. This meant a careful and rational use of both physical and financial resources with policies that are both promotional and regulatory. Having succeeded in building a wider economic base in which our public sector played a key role, we have in recent years liberalized industrial, import, and exchange control policies. We have been following prudent financial policies, and we intend to pursue them in the years to come.

We have been discussing over many years the problems confronting the world economy. These problems are systemic in character and cannot be resolved by ad hoc solutions designed for recurrent crises. There is a growing realization that fundamental imbalances and inadequacies in the international monetary and financial system have to be squarely and comprehensively addressed. In that connection, we welcome the Reports produced by the Group of Ten and the Group of Twenty-Four on the Functioning and Improvement of the International Monetary System and the decision to have them considered at the next meeting of the Interim Committee. We hope that this will lead to a joint examination of the Reports by both the Interim and Development Committees.

We urge that, in considering these Reports, we do not shy away from the imperatives of fundamental changes that the persistent disarray in the world economy demands. The appropriate forum for discussing far-reaching reform of the international monetary and financial system would be an international conference.

INDONESIA: RADIUS PRAWIRO

Governor of the Fund

I am very pleased and honored to represent the Republic of Indonesia today and to take part in these most important Meetings. I would like to join my fellow Governors in extending a sincere welcome to the Kingdom of Tonga as the newest member of The World Bank and the International Monetary Fund. I would also like to thank the President of the Republic of Korea, Mr. Chun Doo Hwan, for his opening remarks and wish to express my appreciation to the people and the Government of the Republic of Korea for their warm hospitality and for the excellent arrangements they have made for these Meetings. Furthermore, I would like to thank Mr. de Larosière, Mr. Clausen, and other speakers for their very interesting remarks on the current state of the world economy.

Forty years have passed since the end of the war which shook civilization and permanently altered the political map of the world. Forty years ago, my country, the Republic of Indonesia, was founded as an independent nation, during the same era in which the International Monetary Fund came into existence. It would be correct to say that the world economy has been recreated in the past 40 years, and it would also be correct to say that we are still in the process of "working out the bugs in the system." The process of developing and improving the system is, of course, why the Bank and the Fund exist, and it is why we are all here today.

First of all, Mr. Chairman, since President Clausen has announced that he is not going to take up a second term, I would like to join other speakers in congratulating him for his able leadership and contribution in making the Bank a viable and efficient institution of today.

The world economy is now at a critical juncture. We are at a point in our collective development where the decisions and actions we take now will be seen as a vote in favor of continued international cooperation or a retreat toward narrowly defined economic self-interest. I am sure that we are all in agreement on the benefits of interdependence and the need for cooperation; however, these necessitate continued concerted effort and some sacrifice on the part of all parties—rich and poor, developed and developing—if stability and growth are to continue. A recovery in world trade is clearly jeopardized by the failure of the industrial countries to closely coordinate and link their individual national economic policies into a coherent and unified strategy, as well as by their failure to take due consideration of the international impact of those policies. A closely coordinated and internationally oriented approach would certainly provide the engine to spur the growth of the global economy.

This period is critical in part because of the fragile nature of the present international economic recovery. We note with great concern that growth in the United States has slowed. Although expansion of that nation's economy is likely to continue in the short to medium term, the economic indicators are mixed, thus adding greater uncertainty to our own individual projections for growth.

Mixed signals also exist for the European Community. Despite the unrelenting unemployment problem, especially in the United Kingdom, levels of output and investment point to relatively greater economic strength, European Community membership is about to increase, and last year intra-European Community trade grew by some 14 percent, seven times the rate of economic growth. This may well be an indication that the community is discovering its own internal trade potential and that this underutilized area of its economy is starting to spring back.

Japan's economic growth also has slowed somewhat—though, in general, it remains dynamic and expanding.

The weakness in the recovery among the industrial nations has had a tangible effect on the rest of the world. While many developing countries have experienced renewed growth, the various countries and regions sharply differ in their rate of progress. Weak commodity prices, in particular, have had a negative impact on developing countries, and the outlook remains bleak for at least the short term.

Inflation is an area where, with few exceptions, the industrial nations have made substantial progress. Again, the problems that still exist are concentrated primarily in developing countries.

If the factors I have just cited were sufficient criteria for gauging economic strength, then we could consider this a relatively stable economic period, and we could feel satisfied with the progress that has been achieved. However, major problems remain that could reverse the present recovery if they are not promptly and adequately addressed. Three of these problems are: debt, exchange rate volatility, and protectionism. All three are of particular importance to the world's developing nations.

Although progress is being made in resolving the debt issue, we are still in the danger zone. On the bright side, most nations are keeping up with their debt servicing while others are seeking and finding reasonable, sometimes short-term, solutions through restructuring their debt.

On the other hand, there has been growing dissent among certain developing countries regarding debt repayment. This should not be viewed simply as a lack of cooperation. It reflects a combination of frustration and a desire to find solutions that will not necessitate economic regimes that can only be compared to starvation diets. The way to a smooth and orderly resolution of the problem posed by the large debt burdens carried by developing countries is to keep open the trade avenues by which these nations can sustain and improve their levels of foreign exchange earnings. This issue is clearly linked to the issue of protectionism which threatens increased world trade.

Exchange rate volatility is an issue of particular importance to developing nations. The extreme swings in exchange rates in the last few years have aggravated the exposure risks associated with foreign currency loans. This has discouraged the flow of overseas investment that is so important to the economic growth of many developing countries. In this regard, innovative actions are needed to boost the flows of direct foreign investment into the developing countries. We are of the opinion that any scheme which has the potential to encourage the flow of resources to productive enterprises in developing member countries, and to increase the share of devloping countries in international investment within the framework of investment policy and priorities of the host countries, deserves strong support. In this connection we are following with great interest the Bank's initiative to create the Multilateral Investment Guarantee Agency (MIGA).

The third major issue is that of protectionism. Simply put, protectionism is an invitation to disaster. I would like to elaborate a bit on this by referring specifically to Indonesia as a case in point.

As with many developing nations, we have a rapidly growing population and, by extension, an expanding work force. We have a significant but conservatively managed and fully serviced debt. Much of our foreign exchange is derived from the sale abroad of primary commodities, especially oil.

When oil prices weakened, we acted quickly to protect our economy. To ease the pressure on our balance of payments, we were forced to initiate measures to reduce the growth of our national import bill.

Coupled with this action, we intensified our efforts to develop non-oil exports. Clearly, the success of these efforts will depend to a large extent on the economic policies adopted by the industrial countries. Aggregate demand for our commodities and industrial products, and similarly the products of other nations, will grow only if the industrial nations pursue policies of economic expansion.

We have also been relentless in our attempt to reform our regulatory environment, from our tax system and domestic and foreign investment procedures to regulations governing port and customs operations and our financial markets.

The results have been encouraging. Between 1978 and 1983 our foreign trade grew at an annual rate of 15.5 percent, with the non-oil component growing the most rapidly. Our current account deficit, which was $7 billion in fiscal year 1982/83, has fallen to approximately $2 billion in 1984/85. Our economic growth in 1984 was 5.2 percent, and we are projecting a 5 percent annual growth for our current five-year plan (1984/85 to 1988/89). Furthermore, we feel that we can now safely say that we have finally conquered inflation. Last year's rate was a manageable 3.6 percent, and this year's rate will be similarly low.

I am citing our example only in an effort to demonstrate that our continued economic growth has depended on a healthy mix of internal adjustment and open markets for the products of our agricultural and industrial sectors.

The substantial slowdown in world trade that became most evident last year and is projected to continue through 1986, and possibly beyond, is a serious issue in itself. The problem has been aggravated by the narrow protectionist sentiment that is spreading throughout North America, Japan, and the European Community. It is disturbing that the United States, which for years championed the cause of free trade and had the most important role in establishing the present international trading system, is now the country from which the cries for protectionism are strongest. The U.S. Congress reconvened after its summer recess with over 300 pieces of trade legislation, much of it protectionistic, ready to be voted on. Several of those bills, if passed, could have a severe impact on our balance of payments.

Substantive unilateral protectionist measures could prompt retaliations which in turn could escalate into full-scale trade wars. This could bring the entire world trading system to a grinding halt.

Even without such extreme results, the effect of the United States and other countries closing their doors to imports could seriously damage economic progress among the developing nations. Restructuring developing economies to adapt to much more restricted export markets would not only take considerable time, it could result in severe economic dislocations and make debt repayment even more onerous for most and virtually impossible for some.

Many proponents of protectionism are saying that they are for "fair trade" rather than "free trade." Yet, clearly, there is nothing fair in the abrupt creation of trade barriers that would disrupt entire markets that were developed in good faith over many years. Trade is, by definition, a multilateral activity the problems of which require multilateral solutions. The urgency of today's circumstances requires that these solutions be implemented promptly. I would like to first consider alternative actions to respond to the issue of exchange rate fluctuations.

Certainly one of the single greatest threats to the continued international economic recovery is the U.S. budget deficit. We support the efforts of the U.S. Government to reduce this deficit, and look forward to the positive impact on international exchange and interest rates that such a reduction will have when it is eventually realized. . . .

. . . In the meantime, the cries for protectionist measures have yet to be silenced. We must register in no uncertain terms our collective opposition to this movement. Immediate action must be taken to defuse the dangerous rhetoric that surrounds this issue. The green light has now been given for a fresh round of GATT talks. The system of more liberal rules for world trade which has been shaped by successive agreements under GATT has brought significant benefits to many of the participating countries. It is important that any revision of the rules should operate to create freer world trade. It is equally important that the developing countries be allowed to participate fully in a growing and more liberal world trade environment. The alternative to such a constructive scenario poses far greater risks associated with the market erosion which we would all face through mounting tariffs and quotas. . . .

. . . I earnestly call on the governments of all of the major industrial nations, and especially that of the United States, to resist protectionist pressures. I urge all of you here to oppose this trend with steadfast determination.

As for the international debt problem, it is an issue which requires that we dedicate ourselves to finding solutions that are acceptable and lend themselves to long-term growth, rather than make-do improvisations and stopgap measures. The Bank and the Fund should draw on their full capabilities to respond to this problem. During this past year, neither the Bank nor the Fund made full use of its credit resources. This is not in keeping with the needs of the very nations that depend on the Bank and the Fund for support. Given the current strains caused by debt and the less than vigorous short-term economic outlook for many developing nations, the Bank and the Fund should increase rather than decrease their lending operations. The suggestion made by some members from industrial countries, that the access limits be reduced, does not conform to the needs of developing nations at this time.

The underutilization of SDR allocations must be reversed. Some members have suggested that increased availability of SDRs will fuel inflation. Given the credit needs that exist and the fact that inflation is under control in most parts of the world, I feel that a more liberal allocation of SDRs is warranted. In addition, given the current debt situation, the Fund should increase the availability and ease of access to compensatory financing facilities. Given the strain imposed on many countries by the twin burdens of debt coupled with low commodity prices, the belt-tightening measures which had been the hallmark of the terms set by the international lending agencies were inappropriate. A more enlightened approach would see an increase in the flow of credit to the developing countries channeled into productive ventures that would produce more wealth for these nations.

The Bank and the Fund have key roles to play in preventing the international debt problem from re-emerging as a crisis. To this end, the capital base of the Bank and the Fund should be increased. In addition, the upper range of the lending guidelines proposed by the Bank's management for the next three years should be accepted as the minimum level to be achieved. A larger lending program will require a stronger capital base for the Bank. In this regard, I regret to say, we have not seen much progress. I therefore urge all member governments to reach an early agreement on this issue so that the Bank will be able to fulfill its obligation to assist member countries.

If more creative solutions exist, let us consider them with open minds and a sincere desire to rectify the situation. The industrial nations should recognize that the resolution of the debt problem is as much in their interest as it is in the interest of the developing countries. The alternatives of uncompromising slowdowns and unremitting austerity threaten to have far graver consequences on the world economies than debt restructuring.

Over the last four decades the Fund has adapted and changed with the needs of the times and with a growing understanding of how it can be most effective as an international financial institution. We are now in a critical stage in the development of the international economy, and the Bank and the Fund are two of the most important institutions in ensuring that we make it through this transition stronger than ever.

Important challenges remain—and difficult structural changes must be made in the world economy. We all recognize this. Together we have the power to ensure that the obstacles to progress are overcome. If we work together solutions are certainly within our reach.

ISLAMIC REPUBLIC OF IRAN: HOSSEIN NAMAZI

Governor of the Bank

In the Name of Allah, the most Gracious, the most Merciful.

. . . You shall have your capital sum: deal not unjustly, and you shall not be dealt with unjustly.
The Holy Quran, II:279

I would like to join other speakers by extending my sincere appreciation to the organizers of these splendid meetings for their selfless and commendable efforts; and to the host country for its hospitality and dedication to this prominent gathering. I would also like to welcome the newly-joined members of our two institutions.

A glance at the main developments in the global economy over the past year reflects ominous signs of uncertainty and fragility. Although some modest progress has been achieved in the last two years, the earlier substantial economic and social losses have not been recouped. Based on the available projections and analyses, it now seems quite likely that the much-heralded economic recovery reached its peak last year and that the output expansion projected for 1985 and 1986 will not only be slower than expected, but even considerably lower than it was in 1984. Unlike the earlier upswings of the trade cycles, the 1984-85 recovery has proved narrow-based and ephemeral. While the inflationary pressures in industrial countries have subsided, lack of policy coordination in those countries and fundamental fiscal and trade imbalances have created an aura of uncertainty and instability marked by exchange and interest rate volatility, high unemployment rates and intense pressures to enhance protectionism. On the financial side, the capital markets have failed to effectively recycle the current account surpluses to needy recipients now that these surplus funds are concentrated in the coffers of industrial countries. The negative real financial flows of the debtor nations are testimony to this unwelcome development.

These adverse repercussions have been felt by the developing countries, and among this group the exporters of primary products should be singled out as being specially affected, reflecting the weak and uncertain environment in the primary commodity markets. The continuing weakness in primary commodity prices and its gloomy outlook should be a cause for considerable concern, as with the inevitable further deterioration of the terms of trade of the primary product exporters, their major revenue source will gradually lose its purchasing power, augmenting these countries' dependence on external finance while undermining their development potential. Other groups of developing countries facing special hardship are the countries of sub-Saharan Africa and the heavily-indebted nations. While the former group faces continuing supply shortages, curtailment of essential imports and loss of export markets, the latter countries are heavily burdened under huge debt-servicing commitments exacerbated by high and volatile exchange and interest rates. The capital-importing developing countries of Africa will most likely have negative net transfers of funds in 1985 and beyond as their total debt-servicing will far exceed the inflow of official and market-related financial resources. The fast-rising overdue financial obligations and arrears of these countries to the Fund attest to the seriousness of their conditions.

For the fourth year in succession, fuel exporters will post current account deficits and substantially-reduced imports. Their terms of trade will significantly worsen in this year and the next; and in the foreseeable future. The persistent decline in oil prices has adversely affected output growth, employment and investment in fuel exporting countries; with spillover effects being transmitted to other countries.

The boom phase of the cycle did not succeed in paving the way for self-sustained recovery while the inevitable downswing may have already started.

Apart from the fragile and fragmented character of the fast-fading recovery, a very serious development in 1984-85 has been the malfunctioning of the transmission mechanism of economic growth and trade expansion to the developing countries. Despite the real growth rates in trade and in the economies of industrial countries, the commodity prices show a long-term declining trend. Based on the existing mechanisms of transmission, growth of the developing countries depends considerably on the volume of international trade and the export markets for their products; hence the need for a sustained real growth scenario in industrial countries. With the current economic retrenchment and uncertain projections, however, the existing transmission mechanisms will ensure prolonged adverse effects for the developing countries. Yet, it is disconcerting to note that these same mechanisms also failed to transfer the economic upswings and the seemingly acceptable growth environment of last year to the developing countries in any lasting measure. The precarious nature of the transmission procedures and the inappropriate and involuntary dependence of the developing countries on the economic fortunes of the industrial nations of the East and West demonstrate the need for self-sufficiency and self-reliance, away from total dependence on unpredictable vicissitudes in industrial economies toward internally-generated, and externally-supported, self-sustained development.

Yet, this precarious global polarity also extends geographically to industrial countries, where the reserve centers disproportionately dominate the rest, and changes in their fortunes send shock waves to, and undermine the prospects and destinies of, other countries. The persistent external and fiscal imbalances in a few countries have created instability, uncertainty and disequilibrium in the exchange and capital markets of the world. The existing institutional framework is not equipped to respond, and has become oversensitive, to the ambiguous and often conflicting economic signals that emanate from the reserve centers and translate into financial shock waves: Hence the failure of financial markets to demonstrate rational responses to disequilibria and imbalances. A case in point is the current volatility and misalignment in key currencies that cannot be explained by the conventional theoretical criteria.

The modalities of the present system reflect, therefore, polarization of economic interests, conflicting priorities and values, disparate patterns and incongruity of criteria of development, explicit and implicit inequality of partnership and uneven concentration of financial resources. As a result, the picture that has emerged after years of ostensible adjustments is marred by misaligned key currencies, disturbed and susceptible financial markets, protectionism and unemployment, inequity and rising poverty. The fragility and inadequacy of the system have prevented the creation of institutional defense mechanisms against unforeseen contingencies such as droughts and other natural calamities. Instead, increasing reliance primarily on charities and ad hoc solutions only postpone the inevitable global crisis of confidence and solvency. The deprived economies should be drawn into the global adjustment process and should be extended all assistance, as their basic rights and entitlement. The burden of adjustment should be shared by the surplus as well as deficit countries.

The magnitude of the developing countries' debt burden is now on the border of the trillion dollar figure, unprecedented in history. Apart from its colossal size, its heavily concentrated pattern suggests that almost a third is accounted for by less than ten countries and almost a half is owed to private creditors at volatile private market conditions. This uneven concentration has created financial vulnerability and is fraught with instability and uncertainty. In order to generate sufficient surplus funds to pay even the interest on such debts, debtor countries must increase net real savings and generate current account surpluses, and hence continue to drastically reduce consumption, development expenditure and capital investment. This process is incompatible with national goals and aspirations and certainly unsustainable in the medium and long terms. The institutional framework for coping with the debt problem has remained unsatisfactory because it does not address the fundamental structural underlying issues that have worked to create the problem in the first place. Instead, the existing framework is based on the prolongation of the repayment and maturity periods, and a postponement of the ultimate burden of debt to the future periods and to future generations. Indeed, the debt rescheduling process, notwithstanding some temporary respite, has not reduced the debt burden. In most cases, the net debt-servicing costs to the average borrower have risen and the apparent elimination, in a few cases, of "bunching" in debt maturities has merely postponed and prolonged the settlement period.

The apparent improvement in the economies of some debt-stricken countries has been achieved at the expense of growth, through foregone consumption and investments and import compression that have produced lower living standards. Yet, they have not solved the underlying problems. The total debt burden of the heavily indebted countries continues to mount unabated. The incidence of protectionism has distinctly affected export growth prospects while the upcoming slack in industrial economies and the cloudy prospects for oil and primary commodity prices will further reduce the chances of a perceptible surge in their sources of revenue; essential as they are for effective debt-servicing and adjustment by the deficit countries. Many African nations continue to witness erosion in their per capita incomes and living standards. More severe deflationary and demand management policies have proved counterproductive as income and consumption levels are already at precarious levels and far below subsistence, beyond which further revenues and savings cannot be generated.

The existing mechanism of global adjustment and conditionality is asymmetric as it involves only deficit countries who need to borrow from the private financial markets and the multilateral development and finance institutions. The incidence of uneven adjustment on deficit countries has continuously undermined growth and employment prospects without any perceptible improvement. The earlier promise of substantial external financial flows accompanying IMF adjustment programs has failed to materialize, as nearly all forms of lending to developing countries declined in 1984 in the wake of the fourth year of harsh adjustment. Spontaneous or voluntary lending declined in 1984 compared to the already depressed level of 1983. The share of official development assistance remained stagnant last year and is far below the United Nations' target. Both the World Bank and the IMF have reduced their commitments for the current financial year. The problem will be further compounded as the available projections indicate that next year, for the first time since 1978, there will be a negative net resource transfer in the IMF: from capital importing developing countries to the Fund to the tune of nearly $4 billion. Instead, there is clear indication that commercial funds with unaffordable conditions are being substituted for official concessional lending; while the concessionality element in the latter is being gradually diminished. Other avenues of official finance such as the Special Drawing Rights have been continuously neglected.

The surveillance functions of the International Monetary Fund, asymmetric as they are, are gradually but distinctly being shared with private creditors who, as the main beneficiaries of debt rescheduling arrangements, are attaching increasing conditionality to multi-year restructuring arrangements, without being necessarily committed to the objectives of global adjustment as defined in the charters of our two institutions and reiterated by the Group of Twenty-Four. The increasing number and variety of enhanced surveillance procedures are further testimony to the commercialization of global official adjustment.

Distinguished Delegates: Any equitable and effective system of global economic adjustment must be based on mutuality of needs, reciprocity of adjustment and multiplicity of purpose. The need for a decent human living standard is a divine entitlement. Unless an acceptable minimum level of economic activity is recognized, economic adjustment will prove contradictory and counterproductive. Moreover, global adjustment necessitates participation by both surplus and deficit countries through transfer of real resources from the former to the latter. Furthermore, the purposes and objectives of global adjustment should be broadened to include social as well as economic criteria; and surely beyond purely quantitative and mechanistic objectives.

An adjustment strategy should be growth and employment oriented, with the aim of restoring the output of locally-produced essential commodities and revenue generating export products. For countries with poor resource base, the emphasis should be on the production of basic foodstuffs to alleviate their heavy dependence on strategic food imports. Top priority should be given to food security issues, aimed at self-reliance and internally-generated, self-sustained process of development with special provision for cash-crop exports.

The surplus countries should become full participants in the process of international adjustment by agreeing to channel financial resources to the optimum international-adjustment use; that is towards the deficit countries, and on affordable terms. It is imperative to demand that surplus countries honor their obligations under the charters of our two institutions just as the deficit members have done.

The adjustment programs should address the problem of growth and development in its totality. This requires close coordination between the IMF and the World Bank at both the formulation and implementation stages, without giving rise to cross-conditionality. The two institutions must fully assume ultimate responsibility to provide concessional credits by exercising effective international surveillance over members with surplus funds and the financial markets.

Within the framework of Fund-Sponsored adjustment programs, there is a need to change the policy mix to distinguish between that part of a balance of payment deficit for which domestic policies of a developing country have not been responsible, and endogenous elements. Experience has shown that it is irrational and unjust to impose stereotype adjustment on countries, to correct imbalances for which they were not in the least responsible.

The austerity measures adopted by developing countries have not so far persuaded the international financial community that these harsh steps are bona fide indications that these countries are complying with their responsibilities to put their houses in order. As a quid pro quo, they are entitled to expect that the international organizations, specially the World Bank and the IMF, use their leverage to convince the lords of commercial capital markets that something more than a profit-seeking motive is at stake: the future smooth working of the international financial system. On the contrary, it so happens that a reverse process is in the making: the IMF and the World Bank are being used by the commercial markets as leverage to expedite and guarantee loan repayments and the stock of debt and foreign investment in developing countries. It is essential to look beyond the immediate horizon of transient self-interest, toward an ultimate harmony of a genuinely integrated economic and social system, consisting of diverse but potentially harmonious parts.

Fellow Governors,

The existing economic policies based on social Darwinism and materialism have thus failed to address the needs and aspirations of the people of the world and have demonstrated waste, inefficiency and injustice. We believe that the principles of Islam are all-embracing and comprehensive based on equity, equality in opportunities and justice. These Islamic ideals may be difficult to actualize, but we believe that with the acknowledged resurgence of Islamic solutions to the seemingly insoluble problems and the disenchantment of the masses with the failure of the status quo, this worldwide movement should be recognized and studied by international forums.

It is only reasonable and legitimate that we should call upon the international financial institutions to broaden their horizon to look beyond the existing economic systems. Almost a third of the membership of the World Bank and the IMF consists of Muslim nations, in some of which Islamic criteria and concepts are being implemented. While the Fund has taken modest initial steps to look into this fast-growing divine phenomenon, much remains to be done. The international development and financial institutions should act as forums where studies can be undertaken and comparisons made, in order to provide further global information and awareness. I call upon my fellow Governors to press ahead with this point by directing their representatives in the two institutions to further pursue the matter.

To briefly report to my fellow Governors of our own experience in moving towards the implementation of Islamic Principles, the process of conversion into a totally Islamic system which began with the Islamic Revolution is now fast moving towards fruition. The complete Islamization of the banking system began in September 1983 when the Law for Usury-Free Banking was enacted. Based on this law, far-reaching changes have been brought about in our banking system, with the elimination of predetermined, fixed interest and the introduction of profit-and-loss sharing schemes and other Islamic financial concepts based on joint participation, equity and trade financing. Monetary policy instruments such as reserve requirements, credit ceilings, moral suasion and a modified form of open market operation are being used to promote economic growth, full employment and efficient allocation of resources.

The experience of our banking sector after Islamization has been encouraging. During the last Iranian calendar year, the private sector deposits with commercial and specialized banks rose by nearly 6 percent and the volume of sight deposit showed a growth rate of close to 30 percent. The new Islamic concepts in investments and savings were introduced which received wide public support. While progress has been achieved nearly on all fronts, much remains to be done to perfect a system that can cope with the complexities of modern times and we look forward to an exchange of views and experience with other countries that have started the process of implementation of Islamic banking and finance.

On other economic fronts, the country has managed to fully cope with, and adapt to, an imposed war, now in its sixth year. Despite the inevitable burden on our resources, the Islamic Republic of Iran has continued to meet the basic essential needs of the populace and to encourage frugality and discourage waste. Inflation is completely under control—10.5 percent for last year and an estimated

5 percent for the current Iranian calendar year. Despite the drain on our revenue sources as a result of the war and the weakness in the international oil markets, the Islamic Republic of Iran has not forgotten those countries whose needs are greater by extending generous contributions and grants.

Our taxation system is being overhauled to incorporate the Islamic concepts and much progress has already been made to adapt its various provisions to the Islamic principles. The new taxation code is expected to receive parliamentary sanction soon and will be based on equity in tax incidence with special provisions to improve tax collection. In the last Iranian calendar year, total taxes increased by 14 percent over the previous year. We have thus successfully and substantially reduced the dependence of our budget on petroleum revenues.

Other avenues of revenue generation, together with more efficient revenue collection procedures have been instrumental. Indeed, non-oil domestic revenues have increased in the past two years. On the expenditure side, important savings have been made by susbtantial reductions in consumption expenditure on luxury and nonessential commodities. Despite the considerable burden on the budget of the financing of the imposed war, we have been able to increase capital and investment expenditure in the past two years.

As a result of prudent payments policies, we have continued to rely on our own internally-generated revenues despite taxing conditions. This policy of self-reliance has been combined with prompt payments of foreign exchange commitments, while considerable leniency and flexibility have been exercised with regard to our own international claims and debts, some of which have become long overdue. Every possible leeway and concession have been extended to our debtors, some of whom are among the industrial countries.

Fellow Governors, Distinguished Delegates: The goal we have set for ourselves, namely, the attainment of an ideal Islamic society based on the teachings of the Holy Quran and the Sunnah of the Prophet (SAWA), is a difficult task but one which, with the help of Allah, the Almighty, we shall pursue with all the power bestowed upon us.

May we be led by His Divine Guidance to equitably enjoy His Providence and Bounties of our planet by neither dealing with one another unjustly nor allowing to be dealt with unjustly.

IRELAND: ALAN M. DUKES

Governor of the Bank and Fund

The IMF staff is to be congratulated on its medium-term assessment as set out in the *World Economic Outlook*. Some of us may have reservations about the optimism of the projections, especially in light of the downward revisions over recent months. Many of the assumptions on which they are based may be disputed because of the downside risks involved. Nevertheless, I feel that the conclusions drawn are still valid.

Despite the improvements and adjustments in individual economies over recent times, world trade is not expected to increase fast enough to provide the growth in employment which we all wish to see, or to solve the other acute, difficulties of the developing countries. While there have been significant improvements, reflected in lower inflation, strengthened profits, and reduced interest rates, there has not been an adequate or sufficiently balanced response in terms of increased investment and domestic demand.

It is clear that the pace of recovery is being threatend by the serious imbalances in the international financial and economic environment. The Group of Five, at its meeting last month, gave due recognition to this threat in its communiqué. Many of us believe that the main reason for the persistence of high real interest rates and the distortion of international capital flows stems from the failure of exchange rates to reflect these external imbalances. The Group of Five rightly points out that the U.S. current account deficit, together with other factors, is now stoking protectionist pressures which could easily lead to mutually destructive retaliation with serious danger to the world economy; growth rates could become negative; unemployment would rise still higher; and debt-burdened developing countries would be unable to secure the export earnings they vitally need.

Policy action is, therefore, required to underpin the prospects for durable, noninflationary growth. While a key requirement of this strategy must be a correction of the fiscal and external deficits of the U.S. economy, there is also an onus on other countries to consider what scope they may have for compensatory policy action on a credible scale to offset the effects of a deceleration in U.S. import demand.

These global developments have, of course, their impact on the Irish economy. Last year, we recorded growth in GNP of a little over 2 percent, following two years of decline, while further reducing our inflation rate and continuing the improvement in our external accounts. The indications for 1985 are that these favorable trends will be consolidated, with a further modest advance in national output. The inflation rate has fallen to the level of that in our main trading partners and the deficit on the current balance of payments will narrow to about 4 percent of GDP. In common with the wider European experience, however, we have been faced with a deteriorating employment situation, aggravated in our case by the needs of a rapidly growing work force. The unemployment rate in Ireland has, in consequence, grown to over 17 percent this year. In addition—and in some measure because of this—we are faced with a persistent imbalance in our public finances, despite both increases in taxation and restraints on expenditure.

We are thus faced simultaneoulsy with the need to tackle the unemployment problem and to continue the process of improving our budgetary and external accounts. This poses difficult problems of economic management. I am, therefore, acutely conscious of the dilemma confronting policymakers in a great many other member countries.

In the final analysis, the fundamental solution to our problems lies in the maintenance of an export-led expansion. This will make easier the restoration of a better budgetary balance, will loosen the external constraint, and will directly benefit employment prospects. Given time, it will also promote the investment required to restructure and expand capacity. For our own part, we can lay some of the groundwork for this kind of expansion by sharpening our competitiveness and improving the domestic environment. These are key factors in my Government's strategy and we can point to important gains in this respect. Yet we have to face the fact that, however critical these elements, ultimately we depend on the growth of our overseas markets and on a stable international financial environment to maintain the momentum of our economy.

The sharp increase in real interest rates and the volatility of exchange rates have been major obstacles to our efforts to strengthen the capacity of the Irish economy and to come to grips with the unemployment problem. They have considerably prejudiced the capacity of the economy to grow and sustain jobs. They have also aggravated our budgetary problems, both directly by adding to the cost of servicing outstanding debt and indirectly by impeding the compression of our borrowing needs.

While nominal interest rates are falling, real rates are stll at a historically high level; further reductions will be needed before my country, and others with much more onerous burdens of indebtedness, can experience worthwhile relief. Balanced growth cannot be sustained if high real interest rates continue to stifle investment and prevent debtor countries from getting off the treadmill of their indebtedness.

Recent events have, however, given us some encouragement. We welcome, in particular, the greater recognition of a need for mutual consistency in policies among the major economic powers and their commitment to a balanced and sustained expansion and to exchange rates which better reflect macroeconomic fundamentals.

The IMF and The World Bank have played a major and innovative role in recent years in helping developing countries to overcome their difficulties. Much has been achieved by these countries through their often-painful adjustment policies. Nevertheless, they are still faced with enormous problems, which will require sustained effort on their part. The industrial countries and the international financial institutions must continue to support these efforts and build on them where necessary. . . .

. . . I welcome the decision to use repayments of Trust Fund loans for lending to low-income countries. A number of interesting ideas have been put forward on how this should be done, some involving close collaboration between the IMF and The World Bank. I hope that, drawing on these and other ideas, agreement on an effective scheme can be reached at an early date.

The reports on the functioning of the international monetary system prepared by the Group of Ten and the Group of Twenty-Four call for detailed consideration and I look forward to a full discussion of them at the spring 1986 Interim Committee meeting, following their examination by the IMF Executive Board.

The World Bank plays a vital role in helping the medium- and long-term economic development of its borrowing countries. It is essential to enhance this role through an expansion of the Bank's activities and I support a general capital increase to give the Bank the base required for that purpose. It is time to set about identifying the desirable level of that increase.

The proposal to establish a Multilateral Investment Guarantee Agency is to be welcomed. I hope it will play a significant role in accelerating direct investment in developing countries, a form of capital inflow which offers greater stability than commercial bank borrowing.

The resources available to the International Development Association, which plays a special role in assisting the poorest developing countries, are clearly inadequate in current circumstances. The Special Facility for Sub-Saharan Africa has at least now become effective and I am pleased that Ireland will be contributing to this Facility. It is unfortunate, though not unexpected, that the IDA-VII mid-term review has not resulted in any further resources being made available. We must now concentrate on seeing that the negotiations for IDA-VIII, which are to commence in January 1986, will produce a more fruitful result.

The interdependence of the world's economies has become more evident in recent times, particularly through the effects of the major shocks and imbalances which we have experienced. Much has been done to cope with these effects but much remains to be done. It is only through full cooperation by all countries, in conjunction with the efforts of the IMF and The World Bank, that progress can be made. I look forward to participating in this cooperative effort.

ISRAEL: YITZHAK MODAY

Governor of the Fund

I would like to express our gratitude to the host country for the warm hospitality and the excellent organization of the Annual Meetings in this beautiful city of Seoul. On this occasion, I would also like to acknowledge, with admiration, the unique progress of the Korean economy in recent years, which may serve as an encouraging example of achievements attained, through industriousness and determination, accompanied by sound economic policies.

May I join previous speakers in expressing our appreciation to the President of The World Bank, the Managing Director of the International Monetary Fund, and their staffs for their devoted efforts in the service of economic progress and stability. During the past year, the status of the Fund was significantly enhanced as it has successfully fulfilled the role of medium-term lender and financial catalyst, as well as coordinator of adjustment policies.

It is most gratifying to note the economic growth which took place last year, in both industrial and developing countries. Especially encouraging is the fact that growth was not followed by an increase in inflationary pressures. It is indeed reassuring when correct policies, strictly implemented, actually bring about the expected results. Yet, many problems still require urgent attention.

In recent years, the external debt problem has threatened the stability of several borrower countries and of the international banking system. Although the appropriateness of the strategy adopted to deal with this problem has been reaffirmed, the burden of debt service facing several debtor countries remains extremely heavy, and the danger of the crisis reappearing in future years is not yet over. Consistent adjustment efforts must be continued by debtor countries and by the financial community.

The solution to the debt problem is conditioned primarily on the persistent improvement in the current accounts of borrower countries. It should be noted, however, that adjustment policies inevitably have heavy social and political costs. Therefore, one must be wary of introducing measures in excessive doses, even though they might bring about quick solutions. Gradual and persistent recovery without undermining social and political stability is, therefore, imperative.

One major difficulty is that adjustment policies very often involve, in their early stages, restraint of domestic demand and economic growth, accompanied by a temporary rise in unemployment. This is the price which must be paid for creating conditions which will enable renewal of sustained growth and increased employment, free of inflationary pressures.

We, in Israel, have had to learn the hard way that growth accompanied by an improvement in the balance of payments is not sustainable while inflationary conditions prevail. Inflation deters investment, encourages consumption, and affects export profitability adversely. Furthermore, inflation undermines confidence in the currency and leads to capital flight and a drop in savings.

Regretfully, the drift toward protectionism appears to be on the rise, both among industrial and developing countries, especially insofar as nontariff restrictions are concerned. Far too little progress is being made in removing trade barriers, despite the recognition, in principle, of the distorting effects of protectionism. My country is especially disturbed by barriers to free trade with Israel, which were introduced for political considerations. It seems that in our urge to get immediate, though temporary, results in trade policy formulation, we focus on avoidance of unemployment in declining and uncompetitive industries, rather than on emphasizing new job creation in efficient growth industries.

Israel has consistently taken steps to liberalize trade, as part of its program of restructuring the economy, and in conjunction with the recently introduced adjustment program. Export subsidies were considerably reduced; import licensing was minimized; duties are being gradually reduced within the framework of the free trade agreements with the European Community and with the United States. By signing these agreements, Israel has exposed its young industry to the competition of two very strong industrial economies. This risk was taken in the belief that both import-competing and export-oriented domestic production will benefit from greater exposure to foreign competition. To be sure, the bilateral agreements are not designed to replace the drive for global liberalization but rather to give a partial answer to the challenge of liberalized trade, preceding future rounds of multilateral negotiations.

In July, the Government of Israel introduced a comprehensive policy package designed to stabilize the economy. The adjustment program encompasses a number of "real" measures and is reinforced by some temporary decrees of a legal or administrative nature that are designed to freeze prices and wages.

The major goals of the new policy are to bring about a drastic drop in inflation and to strengthen the prevailing positive trends in the balance of payments. Major importance was attached to regaining the confidence of the Israeli public and of the financial community in their currency.

Measures were introduced to reduce domestic real and financial demand pressures, mainly through cuts in public sector budgetary expenditures and deficits, and restrictive monetary and wage policy, while increasing reliance on the price mechanism, insofar as prices controlled by the Government are concerned, such as prices of subsidized goods, interest rates, and exchange rates.

Because of the difficulties in achieving the desired reduction of the budgetary deficit through cuts in expenditures alone, revenues had to be raised. A new income tax law was implemented, expected to yield additional revenues from companies and the self-employed. A property tax was introduced. Health insurance funds will have to finance part of their own expenditures by charging fees for services and by raising premiums. One third of the planned reduction of the deficit will result from cuts in government expenditures on wages and procurement, another third from far-reaching cuts in subsidies and other transfer payments, and the remainder from increased revenues.

The Bank of Israel intensified its restrictive monetary policy. The volume of credit in constant prices was reduced in the first three months of the program by more than 10 percent, owing to overly high real interest rates.

In July, the shekel was devalued by 35 percent against a basket of currencies. It is intended to maintain a stable rate of exchange and to prevent any substantial rise in wages. The profitability of exports is being assured, mainly through the exchange rate policy, while support for exports through subsidized credit has been considerably reduced or eliminated.

The automatic indexation of wages was reduced and has already resulted in a considerable erosion of wages. Average wages in fiscal year 1985 are estimated to decline by 17 percent below their level in the previous year, reverting to their 1978 level. Disposable wages will decline to a lesser extent, owing to the updating of income tax brackets.

Prices of goods and services were frozen for a period of four months with a possible extension up to the end of this fiscal year. The intention is to defreeze controls gradually, as clear evidence of reduced demand pressure appears. After initial protests, following the painful decisions, public reaction to the policies is overwhelmingly one of understanding and acceptance; about 80 percent of the population is consistently supporting the policy and showing confidence in its success.

Partial indicators of development in recent months are encouraging. It seems clear by now that domestic demand has indeed been substantially restrained and is forecast to decline by about 4 percent in 1985, after declining by 5 percent in 1984. Unfortunately, the slowdown in economic activity was accompanied by a rise in unemployment which has exceeded 7 percent. Per capita private consumption is forecast to decline by about 3 percent in 1985, following a sharp drop of 8 percent in the previous year. Per capita public domestic consumption is forecast to decline by 2 percent, while the budget deficit is expected to decline from a level of 8 percent of GNP in 1984 to 6 percent of GNP in 1985. GNP is forecast to grow by 2 percent in 1985, after a slight decline of 0.5 percent in 1984. In 1984, the level of savings was re-established at its historically high level of 33 percent of disposable income.

Exports of goods increased in the period January-August by 6 percent as compared with the corresponding period in 1984. Imports of goods declined by 6 percent and, as a result, the trade deficit declined in this period by $540 million and is estimated to decline in 1985 by about $1 billion, after decreasing by $1.1 billion in 1984.

In 1984, the increase in the external debt slowed down considerably, and in the first fiscal quarter of 1985 it declined by $220 million. In recent months, foreign exchange reserves again began to rise. Inflation rates in August and September declined to 4 percent, as compared with a monthly average of 14 percent in the previous months. Price controls proved to be effective when supported by decline of demand. Fortunately, the new economic policy was well received in capital markets and Israel's creditworthiness was strengthened by the positive developments in the first months of the program.

We are confident that the consistent implementation of the new policy will assure the continuation of the positive trends, so that when we next address this forum, we shall be able to report on further success of our recovery progam and the renewal of economic growth.

ITALY: GIOVANNI GORIA

Governor of the Fund

Allow me to begin by addressing my cordial greetings and most heartfelt thanks to the President of The World Bank, Mr. Clausen. In doing so, I am addressing a banker who, in the struggle against poverty and underdevelopment, has successfully interpreted demands, sought consensus, and mobilized resources. He is a friend, whom I thank for his labors on behalf of the institutions of which we are proud and for heightening the awareness of our consciences.

I would also like to thank the Korean people and their authorities for their most warm welcome and wish them ever-increasing prosperity.

The International Economy

The recovery of the international economy is moving toward the end of its third year, albeit with some patches of light and shade. As was predicted at our meetings last April, and confirmed by the events of the past few months, growth has slackened in most of the industrial countries and particularly in the United States, while continuing at relatively modest rates in Europe. The uncertainties regarding the possibility of continued economic expansion point to the need for more incisive policies capable of reassessing the role of adequate growth of domestic demand.

The consequences of this slackening are especially evident in the developing countries, which, because of the fewer openings for exports to the industrial world could well risk losing the gains previously made toward resolving the debt problem and building new development initiatives.

It is certainly an encouraging sign that the present phase of economic recovery has not been accompanied by an increase in inflation, unlike what occured in similar situations in the past. However, the economic recovery has not brought about a satisfactory lessening of unemployment, which currently exceeds 8 percent of the work force in all the industrial countries, although there have been significant changes in the potential contribution of the various sectors of production to job creation.

Light and shade will therefore continue to alternate, and the problems discussed in the various international bodies—from exchange rate variability to protectionist pressures, external debt, international liquidity, and the still very high level of real interest rates—demonstrate the existence of a ferment that underscores the need for vigorous action to keep the world economy on a course of satisfactory growth during the second half of this decade.

The slowdown of the U.S. economy means that responsibility for strengthening endogenous development mechanisms, particularly in those economies that are less vigorously engaged in the difficult undertaking of reducing fiscal deficits and combating inflation, devolves especially on certain countries of the European Community and on Japan.

Accordingly, a policy of public investment is desirable in certain countries in order to rekindle domestic demand and increase capacity utilization, thereby also facilitating acceptance of a policy of wage restraint.

In 1984, the developing countries posted a growth rate (4.4 percent) that was higher than in previous years. The highest increases (5.3 percent) were in fact achieved by the countries that are not energy exporters. The key element in higher growth has been exports, spurred by the recovery in the industrial countries, whereas the downscaling of investment, coupled with the shrinkage of external financing, has resulted in domestic demand remaining at a fairly low level.

Positive results were also posted last year as regards the debt problem. The risk of deterioration must not be underestimated, however: adjustment programs are still necessary in the debtor countries, and the role of the Fund in supporting member countries with balance of payments difficulties remains fundamental, while the role of the Bank must not cease to expand either, and in an appropriately coordinated fashion. Moreover, the obstacles encountered in the difficult negotiation phase for debt refinancing could not have been surmounted if numerous debtor countries had not pursued their external adjustment efforts.

The basic approach nevertheless remains valid: any refinancing must be evaluated in the light of the economic and financial circumstances of the debtor country.

International Monetary Problems

The reports produced by the Group of Ten and the Group of Twenty-Four on the functioning of the international monetary system have recently stimulated debate on the chief international monetary problems.

It is certain that any thought of a return to a generalized system of fixed exchange rates would be unrealistic in the present state of affairs. The advantages of flexible exchange rates have been clearly evident in the past decade, which was characterized by major external shocks and considerable imbalances in external accounts that cannot be forgotten. In addition, the two reports also pointed up the significant drawbacks of excessive medium-term real exchange rate movements, which are likely to aggravate external account imbalances and induce a relaxation of economic policy regulation in various countries. We would further like to commend the governments of the five major countries—although we would have preferred the agreement to have been more broadly based—on having placed the emphasis, in their recent New York announcement, on the importance of international coordination of exchange rate policies, and on having unanimously acknowledged that exchange rates ought to reflect fundamental economic circumstances more closely and recognized that there is a role to be played by intervention in the exchange market. Without wishing to detract from the merits of intervention, we believe that the emphasis should rather be on the economic policies that are at the root of exchange rate movements, as the experience of the European Monetary System has shown over recent years.

Greater exchange rate stability presumes the strengthening of surveillance over macroeconomic policies and, in such a context, strengthening of the role of the International Monetary Fund, which will entail enhancing the symmetry of external adjustments and the exercise of bilateral surveillance, to which should be added multilateral surveillance.

The other aspect considered in the two reports, and one that we consider essential for the orderly development of exchange rate relationships, is that of the adequacy of the volume, composition, and distribution of international liquidity.

The capital markets have displayed considerable flexibility in meeting the needs of the world economy; however, the credit supply in these markets is subject to excessive short- and medium-term fluctuations. This leads to rationing and to the exclusion of certain countries precisely during times of balance of payments crisis, giving rise to serious distribution problems that call for careful consideration of the nature of these mechanisms and of the need for more stable, internationally managed instruments for liquidity creation.

We agree with those who advocate a constructive re-examination of the role of SDRs in the international monetary system. The next meeting of the Interim Committee will have to focus resolutely on this issue and other matters discussed in the two reports.

Protectionism

Recent experience shows that poor functioning of the international monetary system endangers freedom of trade. The problem of protectionism, already present last year and which we ourselves raised at our last Meetings, has become considerably worse with the widening of the gap in trade balances among the industrial countries over the past year.

The slowdown in the expansion of world trade as a result of protectionist measures would signify a new phase of recession, to the particular detriment of countries whose production structure renders them vulnerable to downturns in demand for their products, and also to the detriment of the developing countries whose growth possibilities are tied to exports.

Accordingly, the hesitation of these countries regarding resumption of multilateral negotiations on trade problems in the context of GATT does not appear warranted, although it may be understandable in connection with the need to define the procedures and timing of these negotiations. Be that as it may, the Italian Government remains in favor of a multilateral resolution of the problems of freedom of trade and aligns itself with the countries that would like to see an early start to negotiations at GATT level.

The Italian Economy

In the international economic framework I have just outlined, one can clearly discern both the dangers and the opportunities that will characterize the Italian system in the near future. The source of the Italian economy's difficulties is to be sought in the persisting excess in current government expenditure. This expenditure drives up domestic demand and thus causes a negative gap between income and demand which is automatically reflected in the external account balance. Furthermore, the excessive public deficit places the financial market under constant stress and maintains high interest rates which in turn add to the public debt burden and discourage demand for private credit.

Indeed, a projection of the national economic budget trends, based on current conditions, shows not only gross domestic product slightly higher than at present and sustained expansion of consumption, but also a slower pace of investment, inflation continuing above programmed trends and, in particular, a considerable external deficit on current account.

The draft Finance Law for 1986, approved by the Government and submitted to Parliament at the end of September, sets forth guidelines for budgetary management for the next year, intended to reduce state financing requirements by 1 percentage point of GDP, or by 1 1/2 points net of interest on the public debt. Moreover, special account is taken of the thrust of the medium-term plan for rehabilitation of public finance submitted by the Minister of the Treasury last May, which envisages, among other things, maintaining the current level of tax effort and increasing current expenditure in line with expected price increases.

This budgetary management comprises essentially an improvement of supply and a reduction of the dampening effects of taxation. Proposed measures include cutting expenditure on health and public assistance, increasing tariffs, administering prices and school fees, revising the personal income tax to minimize the impact of the fiscal drag, and reducing taxes on business profits.

Efforts will also be made to increase the policy and fiscal responsibility of local authorities by partially re-establishing the power of taxation of local and regional governments and the financial autonomy of the public health system. As a whole, budgetary management will promote the attainment of the objectives set for growth (2.5-3 percent) and inflation (6 percent), and, in particular, maintaining an impressive level of capital investment. . . .

. . .The grave financial situation of the poorest members sets the context for consideration of the problems of the use of *Trust Fund resources*. Since the available resources are rather limited, it is opportune to restrict the number of beneficiaries so as to concentrate the resources to aid the most disadvantaged countries.

The adoption of valid eligibility criteria for IDA was rendered possible by the commitment made by the larger beneficiaries to voluntarily limit the use they make of this facility so as to benefit other countries whose needs are greater. India and China deserve our deepest appreciation.

World Bank Policies

If the progress already made is not to be for naught, the developing countries must pursue their adjustment policies. With a view to sustaining the impact of these policies and lightening their negative consequences, we are staunchly in favor of intensified action by the Bank, particularly in deeply indebted countries. Thus, we cannot but support vigorously the managment's request for enhancement of the Bank's operational capacity. We believe that the circumstances in which many debtor countries find themselves warrant a temporary increase in the proportion of lending linked to structural adjustment of sector programs. We also believe that, in view of the new tasks it will be called on to perform, the Bank's loan instruments must be adapted to the new conditions prevailing in the developing countries.

The imperative need to increase the volume and improve the effectiveness of resources available to the poorest countries is the message contained in the report of the task force on resource transfers. We identify once again with this message, and we confirm Italy's commitment to the beneficiary countries, a commitment that has become ever stronger in recent years and taken on an increasingly operational nature.

The establishment of the Special Facility for Sub-Saharan Africa is a significant sign of the willingness of the donor countries to respond effectively in order to meet the multiple needs of the poorest countries. We take satisfaction in noting its large operational capacity, and trust that the criteria concerning lending conditions and support for economic policy reform which were adopted at the time of its establishment will be preserved and will become an integral part of development policy and development economics.

We are certain that today, more than ever, the guidance function of the multilateral institutions is fundamental for the effective utilization of aid resources.

The opening of negotiations for IDA-VIII in due course will be an additional occasion to verify our ability to apply in practice the principles of international solidarity on which, I believe, we are all in agreement.

As regards the Multilateral Investment Guarantee Agency (MIGA), we wish to expresss to Mr. Clausen, President of The World Bank, and to the Bank's management our appreciation for their active contribution to the conclusion of the negotiations for setting up the Agency. We have always been convinced of the appreciable contribution and major role of direct investment in the growth process of developing countries, and we are therefore happy to see this agreement which Italy has always desired.

After two years of vigorous growth, we are once again faced with a horizon full of uncertainties. We must not be surprised by this, because the growth of recent years has been both cause and effect of the deep economic disequilibria that each one of us must feel obliged to remedy. The problem before us is closely connected with the role we are required to play; we must not merely observe things as they are, or will be; we must act to direct events in such a way as to achieve stability in international economic relations and increase the well-being of our peoples.

The difference between creating sustained growth or, on the contrary, accepting an insufficient level of development, represents for the industrial countries the difference between being able, or not, to reduce unemployment, a problem that we will be called on to deal with in the future, but especially for the developing countries it represents the difference between being able or not to implement the structural adjustment that we all view as indispensable.

We are only too well aware that without strong and healthy growth of the world economy there can be no solution to the problem of unemployment, particularly among young people, and this would mean failure on the part of an entire generation of political leaders. We also know that without this growth any adjustment effort by the developing countries, even if carried to the limit of political and social tolerance, would have but little chance of success.

However, underscoring the need for sustained growth means placing the emphasis on the responsibilities of the strongest among us.

While it is true that the effort to bring the United States' trade balance back into equilibrium will inevitably reduce the exports of the rest of the world, it is necessary that the other countries—those which are in a position to engender stronger growth without creating fresh imbalances—be readier to assume their role in the maintaining of sustained growth.

In the absence of balanced adjustments of the domestic policies of the major countries, not only will our aspirations become more difficult to implement, but all the worst problems of concern to us, such as the excessive external debt of certain developing countries, will also become impossible to manage in an orderly fashion.

Even the endeavor to bring about better exchange rate relationships between the principal reserve currencies, an effort that has gained renewed momentum in recent weeks, will not be able to generate any results beyond the short term unless it is accompanied by changes in the economic policies of the strong-currency countries.

Treasury Secretary Baker has called our attention to the need for a "program of sustained action," which must be designed from a medium- and long-term perspective if it is to be effective in solving external debt problems.

Beyond the requirements for short-term stabilization, to be met through domestic demand management, we must all share the goal of relaunching long-term growth through a set of policies and strategies in the real and financial spheres to be developed by both creditor and debtor countries.

If we draw up a balance sheet of our work at these Meetings, some grounds for satisfaction can be found.

The progress achieved as regards improvement of the international monetary system, though limited to the procedural level, seems to us to be a positive development. The agreement reached on ways to utilize Trust Fund loan repayments opens up new prospects for the poorest countries.

The convergent positions on the role of the Bank and the Fund; the significant consensus attained as to strengthening the operations of the Bank, which should be supported by an increase of its capital in the near future; the agreement to begin negotiations on IDA-VIII—all these developments give a new spirit to our collaboration, in a perspective in which the international institutions reinforce their central role in guiding and supporting the countries' efforts to manage short-term economic conditions and resolve the structural problems of development.

In this context, and insofar as it concerns us, we were disappointed by the new reduction in the limits on enlarged access to the Fund's resources. This reduction seems to us to contradict the analysis we all share of the international debt situation, the role of the Fund and the need for recourse to multilateral institutions and to cooperation among countries in order to deal with the sharpest crises.

For a year already we have been faced with the distress of the poorest countries among us, that is, with the untenable situation of the Sub-Saharan African countries.

The "special window" for Africa has been a significant but insufficient response.

If our solidarity is not to be limited to mere words, the decision for IDA-VIII must be made within the scheduled time frame, so as to devote to Africa a larger portion of the new resources than in the past.

I believe that such a decision is essential in order to build the hopes of those who see in our solidarity their only chance of survival.

Such a gesture of solidarity is dictated not only by the obligations envisaged in the Articles of Agreement of our institutions, but also, and above all, by a moral commitment to the weakest, a commitment that is one of the fundamental reasons that render policymaking worthwhile.

Nevertheless, we will return home not only profoundly aware of the difficulty of the problems now facing us, but also with a new awareness of our ability to confront these problems together and, therefore, better.

It is up to us to ensure that our next Meetings will yield fruitful results rather than regret for lost opportunities.

JAMAICA: EDWARD SEAGA

Governor of the Bank and Fund

We are guests on this occasion of the Government and people of the Republic of Korea.

It is rightly said that there are few countries in the world able to host the Annual Meetings of The world Bank and the International Monetary Fund because of the demanding logistics of accommodating some 10,000 visiting officials, financial leaders, and dignitaries, with precision, attention, and care.

Of those countries able to meet these demanding standards, it is understandable that developing countries are the rare exceptions. Indeed, there are only very few previous instances of these Meetings being hosted in developing countries.

It speaks volumes, therefore, for the Government and people of the Republic of Korea that these Annual Meetings have been staged here, and that the arrangements have been made with the customary precision, perfection, and care associated with the Korean people. I speak for many, I am certain, in offering not only appreciation for the warmth of the hospitality extended to us, but also in admiration of the accomplishments of the Korean people of which this is but a symbol of their achievements.

I am equally certain that the pride which we of the developing world feel in these accomplishments is not restricted to the achievements of Korea but can be extended to the family of South East Asian nations, which have similarly made giant strides over the past three decades to reach a takeoff point to the achievement of sustainable economic growth and stability, the ultimate goal of all our plans and policies.

This group of newly industrialized countries, as they are known, is a pointed reminder to us all of what can be achieved by even the battered and war-torn nations among us, mostly devoid of natural resources, as in fact is true of the leading luminaries in this brilliant constellation.

I say "devoid of natural resources" in a pointed and specific way because the success of these nations point to a direction which we must all examine in order to understand both the "Why" and the "How," so that we may learn from their experience and shape our future based on the wisdom of the past.

The prevailing wisdom of these institutions, particularly the Fund, emphasizes adjustment programs through tight demand management. The result is severe austerity which, in the final analysis, cuts services and reduces growth. This austere path carries social and political costs which are often counterproductive to the final objective of achieving adjustment without sacrificing stability.

Because of these consequences, the question inevitably arises: Is there another way? Is there an alternative which could avoid the counterproductive features of adjustment—sharp reduction of services for health, education, and so on, coupled with dramatic reductions in staffing levels, increased costs of basic needs, and ultimately a reduction in living standards which is too sudden for the people to bear without demoralizing them?

It is here that the consequences on the human element in the process of adjustment turns negative in the form of protest action and other forms of nonsupport for the program of change.

Oddly enough, so important is the program of adjustment, so vital is the need for stabilization, that every force within the political and social system needs to be harnessed to ensure success, to keep the lifeline of credit open without which conditions would be incalculably worse. Yet the severity of austerity in the program design carries its own seeds of counterproductive action which limits success. It is as if the prevailing wisdom dictates that since there is no path of painless change, it matters not how painful the process may be. But it does matter—it matters to the human element which, in the final analysis, is in fact the target of the adjustment program. We do not adjust economic systems; we adjust the lives of people who make these systems work. It is shortsighted to ignore the human element. . . .

. . . Finally, I turn to another resource flow that is currently a *negative drain* rather than a *positive gain* in the transfer of resources from the developed to the developing world. The whole purpose of global development strategy is to increase not decrease these flows. Yet last year, debtor countries experienced a negative flow of resources to commercial bank creditors, and this is likely to be increasingly so, as long as commercial banks restrain new lending as they now do.

I need hardly repeat here the many calls for reviews of international debt obligations. It is wrong to believe that the debt problem has really been contained. It has been contained in global accounting terms, but at great cost to growth and to the human services which is intolerable and not sustainable in the medium term.

A major step could be taken to restore a positive flow of resources to debtor countries from commercial banks if the repayment of commercial loans were rolled over by the banks into trade credits for raw materials and capital goods imports. Furthermore, the commercial banking community would hold more secure paper against current indebtedness in the form of trade credits than is the case in the longer-term notes which are currently prejudiced by threats of default or unilateral deferral. This program of rollovers of current debt payment and rescheduled payments would constitute invaluable additional credit support to debtor nations without a requirement for new money to be found.

Perhaps, if for no other reason than that at this critical period, when the choice exists between perpetuating intolerable levels of human suffering in order to service debt and increasing calls for unilateral limitation or cancellation of debt, the commercial banking community would be well advised to seek the goodwill which can be generated by a program of relending the proceeds of repayment, rather than be regarded as champions of the concept of honoring *debt* over all other considerations.

This is as valuable a collateral in terms of international security as the enhanced value of gradually substituting trade credits for term loans would realize in banking security. It would be a welcome sign of recognition by the banking system that, in light of the prevailing crisis, this is no time to reduce exposure when all other players on the stage are seeking new ways to increase involvement and are themselves making new commitments. This is no time for any player to fall out if we are to ensure that the performance proceeds to a satisfying end.

In conclusion, let me voice the hope that too much reliance will not be placed on global figures of performance, whether in world trade or global growth. Experience has told us that global accounts mask serious underlying areas of weaknesses. Last year, world trade grew by an astounding 8.8 percent, up from a very weak 2.1 percent in 1983. By that account, most debtor countries should have experienced revived export earnings to enable them to better service debt. If this were so, there would have been fewer calls for unilateral debt limitation or cancellation. The fact is, of this 8.8 percent increase in world trade, most of the performance was a result of increased trade among the industrial group and a small number of developing countries.

Increased world trade by itself is no panacea. Nor, indeed, will global growth be such a panacea. What is required is to devise programs which target resources to the specific areas of need in a manner which can be utilized, case by case. It is in this light that the proposals in this presentation are made, none of which require additional funding, only relaxation of present policies to enable the better and more meaningful utilization of what exists.

In summary, let us clearly recognize that the path forward poses no easy, painless way to restore economic health. Demand management to improve financial health must continue and austere measures cannot be avoided. But a balance must be struck so that what we *gain* in improved financial health is not *lost* in reduced growth.

The Fund has played an important role in enabling countries with severe deficits to buy time in the process of recovery while the Bank assists these economies to be restructured to achieve sustained growth. The policy reforms on which these institutions base their lending programs are essential disciplinary measures, laying a surer foundation for economic health.

But the road to recovery is not a short one; for many it is a path that stretches well into the medium-term future. For this reason, the commitment of national populations is essential to the program of adjustment and recovery. No sustained march to these goals can be achieved without the prospect of total commitment and support of the human resources of the nation.

This support can be forthcoming if the programs of change adopt a more human face; if the process of change is measured in terms which people can more readily absorb, and if this process recognizes that, in the final analysis, change is not merely a process which generates a greater yield from each machine; it is, above all, the means by which we adjust and restructure the beliefs, the attitudes, and values of the man behind the machine.

JAPAN: NOBORU TAKESHITA

Governor of the Bank and Fund

Mr. Chairman, my fellow Governors, distinguished guests, ladies and gentlemen:

I wish first of all to join you in expressing my sincere gratitude for the favors given by the Government of Korea and for their great efforts devoted to organizing these joint Annual Meetings. The Korean economy has achieved miraculous growth, often called "the Miracle of the Han River." The largest contributing factor to this growth, I think, has been the wisdom and the relentless endeavors of the Korean people themselves. At the same time, however, we should also observe that the IMF and the World Bank have each provided positive assistance to Korea, in terms of the promotion of appropriate economic management and the furtherance of development, respectively. The Government of Korea, in turn, has been very successful in making the best possible use of such assistance. This cooperation, I believe, has also significantly contributed to the remarkable growth of the Korean economy. It has also helped form the foundation of the Korean government's high creditworthiness. Consequently, I think it is very suitable and also a matter for the utmost congratulation that these fortieth Annual Meetings are being held with grandeur in such an exemplary member country where the activities of both institutions are steadily bearing fruit.

Finally, before I proceed, let me at this time extend a cordial welcome to the representatives of the Kingdom of Tonga, which recently became the newest member of the Fund and the World Bank.

World Economy

The economy of the industrial countries in 1984 achieved a real growth rate of some 5 percent, which is the highest in about a decade or so. At the same time, the rate of inflation came down to the lowest level in the same period. Both achievements are largely attributable to the implementation of appropriate economic management in these countries. Their robust growth has had a favorable effect on the economies of the developing countries, which, as a whole, realized a growth rate substantially exceeding that of the previous year.

However, during this year, the expansion of the U.S. economy has decelerated. In addition, labor market conditions, in Western Europe especially, remain serious. Furthermore, large current account imbalances persist, mainly due to the strong dollar. Against such a background of increased uncertainties, I consider the following to be the two vital policy challenges for the present world economy. They are: one, the achievement of sustained non-inflationary growth by drawing on the vitality of the private sector, and two, the maintenance and strengthening of the free trade system. I will deal with each of these challenges in turn.

For the achievement of sustained non-inflationary growth of the economy, we need balanced progress in demand growth and supply increase. In this connection, short-run expansionary fiscal policies have the following three adverse effects, even if they raise demand temporarily.

First, imprudent expansionary fiscal policies not only do harm to the confidence of the private sector in stable economic management, but also apply upward pressure on interest rates. This exerts a negative influence on private investment in and outside the country concerned and thereby hampers sustained economic growth.

Second, continued expansionary fiscal policies lead to an accumulation of public debt accompanied by large debt service payments. This hurts the ability of the budget to respond flexibly to changing social and economic conditions, including a potential situation in the future where economic stabilization will be truly necessary.

Third, short-run expansionary policies run the risk of merely creating inflation, unless they are implemented to absorb idle human and material resources, such as cyclical and serious unemployment.

In the light of these adverse effects, we should not repeat, under the present circumstances, the mistake of the locomotive theory of the past. We should rather maintain and strengthen prudent fiscal policies in the medium-term framework.

Therefore, in order to promote balanced progress in demand growth and supply increase, we consider it appropriate to try and realize an autonomous rise in private investment. This can be done by drawing on the private sector vitality, or, in other words, by unleashing the intrinsic energy of the private sector. For this purpose, to put it more specifically, it is essential to take decisive measures, including the deregulation and privatization of public enterprises. This will foster competition and efforts at creative innovation by private enterprises by means of the market mechanism.

Now let me turn to the second policy challenge. The marked growth of the world economy during the past forty years owes much to the benefits of free trade supported by the IMF-GATT system. Therefore, my country views the present unprecedented rise in protectionist pressures as an emergency situation. We consider it not only essential, but also the most important policy challenge for the world economy, that we resist such protectionist pressures and maintain and strengthen the free trade system. Such actions are also required for the resolution of the debt problem. To preserve and strengthen the regime of free trade, it is necessary that, in addition to dealing with structural rigidities that are the major cause of high unemployment, we should concentrate on the following two areas.

The first involves efforts in the area of trade policies. In other words, in order to maintain and strengthen the free trade system, it is essential that each country not only renew its appreciation for the benefits of such a system and avoid the introduction of new protectionist measures, but also affirmatively take up the task of opening up and liberalizing its market. To promote this, the individual efforts of each country should continue. At the same time, the New Round of Trade Negotiations should be started as a new international undertaking at an early date. In this respect, I am encouraged by the formal decision reached earlier this month at the special session of the GATT Contracting Parties to initiate the preparatory process for such negotiations.

The second involves efforts to correct exchange rates, the reason for which is clear. The exchange rates in recent years, by substantially distorting the relative prices of goods and services of various countries, have become the major cause of large and persistent current account imbalances. These imbalances, in turn, not only are inflicting heavy damage on export and import competing industries in deficit countries, but also are becoming a significant factor in the slowdown of their economic growth. In consequence, protectionist pressures have heightened to a dangerous level.

Exchange rates should better reflect fundamental economic conditions. With the common recognition that orderly appreciation of the main non-dollar currencies against the dollar is desirable, the SDR countries met earlier. They issued an announcement containing specific policy actions, in order to promote greater policy cooperation, and have fundamental economic conditions more fully reflected in exchange rates. Such efforts at policy cooperation, underlined also in the proposals by the Group of Ten, should continue in the future.

The world economy is also facing the major challenge of coping with the debt problem. There has been some improvement in the economic conditions of indebted countries compared with a few years ago. This improvement is the result of progress in their adjustment efforts supported by the parties concerned, with the IMF playing the central role; the economic expansion in industrial countries; and the decline to some extent in interest rates. There has also been progress in individual debt relief negotiations. As a result, crisis situations have been averted in the preservation of liquidity in indebted countries. However, we still see a number of sobering factors that do not allow optimism about the future prospects. Therefore, the current response to the debt problem based on the spirit of cooperation of the parties concerned, with the IMF playing the central role and financing provided on a case by case basis, should be carried forward.

In addition, in the medium- and long-term, it is essential for the resolution of the debt problem to increase the productive capacity of the economies of indebted countries. This would provide substitutes for imports and increase exports, and thereby accomplish the needed correction of structural disequilibrium in the balance of payments. Toward this end, furtherance of economic development in indebted countries is becoming an increasingly vital challenge. In this connection, I find the proposal on this subject made by U.S. Treasury Secretary Baker today interesting. I highly appreciate his initiative in making such a proposal.

Next, let me explain the main features concerning the present state of Japan's economy and its policies.

The Japanese economy is at present in a self-sustained expansion phase mainly supported by domestic demand growth. Investment in plants and equipment has been showing a robust increase centered on that related to high technology. More recently, a steady increase in personal consumption has become evident. For the first half of calendar year 1985, the Japanese economy turned out the following favorable performance: it achieved a high real growth rate of 5.4 percent and a consumer price increase of only 2.0 percent compared with the same period last year; and the unemployment rate was as low as 2.7 percent. The factors that are supporting domestic demand growth, including price stability and strong corporate profits, are expected to continue in the period ahead. This makes me confident that stable growth, with a real growth rate of 4.6 percent, can be attained in fiscal year 1985, mainly supported by domestic demand growth.

Japan's trade and current account surpluses have expanded due mainly to exogenous factors beyond its control, including the strong dollar and falling primary commodity prices. The yen/dollar exchange rate has not fully reflected such current account surpluses primarily because of the interest rate differential. Japan has strongly desired correction of the strong dollar and weak yen, which is indispensable for rectifying the external imbalance. In this light, the latest exchange rate developments are to be welcomed.

Japan's budgetary situation is extremely severe despite efforts at fiscal consolidation over the past several years. This can be seen from the fact that tax receipts, which are the basic revenue sources in Japan, account for only about 70 percent of the total revenue. It can also be seen from the fact that debt servicing payments take up some 20 percent of the total expenditure. Therefore, the Government has set the goal to free itself by fiscal year 1990 from the characteristics of being dependent on bonds to finance current expenditures. It also intends to lower the overall dependency on government bonds by fiscal year 1990, and has been doing the utmost toward these goals. To this end, the Government will continue its best efforts to make the revenue and expenditure structures more efficient and appropriate.

There are arguments that Japan should make recourse to expansionary fiscal policy. These arguments claim that, through expanded domestic demand, it can reduce current account surpluses and lead the growth of the world economy. However, I do not consider such a policy course appropriate in light of the severe budgetary situation and the various adverse effects that I have already elaborated, including a negative influence on private investment.

In order to expand domestic demand, the Government has been making efforts to give full play to the private sector vitality through such measures as deregulation, privatization of public enterprises and introduction of sector vitality into public works. To this end, regulations have been reviewed to facilitate redevelopment of cities; both the Japan Tobacco and Salt Public Corporation and the Nippon Telegraph and Telephone Public Corporation have been privatized; a stock corporation has been set up to construct the New Kansai airport; the Japanese National Railways Corporation is also scheduled to be privatized. In order to take such steps further and contribute to the solution of economic friction through balanced expansion of economies, the Government has organized a special working group to conduct an examination. Its conclusion is scheduled to be announced soon.

Japan has been taking the initiative in opening up its market. This initiative has been based on the belief that it should assume roles and discharge responsibilities commensurate with its economic strength in order to maintain and strengthen the free trade system, the most important policy challenge for the world economy. As a result, Japan's average tariff rate is already among the lowest in the world. It does not impose tariffs on semi-conductors, color TVs or automobiles.

Moreover, Japan decided on "the Outline of the Action Program for Improved Market Access" this July with the determination to make the Japanese market one of the most open markets in the world. This Outline sets out bold measures in several areas, including tariffs, standards and certification and government procurement. Japan also announced its decision this August to abolish the tariffs on computers. It intends to continue to take voluntary measures to open up its market and to promote imports.

At the same time, it will actively promote the New Round of Trade Negotiations with a view to expanding world trade through the maintenance and strengthening of the free trade system.

Japan believes that financial liberalization and internationalization of the yen not only helps the progress of its own economy and improvement of the life of its own citizens, but also offers a meaningful way in which it can contribute to the growth of the world economy as a whole. Based on such conviction, it has taken successive measures for liberalization of interest rates, improvement of the short-term money market, improvement of access of foreign financial institutions and internationalization of the yen. It will continue to steadily carry forward such efforts.

As to monetary policy, Japan intends to seek flexible management, with careful attention to the developments in exchange rates and interest rate differentials. . . .

. . . Cooperation between the IMF and the IBRD should be strengthened to address individual country problems in a coordinated manner, without jeopardizing the unique purposes of each institution. To this end, the two institutions should continue their efforts to ensure that policy advice and the provision of financial resources by the two institutions be coordinated more than in the past, particularly where a reduction in access to IMF credit might be accompanied by appropriate forms of increased IBRD lending.

Economic Development Assistance

Now, let me turn to the issue of economic development assistance. The economy of developing countries as a whole in 1984 grew by 3.7 percent in real terms, which was much greater than the 1.5 percent in the previous year, due to the favorable effects of the strong expansion of industrial economies. There was also an improvement in the balance of payments adjustment. The current account deficit of developing nations declined to 44 billion dollars in 1984 from 71 billion dollars in the previous year.

We can see, however, a wide discrepancy in economic performance among regions. The Asian economy, including in particular Far East and South East Asian economies, continued to expand by 6.4 percent in real terms following an impressive 7.1 percent in the previous year. Some signs of uncertainty can be detected, however, in their future development. National income per capita in low-income countries continued to decline. As for Latin American countries, they, as a whole, still remain under the yoke of triple digit inflation in spite of a remarkable progress in balance of payments adjustment.

In order to attain sustainable growth and development of developing countries, it is necessary to address issues of those countries on an individual basis because each developing nation faces its own specific problems. Low-income countries, for example, need to improve such sectors as agriculture, health, and education, which have constrained their development over the years. Middle income nations facing heavy debt service problem need to promote balance of payments adjustment process through demand management and to prepare for hosting more direct investment. Other middle-income countries with satisfactory progress in economic adjustments need to ensure sustainable growth.

Within the framework of interdependence, sound economic performance of developing nations is essential for the prosperity of the world. The basic approach requires a serious effort by developing countries and this, in turn, requires concurrent assistance from developed countries. In order to provide development assistance effectively and efficiently, coordination of multilateral and bilateral aid resources and exchange of aid information should be encouraged. In this context, I appreciate the effort of the task force under the Development Committee. I firmly believe that mutual understanding between developed and developing countries is indispensable for enhancing the effectiveness of aid. I, therefore, would like to emphasize the importance of continued dialogue in a frank manner.

At the Development Committee in April, we agreed on the significance of increasing aggregate financial flows to developing countries. Japan's financial flows to the developing world increased from 10.5 billion dollars in 1983 to 16.0 billion dollars in 1984. As a result, the amount of financial flows to the developing world reached 1.3 percent of our GNP.

Japan has been making utmost efforts to enhance the amount of Official Development Assistance in spite of the serious budgetary situation. In 1984, our ODA achieved 4.3 billion dollars, which was the second largest amount in the world. Furthermore, our ODA budget in the general account, which is an important instrument for the attainment of our second medium-term target, grew 10 percent in the Japanese fiscal year 1985, the largest growth rate among the spending programs for major policy areas, while other expenditures were reduced. Thus, the cumulative ODA budget in the general account for the last 5 years doubled from the previous 5 years as targeted.

Last month, Japan announced the third medium-term target for 1986 through 1992. During this 7-year period, we aim to bring the total ODA disbursement to not less than 40 billion dollars. To this end, we will make efforts to double the ODA amount in 1992 compared to that in 1985 through expanding bilateral grants, multilateral assistance, and yen loans. We will continue to take our international responsibilities commensurate with our economic strength through extending larger ODA.

Since we recognize the important role of Multilateral Development Banks for the economic and social development of developing countries, we generally support the strengthening and broadening of their roles. We especially value that MDBs can allocate their resources in an equitable and efficient manner, and provide effective policy advice in accordance with their extensive information as these organizations enjoy neutral and professional privileges.

I firmly believe that every donor country should be encouraged to cooperate with MDBs under the fair burden-sharing principle not only at the time of its contribution commitment but also at the time of its payment of subscription.

Now, let me focus on the World Bank Group. The amount of lending commitment of the World Bank fell from 11.9 billion dollars in fiscal year 1984 to 11.4 billion dollars in fiscal year 1985. This reduction in lending commitment may be appreciated as a result of the World Bank policy not to undermine the quality of loans or not to treat lending commitment projection as target. It is necessary, however, to review the cause behind this lending reduction and to identify whether this is merely a short-term phenomenon or an indication of a symptom of new developmental needs.

Since there is a wide difference between the lending terms of the World Bank and IDA, blending mechanism has been used for selected individual countries. I believe that it is beneficial to review the overall interest rate structure of the World Bank Group. It is also beneficial for the World Bank Group to make efforts to secure appropriate regional allocation of resources as global development institutions. In these contexts, I regard the IDA Deputy meeting very useful. I also regard important for these institutions to pursue as much efficiency and streamlining as possible, in order to acquire continued support from member countries.

Japan supports the future role of the World Bank which was broadly agreed on at the April Development Committee. I believe the following principles should be applied to all World Bank Group operations. First, strengthening their policy advice function to assist developing countries in designing and implementing appropriate development program including the introduction of private market mechanism. Second, strengthening their catalytic role to mobilize bilateral aid resources as well as private funds in line with their own operations in order to utilize their limited resources most efficiently.

The Special Facility for Sub-Saharan Africa which entered into operation last July makes a good case for IDA to play these roles positively.

Furthermore, the World Bank Group, especially IFC, is expected to encourage entrepreneurship in developing countries. We basically support the proposed convention establishing Multilateral Investment Guarantee Agency, the objective of which is to promote private direct investment to developing nations. As we welcome that the Board of Executive Directors of the Bank approved the convention, we are prepared to cooperate actively toward the establishment of the MIGA as an efficient international institution.

It is essential for the World Bank Group to strengthen its financial base in order to play these roles mentioned above effectively in response to various developmental needs. In this context, I hope that the general capital increase of the IFC will be approved by the Board of Governors as soon as possible. As for the general capital increase of the World Bank and the eighth replenishment of IDA, I believe that donor countries should show brighter perspectives to the developing world. To this end, the donor nations are expected to participate positively in these negotiations under the fair burden sharing principle, even though their budgetary constraints remain serious. I believe that particularly IDA 8 should be given priority since IDA resources are provided for poorest countries.

We should emphasize, however, that not only subscription but also financial cooperations through capital markets is important for the World Bank. I am firmly convinced that our efforts for liberalization of the capital market and internationalization of the Japanese yen will contribute to the improvement of the Bank's financial position by enhancing the volume as well as the number of instruments of borrowing operations. I, therefore, sincerely hope that the World Bank will keep close contacts and facilitate further cooperation with the market concerned.

In the meantime, President Clausen of the World Bank expressed his intention not to serve a second term. I would like to express our great admiration for his achievement by exercising outstanding leadership over such matters as special capital increase of the World Bank, Seventh Replenishment of IDA, Special Facility for Sub-Saharan Africa and Multilateral Investment Guarantee Agency.

Concluding Remarks

Confucius, an ancient oriental philosopher, said in his famous Analects as he looked back at his life: "At thirty I had a foundation. At forty, a certitude." The latter means that at forty, he established his character and insight, and no longer suffered from perplexities or uncertainties in the face of turbulent social changes.

Both the IMF and the World Bank Group are now celebrating their fortieth Annual Meetings. Let us on this occasion further solidify our support for these institutions, so that they can rest on an even more stable and firm foundation, and so that they can fulfill their lofty missions in this world economy that embraces a number of vital challenges.

KOREA: MAHN JE KIM

Governor of the Bank and Fund

It is a great honor for the Republic of Korea to host these prestigious Annual Meetings of The World Bank and the International Monetary Fund. I am privileged to join His Excellency President Chun in welcoming all of you to Seoul and in welcoming the Kingdom of Tonga as the newest member of the Bank and the Fund. On behalf of the Korean Government, I would also like to take this opportunity to extend my heartfelt gratitude to the management and staff of the Bank and Fund for their untiring cooperation during the preparations for the Annual Meetings.

As the President of the Republic of Korea indicated in his speech at the opening ceremony, in the interdependent world economy today, renewal of our cooperative efforts to overcome major problems becomes increasingly important. Last year when we met in Washington, we were filled with confidence inspired by the marked recovery. Since then, however, the momentum of recovery has weakened and its downward trend has continued through this year.

As a result, world economic growth has been slower than originally anticipated, and international trade, an important engine of growth, has been stagnant. Fundamental causes of the present sluggish economy stem from disharmonious economic policies in the world community. Among others, rising protectionism in some industrial countries has caused us great concern, by particularly hindering market access of developing countries. To solve this problem, the developed countries should lower protectionist barriers and not erect new ones. In this regard, I hope that early trade liberalization could be achieved through successful implementation of negotiations for the new round within the framework of the General Agreement on Tariffs and Trade (GATT).

In addition, huge fiscal deficits tend to push up interest rates by competing with private demand for credit and to misalign exchange rates by biasing resource flows. In doing so, they bring about instability of international financial markets, exacerbate debt problems, and retard structural adjustment in developing and developed countries alike.

As noted by the Fund's revised world economic outlook, the external debt situation of the developing nations continues to be severe. This year, the outstanding external debt of non-oil developing countries is expected to grow persistently and their debt-servicing burden to be even heavier than that in 1982, when the debt crisis first emerged. In dealing with the debt problem, adjustment policies in the debtor countries should be carried out steadily, so that manageable current account deficits can be achieved.

At the same time, cooperative efforts on the part of developed countries should be strengthened to reduce fiscal deficits and maintain stable exchange rates. In this respect, I earnestly hope that discussions about the functioning of the international monetary system will bear fruitful results toward harmonious policy convergence at the earliest possible date. I particularly note with encouragement the five-nation agreement worked out on September 22 in New York to reduce the dollar's value and harmonize economic policies.

The Korean Government has been persistent in its efforts for structural adjustment through the implementation of a prudent demand-management policy and a flexible exchange rate, and through opening the domestic market to foreign countries, despite an unfavorable international economic environment. With these measures over the past years, we have been able to place our economy on a sustainable noninflationary growth path.

In 1984, the Korean economy grew 7.6 percent in real terms, maintained price stability, and achieved a pronounced degree of external adjustment. This year, however, we have been faced with some difficulties. Export performance and domestic investment activities have been stagnant owing in large part to the downward trend in the world economy; the growth rate has thus remained at only 3.2 percent in the first six months—much below our expectations. Nonetheless, we have not relaxed our adjustment policy, despite the severe hardship it entails. In particular, rigorous restructuring efforts are being implemented in the shipping and overseas construction industries, which have been adversely affected by the worldwide depression in these industries.

We have also consistently pursued financial sector reform, primarily in the area of interest rate liberalization. With the introduction of new savings instruments at interest rates nearing the market rate this year, domestic saving has increased substantially, which is the counterpart to our external adjustment. Policies to liberalize imports, reduce tariffs, and remove barriers to foreign investment have also contributed to improved external adjustment through increased productivity and strengthened international competitiveness. I assure you that we will vigorously pursue this policy stance in the years ahead.

I am happy to note that the Korean economy has started to show signs of recovery in the third quarter, and we can expect a growth rate of 5-6 percent in 1985, with low inflation and substantial improvement in the external account.

This is truly the time when deliberate harmonization of economic policies among member countries is most urgently needed to meet the challenges arising in the current world economic environment. I wish to make it clear that the Korean Government fully supports the expanded role of the Bank and the Fund for achieving a durable world economic recovery, and is prepared to cooperate to this end.

The major responsibility for achieving this goal rests on the industrial countries, because of their influence on the world economy. I welcome the Fund's movement toward a strengthened surveillance function with regard to the assessment of policies of the major industrial countries.

A general consensus on the new allocation of SDRs and its more efficient distribution should also be reached as soon as possible to complement international liquidity and to assist the adjustment efforts of the developing countries.

In this respect, I am pleased with the Interim Committee's decision to reactivate the Trust Fund for its use in helping the least developed countries.

The Korean Government would like to commend the Bank highly for its efforts to enhance the effectiveness of resources and the recent useful discussion of a general capital increase. The Bank has played a leading role in assisting the structural adjustment of developing member countries by enlarging policy loans, which I believe should be continued. There also appears to be room for increased concessional loans to the least developed countries, including the special efforts of the Bank for Sub-Saharan African countries.

While I strongly support the need for official development assistance, I would also emphasize the role and the contribution of the increasing flow of private capital to developing countries. In this context, I welcome the successful efforts for the establishment of the Multilateral Investment Guarantee Agency within The World Bank to facilitate financial flows to the developing countries without unduly increasing the debt service burden.

The economic challenge facing all of us is awesome, but not insurmountable, if we make a harmonious effort for the common prosperity of all. I would like to close by expressing my hope that this meeting in Seoul will bring about productive results if we discharge our shared tasks faithfully for the sustained growth and stability of the world economy.

Finally, I would like to express my regrets at Mr. Clausen's decision not to seek a second term of the presidency of the World Bank Group. I would like to take this opportunity to offer my sincere compliments for his vital contribution to the prosperity of the world economy and development of the World Bank. Korea, which has benefitted so much from the Bank's financial support, feels particular loss with President Clausen's retirement.

I hope your stay in Korea will be a comfortable and enjoyable one.

LAO PEOPLE'S DEMOCRATIC REPUBLIC: KIKHAM VONGSAY

Governor of the Bank and Fund

It is a great joy and privilege for me to be able to represent the Government of the Lao People's Democratic Republic at the Fortieth Annual Meetings of the Boards of Governors of The World Bank and the International Monetary Fund.

On behalf of my delegation, I would like to use this opportunity to express my thanks to the President of The World Bank and to the Managing Director of the International Monetary Fund and to their staffs for the excellent arrangements and facilities provided for the smooth running of these meetings. My delegation would also like to extend greetings to the delegations of the friendly countries that have become full members of our two institutions.

After three years of, in effect, uninterrupted decline in world economic growth and trade, the outlook for the world economy is still far from encouraging today. While the economic recovery in the industrial countries continued and gained momentum throughout 1984, their economic growth rate averaged no more than 4.57 percent and remains uneven. As to the developing countries, although there are signs of a certain upturn in domestic economic growth, their average growth rate, now 3.75 percent, is still low. Many of these countries are still in a rising tide of protectionism, the high interest rates prevailing in the international capital markets, and the shrinkage of official development assistance. All these problems are major causes of great concern for the developing countries.

The Lao People's Democratic Republic, a developing country, has endeavored to carry out its development strategy and development plans and we are happy to report that some successes were achieved in the past year, notwithstanding enormous difficulties resulting from natural disasters and, especially, the pressures, subversion, acts of aggression, and sabotage perpetrated against our country by the enemies of the Lao revolution. In the course of 1984 we completed the fourth year of our first five-year plan, the initial results of which have been encouraging. Production of paddy, in particular, was 18 percent higher in 1984 than in 1983. Export earnings also increased appreciably. These successes are the results of the resolute efforts of our people, domestic reorganization, and fruitful cooperation with the fraternal socialist countries, friendly countries and international organizations such as The World Bank and the International Monetary Fund. I would like to take this opportunity to express, on behalf of the Lao people and government, my sincere thanks and deep gratitude for their valued and helpful assistance.

This year, the Government of the Lao People's Democratic Republic is on the point of evaluating the results of the first five-year plan, covering the period 1981-85. As of now, we can state that the results are quite satisfactory. The physical and technical foundations for the country's development have been laid, making it possible for our country to move ahead to the second five-year plan—for 1986-90—under relatively favorable conditions. Despite these accomplishments, the country is still faced with innumerable problems arising from its landlocked situation, extreme underdevelopment, and several other constraints. Our delegation would like to emphasize the fact that this meeting is taking place at the same time as the one in Geneva for the mid term review of the new Special Action Program for the 1980s in favor of the least developed countries. The Lao People's Democratic Republic, ranked among those countries, attaches very special importance to that meeting since it is vitally concerned with the transfer of resources for the economic and social development of the least developed countries. It is the view of our delegation that the development financing institutions should participate actively in the attainment of the objectives of the new Special Action Program and subscribe to the conclusions reached by this important meeting.

As regards our own nation, we need considerable volumes of capital to repair and rebuild our roads, promote agriculture, intensify the production of forestry resources for export, and develop hydroelectric potential in the interests of industrialization. In this respect, the Lao Government is counting on close and heightened cooperation from its bilateral partners and from all development financing institutions, including the Bank and the Fund. It is greatly encouraged by the support provided by the Bank to the Lao People's Democratic Republic. The technical missions that the Bank has recently sent to our country to pursue the study of possibilities for financing development programs are greatly appreciated, and it is our steadfast hope that these mssions will be followed by firm commitments on the part of the Bank to support these programs.

As regards the policy pursued by our two institutions, my delegation shares the concern and the views expressed by many delegations from developing countries. It supports the policy of cofinancing with the appropriate bodies with a view to creating additional financial resources and genuinely promoting economic growth and development in the developing countries. It likewise supports the policy intended to increase resource transfers to the developing countries in this and the next decade, either as grants or in the form of loans on highly concessional terms, in particular for the least developed of the developing countries. The Bank's activities should also aim at development and structural adjustment in the developing countries. To achieve this objective, the Bank should not only finance well-designed projects, but should also help its member countries draw up investment programs that are consistent with their development strategies.

Turning now to IDA-VII, we urgently call upon the donor countries to consider suitable measures for increasing IDA resources.

Concerning lending policy as applied to member countries, it is my delegation's view that an effort should be made to ensure that all countries, regardless of their domestic political system, will be eligible for the benefits of Bank membership. We believe that once any country fulfills all its obligations as a member, it should be treated normally, just like any other, in a nondiscriminatory manner. We hope that our two institutions will re-examine decisions that are prejudicial to such countries. . . .

. . . It is my delegation's view that the items I have mentioned will contribute to strengthening the global roles and effectiveness of our two institutions.

LESOTHO: PEETE NKUEBE PEETE

Governor of the Bank

May I first congratulate the Chairman on his election to his present office, and express my appreciation of the distinction which he brings to it.

When we met last year, there appeared to be promise of a significant recovery in the world economy. Twelve months later that promise remains unfulfilled.

The recovery in the industrial countries looks fragile, while the outlook for the developing world is extremely depressing.

I refer in particular to:

—the continuing debt crisis, of which the ultimate outcome cannot be foreseen,

—the volatility of exchange rates;

—the reduction in capital flows from industrial to developing countries (estimated at a negative net volume of some US$7 billion for 1984);

—a reduction in world trade and intensified protectionist tendencies;

—continuing high levels of unemployment in industrial and developing countries alike; and

—natural calamities such as the sub-Sahara drought, which bring famine and disease in their wake.

I believe, however, that there are possible remedies for the fluctuations which have been so damaging to the world economy in general, and to the developing countries in particular; that these remedies could be less painful than those so far prescribed as orthodox; and that these remedies have not so far received proper consideration. I have in mind specifically the principle of free trade on the basis of comparative advantage.

With the invaluable assistance of the industrial countries, even the least developed countries, such as my own, have built up a capacity to produce a range of low-technology consumer goods far more economically than the industrial countries. These include textiles, mineral products and some agroindustrial products for which developing countries produce the primary raw material, and currently export that material with little or no value added. But when they develop the capacity for down stream processing, they are denied access for their finished products to lucrative markets in the developed countries. This situation distorts international trade patterns, denies developing countries the purpose of economic advancement, and leaves them no alternative but to rely on external concessionary aid. Surely it should be possible to persuade the industrial countries to concentrate on high-technology products, redeploying and retraining their labor forces for more rewarding employment, and leaving the initial processing of primary products to the producers. I am convinced that the larger volume of high-technology capital goods so produced by the industrial countries would find ready markets in developing countries, as the ability of the latter to pay for imports would increase with their improved export earnings.

I turn now to some of the pressing issues which confront my Government in its persistent efforts to obtain economic security and improved standards of living for the Basotho nation. In this connection my Government deeply appreciates the invaluable assistance which it has received from the management of the Bank and Fund over the past two decades.

Lesotho is one of the smallest and most disadvantaged of the least developed countries. It is landlocked and totally enclosed within the boundaries of a much larger, more powerful neighbor with a highly developed economy. The main body of our work force depends on that neighbor for employment. Our natural resources are minimal. Our primarily agricultural economy has been devastated by the sub-Saharan drought, which has not yet broken. We have tried to manage our finances with maximum prudence, but 25 percent of our annual revenue is preempted for amortization and interest on the public debt. The strength of the U.S. dollar (in which most of our debt is denominated), and high interest rates, compound our problems and impose a crippling burden. Our currency, which is inescapably linked to that of our neighbor and principal trading partner, shows no sign of appreciating against the recent easing of the dollar. The weakness is attributable to noneconomic factors prevalent in the region which are outside our control. A major consequence is that the cost of our fuel oil imports has increased by 100 percent over the past ten months, with a resulting continuous erosion of our foreign exchange reserves.

We are most anxious to attract investment to Lesotho either directly up in concert with our National Development Corporation, and we can offer the foreign investor a location in a country of proven political stability with a highly intelligent and adaptable labor force, and access to a wide variety of markets.

In our present situation we are dependent not merely for development, but perhaps for survival, on such international institutions as the Bank and the Fund.

You will therefore understand our appreciation of their continued support, and our concern (shared with other developing nations) for the future of these institutions. It is vital to us—and, I suggest, to the ultimate good of the world economy—that they be assured of the resources and authority to carry out their respective mandates. In that connection, I suggest that history gives us no cause for confidence in the wisdom which is often claimed to inspire the completely free operation of market forces. A distinguished observer commenting on the current problems of both the Third World and the industrial democracies has remarked,

> The solution of these problems requires international cooperation of a high order, sometimes amounting to a limited or partial pooling of sovereignty. The solution of these problems will require a strong and effective multilateral institutional framework persistently adapted to the new situation precipitated.

I commend the high degree of technical skill with which the Bank and the Fund have consistently conducted their operations and the success which has attended their efforts.

As regards the Bank, it is to be hoped that measures now in progress will suffice to redress the 1985 shortfall in anticipated IBRD/IDA operations. We look forward anxiously to the successful negotiation of an IDA-VIII Replenishment which will enable IDA to respond adequately to the many claims upon its resources. It is to be appreciated, in this regard, that apart from bilateral and multilateral grants, IDA is the biggest source of concessionary financing for Lesotho.

To date Lesotho has found difficulty in attracting IFC assistance in our industrialization plans. We welcome the recently introduced project preparation facility, and hope that it will enable the IFC to intervene more effectively in Lesotho's industrialization efforts....

...My Government regrets the irrevocable decision of Mr. Clausen not to serve another term as Bank President. He was a great asset to this institution, and his experience will be missed by all of us.

My delegation extends a warm fraternal welcome to our newest member of the Bank and Fund, the Kingdom of Tonga.

In conclusion, I would like to thank the President, Government, and people of Korea for their most generous hospitality, and for the warm welcome they have extended to us who are visiting this most beautiful country.

LUXEMBOURG: JACQUES F. POOS

Governor of the Fund

Since Luxembourg is at present exercising the presidency of the Council of the European Economic Community, I have the honor to address this meeting on behalf of the ten member countries of the European Economic Community.

Let me first express my warmest gratitude to the Korean authorities and people for their exquisite hospitality and for the perfect organization of this year's Annual Meetings of The World Bank and the International Monetary Fund. I would also like to convey to the Korean people our congratulations and our admiration for the outstanding economic performance they have achieved during the last decades.

Turning to the world economic outlook, we have to acknowledge that, after almost two years of strong expansion, global economic growth has slowed in 1985, owing to the weakening of the stimulus provided by the expansion of demand in the United States. But at the same time this growth is geographically more balanced. While inflation has been brought down, the unemployment problem remains very severe in a number of countries. In addition, large imbalances have emerged in international payments, which may not be sustainable in the medium term and may pose a threat to growth and financial stability. Finally, high levels of real interest rates may still hamper investment, although they have come down somewhat.

More recently the business sector and financial markets have developed a more skeptical appraisal of further growth prospects in the U.S. along the lines which prevailed during the years 1983-84. Projections for the U.S. economy have been revised downward; however, the exchange rate for the dollar has been coming down in an orderly fashion. A continuation of these trends could improve the competitiveness of the U.S. economy and in time bring about a reduction in its very large trade dificit. As growth in the U.S. economy slows to a more sustainable rate, it is essential that other industrial countries consider how they could best support global economic growth.

Although the restoration of a better external and internal balance in the U.S. economy will take time, the recent stronger efforts to move in that direction may have important consequences for the rest of the world. Given the key role of the dollar, the functioning of the international monetary system, and in particular the prospects for exchange rate stability in the longer term, could be enhanced considerably. Financial flows could revert to more sustainable patterns and interest rates could come down.

The ten member countries of the Community which will soon be joined by Spain and Portugal, have taken a number of steps to remedy the structural weaknesses of their economies. Although progress may vary, the trend of action is clear. Excessive budget deficits are being brought under better control in most member countries and in some instances have been reduced significantly. Inflation and inflation differentials have come down. There has been a considerable improvement in the current account position of most member states of the EEC and some progress in reducing wage and labor market rigidities.

More remains to be done in reducing structural rigidities and restoring or improving the profitability and competitiveness of companies. The implementation of expenditure restraint and increased efficiency in public sector spending and tax collection can further alleviate the burden of taxes and levies and thus increase the scope for private sector activity. The Community firmly takes the view that this fiscal stance, combined with appropriate monetary policies, is a basic condition for sustainable, noninflationary growth and for bringing down the intolerably high rates of unemployment.

While the growth prospects for the world economy may in our view warrant moderate optimism for the shorter term and greater confidence in the medium term, we have to add however two important elements of caution about potential handicaps which may arise in connection with the debt situation, on the one side, and with the dangers of protectionism, on the other.

With regard to the debt problems, the Community expresses full confidence in the way the international community, together with the Fund, is handling the situation, taking account of the specific nature of each individual case and providing a framework of trust for all parties involved. Strong and valuable adjustment efforts have been achieved by many developing countries, with substantial results. These efforts have been sustained by the creditors who managed to address debt problems with flexibility, but results, though unquestionable, are fragile. Efforts already undertaken must be pursued and deepened. Continuation of cooperation and dialogue between debtors, creditors, and international organizations is of the utmost importance, for there are not even short-term advantages to be gained through unilateral action. The orderly reabsorption of excessive foreign debt will be facilitated by continued growth and the maintenance of recent trends in exchange rates and interest rates, as well as by the rollback protectionist tendencies.

Protectionism in its various forms and a lack of willingness to opt for open markets have led to an ever more complicated maze of outright barriers, administrative hurdles, agreed quotas, voluntary restraints, and an increasing portion of world trade taking the form of bilateral or multilateral bartering.

In a world where economies are more and more interdependent in both real and financial terms, governments must make it a priority to resist and reduce protectionist pressures and to convince their public of the shortsightedness of the protectionist approach.

The Community therefore reconfirms its view that the preparation of a new round of multilateral trade negotiations within the framework of the General Agreement on Tariffs and Trade (GATT) should be concluded as soon as possible. The prospects for successful negotiations depend primarily on the readiness of governments to effectively hold and roll back protectionist measures. In this context, progress is also required in the achievement of more stable monetary and financial conditions, which underpin the functioning of international trade. Parallel results should therefore be sought in the trade and monetary fields.

On this occasion the member states of the Community welcome the work that has already been done by the Group of Ten on the functioning of the international monetary system and consider that the recommendations of its report should be given priority attention. The contribution recently presented on these matters by the Group of Twenty-Four also calls for careful consideration. The Community member countries emphasize the need to continue to examine thoroughly all the issues relevant to the orderly functioning of the international monetary system.

On the issue of an allocation of SDRs, the member states of the Community welcome the comprehensive review of the future role of the SDR in the international monetary system, which is to be undertaken by the Executive Board of the Fund, and hope that this study will help clarify the issues and thus delineate the scope for any action in this field.

In view of the remaining strains and uncertainties in the international economy and to allow the Fund to fulfill its role in a flexible way as an agent of international adjustment, the policy of enlarged access should be continued for another year. To stress the temporary character of this policy the member countries of the Community reaffirm, however, the need to continue the gradual phasing out of enlarged access and to maintain the cautious application of lending guidelines.

The difficult prospects that remain for many low-income developing countries prompt the member countries of the Community to view the remainder of Trust Fund loan repayments as a way of providing concessional assistance in a flexible manner through the special disbursement account to eligible countries embarking on Fund adjustment programs.

The member states of the Community also support the strengthening of Bank-Fund collaboration, without jeopardizing the unique purposes of each institution. We encourage the Bank, through policy dialogue with borrowers, to design Bank programs which complement the short-term, more financially oriented, Fund programs. The Bank should in a flexible way play a large and continuous role in financing structural adjustment, using its various instruments while preserving loan quality and prudent financial policies.

We expect that agreement will be reached soon on the expansion in the Bank's lending program and on lending conditions and their implications in terms of resources, and are ready to support any consequent increases in the Bank's capital.

The member states of the European Community reaffirm their support of the International Development Association (IDA) as an unrivaled international agency for transferring concessional assistance to low-income countries. They welcome the current mid-term review of IDA-VII and its emphasis on the role and structure of IDA; this review might be useful in restoring an adequate resource base, but fresh financing means are also needed to meet increasing requirements. It should also lead to timely negotiations for IDA-VIII.

To sustain the restoration of sound economic policies in developing countries, we are aware of the necessity of enhanced flows of official development assistance. Other bilateral and multilateral financial flows to developing countries need to be upheld and if possible increased. In this regard the member states of the Community are pleased with the entry into force of the Special Facility for Sub-Saharan Africa; they hope for a rapid entry into effect of the International Finance Corporation (IFC) capital increase; and, in recognition of the vital role private direct investment has to play in the development process, they hope that rapid progress can be made in finding satisfactory solutions in the discussions to set up the Multilateral Investment Guarantee Agency (MIGA). In this respect the member states of the Community welcome the report of the task force on concessional flows and endorse its conclusions.

The Seoul meetings of The World Bank and the International Monetary Fund have induced significant progress in our common efforts to overcome the economic imbalances and the financial strains that characterize the world economy.

All our nations share important responsibilities and obligations in the organization of free and fair trade and in the management of a stable international monetary and financial system.

In pursuing in each of our countries policies conducive to sustained growth and to higher employment in each of our countries, we can make the best contribution to the overall prosperity of all nations.

Finally, I would like, speaking for Luxembourg, and in the name of the ten member states of the EEC, to express to President Clausen our deepest gratitude and appreciation for the inspired way he has guided the World Bank and its affiliates during the last five years.

I thank you, Mr. Chairman.

MALAYSIA: DAIM ZAINUDDIN

Governor of the Bank and Fund

It gives me great pleasure to address fellow Governors at these Annual Meetings of the Boards of Governors of The World Bank and the International

Monetary Fund. I would like to take this opportunity to express on behalf of my delegation our thanks to the Government and people of the Republic of Korea for their gracious hospitality and the excellent arrangements made for these Meetings. I would also like to welcome the Kingdom of Tonga as the latest member of the Bank and the Fund.

We are now meeting at a time of great uncertainty in the international economic environment. Volatile exchange rates, unstable capital flows, and large payments imbalances among the major countries clearly pose threats to a sustained recovery and continued viability of the international monetary system. At the same time, viable solutions to the world debt crisis are not in sight. The political will to alleviate problems facing the world economy is clearly lacking.

A number of fellow Governors have spoken about the evils of protectionism and the urgent need to roll back trade barriers. There appears to be a consensus that protectionism hurts everyone. It is time we translate all these concerns into concrete programs of action to pave the way for a revival in economic growth and world trade.

The Bank and Fund must play a stronger role in reviving world economic growth. The Fund will need to enhance surveillance and make it more even-handed. Besides promoting adjustment in developing countries, it must also promote policies to achieve convergence in the economic performances of major industrial countries. This will minimize serious misalignments of exchange rates, high interest rates, and perverse capital flows.

The role of the Bank should be strengthened, so that it can respond more effectively to the needs of its members, particularly the developing countries. To enable the Bank to play this role, member countries will need to give their fullest support to the required capital increase to provide adequate funding for the Bank. We regard a lending program of $40-45 billion for fiscal years 1986/88 as the minimum for the Bank to be credible as an effective partner in development. At the same time, the Bank should not try to impose more "conditionalities" than necessary on the developing debtor countries in its lending programs.

Although a favorable international economic environment and an enhanced role for the Bank and Fund are important for sustained growth and development, domestic economic and financial policies need to emphasize fiscal consolidation in the medium term.

In Malaysia, a key element in promoting economic development is a more dynamic and effective private sector. Recognizing this role, the Government has taken positive steps in the past year to promote private investment.

The Government, for example, has recently liberalized the guidelines for foreign equity participation. The new guidelines aim at promoting exports, especially of manufactured goods. We are convinced that this policy will further improve the investment climate in Malaysia. Policies are also in train to increase domestic private investment. At the same time, a more efficient and competitive industrial sector will also be achieved through privatization of public enterprises.

The national airlines, telecommunications, and port facilities are at various stages of being privatized.

The International Finance Corporation (IFC) should play a larger role in promoting more foreign investment in developing countries. Much of the foreign investment today still goes to the industrial countries. In Asia, we are particularly disappointed to observe that a large portion of Japan's overseas investment in manufacturing activities is taking place in industrial countries. This perpetuates the present inequitable distribution of global manufacturing capacity. With the improved investment climate in developing countries, we hope to see a quick reversal of this trend.

Solutions to the debt problem remain as elusive as ever. Expectations of a major initiative at these meetings have fizzled out. Consequently, high debt servicing has caused serious hardship in the indebted countries. We need to introduce new initiatives to address this problem. I propose that the Bank seriously consider, among others, a scheme to reinvest a proportion of the repayments in debtor countries. This would encourage higher levels of investment and economic growth, thus enhancing their capacity to service the debt. Such schemes can be readily incorporated in the framework of the Bank's cofinancing loans. Some of these ideas could as well be translated into workable plans of action by multilateral institutions and private and official creditors.

The developing countries have faced the brunt of the failure by industrial countries to sustain noninflationary growth in the world economy. We in Malaysia have taken strong and effective adjustment measures to reduce our external and fiscal imbalances. The measures have been successful, but success was achieved at a cost of lower economic growth and development. We believe such measures are necessary to ensure sustainable long-term growth of the economy.

Finally, we join other members in wishing Mr. Clausen all the best in his future endeavors. Needless to say, Mr. Clausen has done a tremendous job for the World Bank in his capacity as President during his tenure in office.

MALTA: WISTIN ABELA

Governor of the Bank and Fund

First of all, I should like to express the Maltese delegation's appreciation to the Government of Korea and the people of Seoul for their warm hospitality and the excellent arrangements made for our meetings.

After our meeting in Washington last year, the recovery in world output and trade strengthened further—without any resurgence of inflation in the major industrial economies. During the first half of 1985, however, the upturn appeared to lose its momentum, and this before many developing countries had begun to benefit significantly from the recovery. Indeed, much of Africa continues to suffer from economic deprivation, famine, and other crises, while the development process in Latin America has been set back many years. Moreover, more than half of the developing countries now have lower per capita incomes than before the recession.

In spite of the recovery, therefore, I feel that the Ministers of the Group of Twenty-Four were fully justified last April when they described the international economic situation as "unstable and unsustainable" and "a cause for serious concern." Dangerous elements of instability, in fact, threaten the world economy, and since our last meeting some have even worsened. These include the large trade imbalances between the world's major economies, growing protectionist pressures, fiscal imbalances, high interest rates, and a debt situation which, despite occasional optimistic pronouncements to the contrary, still give cause for concern. For the developing countries, in addition, a number of factors have combined to bring about an anomalous situation where net flows of finance in their regard are actually negative—and this at a time when the world's largest and strongest economy has become a net absorber of the world's savings.

Perhaps the most disturbing factor in the present situation is that there is as yet no evidence of an alternative stimulus to global economic activity, now that growth in the United States is slowing down. In the meantime, while prospects for the developing countries depend mostly on the level of economic activity in the industrial countries, direct international and domestic actions are necessary to ensure adequate support for these countries, who, because of the asymmetries inherent in the present international financial and trading system, continue to bear most of the burden of adjustment.

In short, there is much hard work to be done.

Although the problems besetting the world seem, at first glance, to be many and complex, however, they are in reality all interrelated. The trade deficit of the United States has now reached a level, in relation to its GNP, which is so high by historical standards, that it threatens to undermine confidence in the dollar, and, thus, also in the whole international financial system. The abnormally high interest rates which have given rise to this development, are, in turn, the result of the U.S. budget deficit combined with the strict adherence to tight monetary policies. These facts and the consequent strength of the dollar have, at the same time, contributed in no small manner to the difficulties of debtors in the developing countries, and also contribute to the further dangers these facts, in turn, pose to confidence in the international financial system.

We sincerely hope that the measures recently taken to bring the dollar's value down to more realistic levels will help to remove at least one source of instability, and that these arrangements will be lasting. If, as a result, the mounting protectionist stance in the United States can be successfully resisted, another grave danger which has been looming before us—that of an all-out trade war between the world's major economies—can be averted, and hopefully, the protectionist tide can be rolled back.

There is, of course, that other strange phenomenon of our times—the high and rising unemployment in the European economies at a time of supposed economic recovery. A new word—"Eurosclerosis"—has been coined by the popular press to describe the illness afflicting Europe. Within our more esoteric circle, we refer to it as "structural rigidity," especially in the labor markets. However, although it might be argued that the dollar's strength should have contributed to economic revival in Europe, the high interest rates on which that strength rests did not. Neither did the perilous debt situation of the developing countries—which are a potentially (but, in the circumstances, not actual) large market for Europe's exports.

Thus, one could go on endlessly establishing links between the various ills that plague the global economy. However, the underlying cause can be found in the weakening, over the years, of the spirit of international cooperation that had inspired the founding fathers of the Bank and the Fund and which had brought so much stability and prosperity, and such promise, to the world in the two decades immediately following World War II. . . .

. . . Much can be done to alleviate the burden on these countries through the provision of more financial resources by and through the Fund and The World Bank. These resources need to be provided on easy terms, and for longer periods of time. Circumstances certainly do not warrant the accent recently being placed on the "monetary" character of the Fund and the "temporary" nature of its support for balance of payments adjustment. What is necessary is an urgent reappraisal of the Fund's policies with regard to the use of its resources and its general approach to adjustment where developing countries are concerned. In addition, more positive thinking should be given to the question of an SDR allocation, which would help, not only to ease the liquidity strain currently facing many countries, but, also, to promote a more even growth spread in world trade. Similarly, the Fund's policy of enlarged access should be continued at current levels at least up to the Ninth Quota Review, and use of the extended Fund facility should be expanded so that the Fund will be able to respond more effectively to the medium-term balance of payments needs of many member countries. Besides, it should not be too difficult to reach agreement on utilizing Trust Fund repayments for concessional assistance to the poorer countries, and active consideration should be given to establishing the Trust Fund on a more permanent basis. Furthermore, it is important to ensure that both the Fund's assistance and The World Bank's structural adjustment loans continue to deal with the particular financial needs of individual countries in a mutually supportive manner.

I am sure we would all like to see The World Bank play a greater role in channeling capital flows to the developing countries, and to adapt its programs and repayment terms to the circumstances of different countries. To enable the Bank to do this, however, there is need for an early consensus on a substantial increase in its capital. Only through an adequate broadening of its resource base can the Bank refashion and expand its lending programs appropriately to smooth the way for the structural adjustment and development process.

As for the Bank's efforts to encourage more flows of private investment to developing countries, we are glad to note that much progress has been made toward agreement on the establishment of the Multilateral Investment Guarantee Agency (MIGA). The Bank's initiative in setting up MIGA is to be greatly commended. It seems, however, that there are reservations on the inclusion of export credits in the coverage to be given by MIGA. This is disappointing for small countries like Malta which, for various reasons, cannot afford to operate an export credit guarantee agency of their own. We would strongly recommend, therefore, that the Bank consider, in MIGA's coverage, the inclusion of export credit guarantees for such countries.

The Bank is also to be commended for setting up the Special Facility for Sub-Saharan Africa. But, for this to be effective, the distribution of funds must be wide, and their disbursal rapid, for we are dealing here with matters of life and death for millions, and delays cannot be tolerated. There is also a strong case, surely, for additional resources to be mobilized to ensure against a contraction of net capital flows to Sub-Saharan Africa. We would do well to remind ourselves that if these countries—like many others in the developing world—are borrowing less than previously, it is not because their need for resources no longer exists. It is simply that they cannot accept any further austerity measures than those that have been imposed on them thus far.

The recent famine in Sub-Saharan Africa should make us pause to think. For globally, after all, there is no shortage of food. The world is not on the brink of a Malthusian catastrophe. The problem, rather, is one of coordinating efforts in order to bring surplus food to the right places in the shortest possible time—if possible before a single person dies of hunger. We think that storing wheat and other foods in close proximity to possible disaster areas would help in this respect. May we suggest, therefore, that some new facility be set up with the specific aim of financing such emergency food stocks? Such a facility could be set up, at least initially, within the context of the joint program for Sub-Saharan Africa. For instance, the Bank could arrange a scheme whereby countries with large agricultural surpluses could enter into a temporary commitment to donate a given amount of their surplus output, while the Bank, perhaps in conjunction with the Fund and other international institutions would assume the financing of the mobilization, storage and distribution of such emergency food stocks to Africa and possibly other famine-stricken regions. I am sure that many countries would be willing to contribute to the implementation of such a scheme, and for our part, Malta would be prepared to make our newly set up grain storage and transhipment facilities available toward this end.

Finally, I cannot close without expressing my country's deep sympathy to the Government and people of Mexico for the widespread destruction and devastation of their country as a result of the recent earthquake. I feel, however, that these Meetings should go further and demonstrate the solidarity of the whole international community in a practical and tangible manner. In particular, I am sure I would be expressing the feelings of all our members were I to call on the Fund and the Bank to take whatever measures they deem possible to alleviate the hardship and suffering at present being borne with such fortitude by the people of Mexico.

NEPAL: PRAKASH CHANDRA LOHANI

Governor of the Bank

It is indeed a great honor and pleasure to address this distinguished gathering. On behalf of the Nepalese delegation and on my own behalf, I would like to express sincere thanks to the people and the Government of the Republic of Korea for the warm and generous hospitality extended to me and members of my delegation. During our sojourn, we have witnessed the economic development that Korea has achieved in a relatively short period of time. We are indeed impressed with it. May I also extend our sincere appreciation to His Excellency, the President of the Republic of Korea, for addressing this joint meeting and calling for better understanding and fruitful cooperation among nations for the benefit of both developed and developing countries. It is heartening to note that the performance of the world economy in 1984 was considerably better than had been expected. While the industrial countries recorded a growth in real GNP of nearly 5 percent, economic growth in non-oil developing countries accelerated from 2.5 percent in 1982-83 to 4.5 percent in 1984. However, persistent high unemployment in Europe; intensification of current account imbalances of a number of industrial countries, especially the United States; high real interest rates; misalignment and volatility of exchange rates; and increased recourse to protectionism resulting in a deceleration in the growth of trade have made the sustainability of the recovery highly uncertain in the industrial countries. In fact, the rate of economic expansion in these countries has slowed from 5 percent in 1984 to 3 percent in 1985. Such deceleration in growth and the uncertainties surrounding future expansion in the industrial countries would have an adverse impact on continuous world economic recovery.

The economic and financial conditions in many developing countries remain severely constrained. Despite improved performance in 1984, per capita real income of many developing countries continues to be lower than in the 1970s. Unfavorable terms of trade, growing protectionism by the developed countries toward the developing countries' exports, decline in the net transfer of both official and nonofficial resources, heavy debt service burden, and acute compression of imports have exacerbated the problems faced by the less developed countries.

A major area of concern to the developing countries has been the deceleration in the growth of world trade and the decline in commodity export prices so far in 1985. These, together with increased trade barriers, have made it extremely difficult for the developing countries to increase their export earnings. Although the current account deficit of non-oil exporting countries has been reduced to $38 billion in 1984 from $113 billion in 1981, this has been mainly possible because of drastic curtailment in imports by these countries thereby reducing investment and slowing down economic growth and development.

Another area of concern is the decline in net financial transfers to developing countries. While official assistance and institutional financial support have both declined, there has been a virtual stagnation in the commercial bank lending to these countries since the onset of the debt crisis in mid-1982. In view of the discouraging outlook for enlarged export earnings, these countries would have to depend largely on international financing to meet their urgent need for resources not only for productive investment activities but also for balance of payments adjustment. Maintenance of both official and private capital flows, thus is of paramount importance. In this context the roles played by The World Bank and the IMF assume vital importance.

Despite the growing and persistent needs of the developing countries there has been a recent slowdown in The World Bank lending program. It is disappointing to note that World Bank loan commitment and the net transfer of resources have declined in 1985. If this trend in loan commitment continues in successive years, the net transfer is likely to be negative at the end of the decade with the adverse consequences on the long-term growth and management of economies. In this context, the discussion on the future role of the Bank carries a great significance. We share the views expressed by fellow Governors that the discussion should be guided by the firm commitment to enhance the lending capacity of The World Bank. Essentially capital should be increased sufficiently in order to enable the Bank to provide adequate support for the programs undertaken by borrowing countries.

IDA commitment and disbursement figures for 1985 show a decline from the level attained in the previous year. This is quite discouraging for countries which depend largely upon IDA funds for their economic development activities. The Task Force on Concessional Flows has concluded that most aid has been productive and helpful to development. It is therefore clearly imperative to enlarge the volume of concessional aid in response to the increasing needs of less developed countries. I would like to urge the donors to provide additional funds for IDA, to strengthen the resource base and channel larger amount of funds to the less developed countries, on current terms and conditions.

The plight of Sub-Saharan Africa calls for concerted actions on the parts of both the bilateral donors and the multilateral institutions. We note with satisfaction the creation of the Special Facility for Sub-Saharan Africa which, we hope, will provide additional resources for meeting current and future needs of these countries.

The successful outcome of the negotiation for the creation of the Multilateral Investment Guarantee Agency (MIGA) is an encouraging development. It is expected to provide additional incentives to foreign private investors in order to channel their resources to the productive enterprises in developing countries.

We hope that, with the member countries' endorsement, MIGA will succeed in improving the investment environment by issuing guarantees against noncommercial risks and providing promotional services. We support the establishment of this new institution....

...With regard to SDR allocation, we believe that a substantial allocation of SDRs in the fourth basic period would promote economic recovery and would not be inflationary. An allocation of SDRs would help meet the long-term global need of reserves, thereby supplementing international liquidity. We also share the views put forward by other developing countries that the unconditional character of SDR allocation be maintained and that a link be established between SDR allocation and development finance.

Now I would like to dwell briefly on Nepal's economic performance during 1984/85. Despite appropriate policy measures undertaken by the Government, adverse weather conditions were mainly responsible for moderating the growth in GDP to 2.8 percent as compared to an impressive growth of 7.4 percent in the previous year. However, viewed in the context of the higher base in 1983/84, the growth rate of 2.8 percent this year is not that discouraging. Inflation was reduced to 4.1 percent from 6.1 percent last year. Improvement in supply management through stock mobilization and timely imports helped improve the price situation. On the external front, significant improvement in the export performance was not enough to prevent deterioration in the balance of payments position. The Government's policy of encouraging the private sector has been strengthened.

Nepal has embarked upon its Seventh Five-Year Plan from the current year. The main objectives of this plan are to accelerate production, increase opportunities for productive employment, and to fulfill the minimum basic needs of the people. The Plan aims at securing an average annual growth rate of 4.5 percent. The major thrust of the investment strategy, as outlined in the Plan, is to give priority to the completion of projects carried over from previous years and to maximize benefits from past investments. Despite the Government's firm commitments and efforts to mobilize additional resources, about 70 percent of the Seventh Five-Year Plan outlay has to be met from foreign assistance.

In spite of the Government's active involvement in the development activities for the last three decades, the achievement so far has been less than expected. Experience shows that the increasing demands of the growing population cannot be met by the government only. The initiation of the policy to seek meaningful cooperation from the private sector has been further consolidated in the current year. With the flexible interest rate structure, the banking sector has succeeded in mobilizing resources and channeling such resources to the private sector. The Government has also sought to remove constraints from financial institutions seeking diversification of their investments. Providing adequate rural finance for agriculture and rural development is crucial. With the farmers' involvement, His Majesty's Government has proposed to establish the Rural Development Bank this year. Similarly, the policy of private sector participation in public enterprises has been vigorously pursued and full autonomy regarding price, investment, and internal management decisions has been awarded to enterprises having competitive markets. As the implementation of the "Decentralization Act" in some districts proceeds this year, the local participation in the formulation and implementation of local level projects is expected to gather momentum. We are indeed guided by the Royal address which calls upon the people's participation for the attainment of fundamental objectives of providing basic needs to the people. His Majesty, King Birendra Bir Bikram Shah Dev, in his New Year's message, stated and I quote: "What has become quite clear is that government and government institutions alone cannot bring about the country's development on the scale which we desire. Genuine development requires sweat and toil and the application of our mind and energy. We have to extend all possible encouragement to the private sector and encourage production through remunerative pricing in the task of mass mobilization for the purpose of comprehensive development."

For sustained growth of the developing countries, recovery in the industrial countries although necessary is not a sufficient condition. For this an appreciable increase in productive investment in the developing countries is imperative. While concurring with the view that domestic resource mobilization should be enhanced, capital flows, both concessional as well as nonconcessional, public as well as private, must be stepped up along with effective measures to limit the volatility of commodity prices. We feel that there is an urgent need to augment the flow of resources from multilateral institutions like The World Bank and the IMF so that borrowers' access to these resources would be enhanced. In order to enable these international institutions to play their part, their resource base should be strengthened. Affluent nations can do a lot to help and encourage these institutions to play a more positive role in the international economy.

Finally, we heard Mr. Clausen's decision not to seek a new term in the Bank. We feel that under his leadership the Bank has tried to find a sense of direction and encourage innovative measures for the benefit of member countries. We appreciate his leadership and his efforts to make the Bank an effective institution in alleviating poverty at a time when the world economy was passing through a difficult period. We wish him well in the future.

THE NETHERLANDS: H. O. RUDING

Governor of the Bank

The World Economic Outlook

Real GNP of the industrial world will grow this year but less than we expected at the time of the spring meetings of the Interim and Development Committees. Unemployment is too high, and where it declines, progress is too slow. Still, the underlying macroeconomic conditions for growth have improved markedly. Inflation rates have come down and are not likely to rise this year. Monetary policy has gained credibility in recent years and it does not stand in the way of sustained economic expansion, nor does it fuel inflationary expectations. Interest rates are on the decline though still too high. Investment and business profitability have improved. Now that the U.S. economy has slowed down, economic growth is spread more evenly across the industrial countries giving rise to less tension. In Europe, economic expansion has been modest thus far, with exports being its driving force. Domestic expenditures were restrained by remaining supply-side rigidities and high real interest rates. But the contribution of the domestic sector to economic growth is rapidly increasing, thereby broadening the basis of the European recovery. In view of these favorable conditions, the baseline scenario envisaged at the Interim Committee meeting last April still appears within reach.

This is not to say that we can take this scenario for granted. Indeed, developments during 1985 point to increased downside risks. A first downside risk arises from protectionism. At our last Interim Committee meeting we committed ourselves to a reversal of the trend toward more protectionism. However, no action to that effect has taken place yet. Despite many pronouncements in favor of freer international trade, protectionism has gained ground. This hurts exports of developing countries, thus endangering their debt-servicing capability. Equally, it hurts the industrial countries' export performance. It is generally recognized that protectionism benefits some sectors in the economy at the expense of others, and that in the long run the costs far outstrip the benefits. Therefore, we in government must show the political courage to pursue trade liberalization more vigorously.

A second cause of downside risk that confronts us is that efforts to restore fiscal balance still are inadequate. I must strongly warn against an early relaxation of fiscal adjustment efforts at a time when in most countries budget deficits and public debt service obligations are still far from being under control. Budget deficits put upward pressure on interest rates. They thereby hamper investment growth in industrial countries and make it more difficult for developing countries to service their debts. Excessive budget deficits undermine government credibility as they endanger the medium-term-oriented framework of sound positive adjustment policies. The U.S. experience demonstrates some of the dangers clearly. Exchange rate crowding out seriously hurts the import-competing sector of the U.S. economy, while fueling protectionist tendencies, as was indeed recognized by the Group of Five in their recent communiqué. The consequent effect of the recent action by the Group of Five on the dollar exchange rate, however, cannot last without action to reduce the U.S. deficit. And that will be the more painful the longer it is postponed. In those European countries where this is necessary—including my own country—government deficits should also be reduced further by cutting expenditure. Once deficits have been brought under control, fiscal and social taxes can be lowered and governments can make room for the healthy dynamics of the private sector. Such dynamics also require the removal of existing structural rigidities in the markets for goods, labor, and capital.

This strategy is medium term. Already, signs of success can clearly be discerned in Europe. In the Netherlands, for instance, the steep increase in unemployment has been arrested and employment is rising for the first time in many years. Despite weaker demand from abroad, the European economies show a stable, sustainable, as yet modest, real economic growth. A few major countries have already raised their growth forecast for the next year.

Turning to the developing countries, I observe that the spectacular improvement in their external positions during 1983 and 1984 has not continued in 1985, owing to a loss of export opportunities and deterioration of their terms of trade. Fortunately, their current account deficits, particularly those of the debtor countries, are still at a sustainable level. They can be financed in the aggregate largely by non-debt-creating capital imports, while leaving some room for a buildup of monetary reserves.

Another cause for concern is that the internal adjustment efforts of some larger debtor countries, with the noteworthy exception of Argentina, have slackened. This may undermine the confidence of financial markets and postpone the normalization of the relations between borrowers and lenders. In that case, and even more so when countries proclaim so-called "alternative" solutions to their debt problems, less rather than more external finance will be available, thereby jeopardizing development and economic growth and making the adjustment process all the more severe. . . .

. . . I also endorse the decision of the Interim Committee to put the resources flowing back from former Trust Fund loans to use in support of low-income countries that are eligible for IDA resources and that face protracted balance of payments problems. In this respect, I highly appreciate the decision taken by India and China not to avail themselves of this new facility. Close cooperation between the Bank and the Fund in formulating adjustment programs for these new loans would, indeed, be desirable.

Commitments of The World Bank for Fiscal Year 1985

I turn now to the affairs of The World Bank. May I begin by expressing my sincere regret about Mr. Clausen's announcement of not being available for a second term. The Bretton Woods institutions have experienced a difficult time: the world economic recession, economic stagnation in many countries, and severe crises in Africa and Latin America. Under Mr. Clausen's guidance, the Bank, IDA, and IFC have reacted to these problems in an admirable way. The Special Action Program, the programs for structural adjustment and rehabilitation, the formulation of a new policy for Africa and for the future role of the Bank, the program of cofinancing, the Multilateral Investment Guarantee Agency

(MIGA), and many other innovations have come into existence during his presidency. Indeed, he deserves our fullest admiration and gratitude.

The developing countries on the whole have benefited from the recovery in the industrial world. After three years of stagnation and decline, per capita income rose in 1984. However, regional performance varied considerably. Africa experienced a continuation of falling per capita incomes and faces severe debt-servicing problems; Latin American countries managed to reverse the negative growth of the last few years by implementing courageous adjustment programs; Asian countries continued to perform well. In the aftermath of the debt crisis I consider the decrease of Bank lending in fiscal year 1985 unfortunate but unavoidable. The severe crisis in many developing countries has forced a temporary reduction in investment programs and a change in investment priorities that has resulted in a weakening of the Bank's project pipeline. I am pleased that the Bank has not tried to attain its lending target for fiscal year 1985 by weakening its conditionality. All this is not to say that the Bank has been passive. On the contrary, the Bank has actively adapted its operations to the changing environment in developing countries. In this connection mention should be made of the Special Action Program and the incorporation of its features in normal Bank operations. Mention should also be made of the Bank's new country focus approach, and of the increased policy-based lending. These Bank policies have contributed toward the increase of disbursements in fiscal year 1985. In addition, I note that the rebuilding of the Bank's project pipeline has been vigorously pursued in order to reflect the new investment priorities.

General Capital Increase

Because of the combination of financing, policy advice, and technical assistance, the Bank is uniquely qualified to help overcome structural bottlenecks to long-term growth in developing countries. Its role has become even more important because most financial flows to developing countries have diminished considerably and because we have witnessed the grave consequences of unrestrained private bank lending without conditionality and appropriate policies. In order to enable the Bank to continue to play its important role and in order to ensure sufficient leverage for the Bank in its policy dialogue, I favor a general capital increase. Such an increase should be seen in a longer-term perspective. The Bank's lending capacity should be such as to allow for undisrupted growth of the lending program. Discussions on a capital increase should not, therefore, be led by specific lending figures over one or two years only. The projections for Bank lending indicate that a capital increase will become necessary within the period that experience teaches is required to implement such an increase. Therefore, I sincerely hope that we will be able to reach a consensus as soon as possible on the necessity of a general capital increase and on the need to start negotiations at an early date.

International Development Association

The single most important source of multilateral aid has been IDA. In contrast with bilateral aid, a very large proportion of IDA resources (94 percent in fiscal year 1985) went to developing countries with a per capita GNP below $400. The importance of IDA for these countries, which have almost no recourse to private financial flows, needs no further comment. Given this importance, I welcome the efforts to explore whether IDA's role and structure is still appropriate to the current situation and circumstances of countries eligible to use IDA resources. Any adjustment in IDA should aim at safeguarding its effective multilateral character, that is, IDA resources should be contributed on the basis of economic strength and should be distributed on the basis of need and of the ability to use these resources effectively. Given this objective, proposals to differentiate IDA credit terms between country groups and over time should be given serious consideration. I hope that the midterm review of IDA-VII has paved the way for a successful negotiation of IDA-VIII in the first half of 1986.

The Role of the Bank in Debtor Countries

Many developing countries remain burdened with heavy debt-servicing problems and some, especially in Sub-Saharan Africa, even face a substantial further increase in their debt service in the coming years. I certainly see an important role for the Bank as a development finance organization in easing the debt problem by redressing structural bottlenecks to long-term development.

Let me now give a preliminary reaction to the suggestions U.S. Treasury Secretary Baker launched yesterday. He proposed to give the Bank a bigger role in easing the debt problem. I support exploration of the possibilities for appropriate Bank action in this important field. Due care should, however, be given to maintaining the Bank's character as a development finance institution and to preventing the Bank from being transformed into a debt-financing institution. It should be borne in mind that such a transformation could adversely affect the Bank's standing as a borrower in capital markets. In my view, Bank policies should aim at preserving its present top credit rating under all circumstances. The Bank's role in solving the debt problems of the major debtor countries will, as far as the use of its own resources is concerned, of necessity be a minor one, although its catalytic role can be important.

The Role of the Bank in Africa

There seems to be much more scope for a major role for the Bank in solving the debt problems of the smaller economies, especially in Sub-Saharan Africa, that face severe debt-servicing problems. In these countries, especially, close cooperation between the Bank and the Fund is of paramount importance. Because of the structural nature of the problems in these countries, a prime role has to be played by the Bank. Regular Fund credits are generally less suitable because the borrowing country will have to repay these credits over a relatively short period of time, given the revolving character of Fund credits.

However, the reflows of the former IMF Trust Fund do constitute an appropriate source of concessional long-term funding for the least developed countries that commit themselves to structural adjustment programs, designed in close cooperation between the Bank and the Fund. Supplemented with soft credits from the Bank, the use of these reflows should help to solve both the problem of prolonged use of regular Fund credits and the growing problem of arrears.

Against the background of the structural problems of Sub-Saharan Africa and the region's great need for concessional resources, it has been gratifying to note that the Special Facility for Sub-Saharan Africa became effective last July.

Bank Profits

At an annual shareholders' meeting of a commercial bank it is common to devote attention to the profit figures. In the case of the Bank we do not regularly do so. The figure of the profit for the last financial year, however, is so spectacular that it cannot escape notice and, indeed, if this were a commercial bank unmitigated praise would be lavished upon it. In the case of the Bank, obviously, other considerations should also be taken into account. I would like to invite the management and the Board to give this matter due attention.

The Multilateral Investment Guarantee Agency

May I finally congratulate the management and the Board on their success in formulating a Convention for a Multilateral Investment Guarantee Agency that has turned out to be generally acceptable. I trust that many member countries from both the developing and the industrial world will join MIGA. I am convinced that the Netherlands Government will rapidly take the decision to apply for membership in MIGA.

NEW ZEALAND: R.O. DOUGLAS

Governor of the Fund

May I first extend a welcome to our Pacific colleagues from Tonga. It is fitting that we should be meeting this year in this very impressive country. Korea is a developing country and therefore provides a very appropriate venue for the consideration of developmental issues that are fundamental to the future of the Bank and the Fund. It is one of that small group of Asian countries that has already found a path that promises to lead through the forbidding array of economic challenges that beset the developmental process.

Again and again during debate on almost any financial issue within both the Bank and the Fund, distinctions that are drawn between developing and developed countries have been found to be artificial.

Many of the problems that I as a Minister of Finance of a small developed country face day to day have a high degree of commonality with those that confront my colleagues in the developing countries. It could be argued that this statement simply reflects the fact that, as a small and geographically isolated country reliant on commodity exports, New Zealand has more in common with developing countries than other OECD members. I acknowledge that there is some truth in this point of view. It is, however, by no means the full story.

Over the last twenty years, our economic performance has been characterized by

—low growth,
—large and persistent internal and external deficits with a corresponding growth in debt,
—persistently high rates of inflation,
—stagnant and often declining productivity, and
—unprecedented levels of unemployment.

The fact that this poor performance has been a feature of a country with substantial natural resources in no way sets us apart from so many other members, both rich and poor, that can tell a similar story.

We attribute our poor economic performance to both external and internal factors. Like others, we have been hurt by the oil price shocks, world recession, and declining terms of trade. I believe, however, that much of the blame for New Zealand's poor performance can be laid at the door of internal policy failure. My Government has performed radical surgery on those policies. The first element of our approach has been to introduce policies that are medium term in orientation and that are consistent with each other. The second important principle we have followed has been that economic policy should, above all, be concerned with the efficient allocation of resources and therefore facilitate adjustment rather than hinder it. Third, equity objectives and the spreading of the burden of adjustments have been central to our program of economic reform. This has meant removing ad hoc interventions in particular markets. Fourth, in implementing its program, my Government has quite consciously acted speedily and decisively across a broad range of policy areas. For decades, New Zealand sought to isolate itself from external economic pressures. In the end, we found the cost of shoring up the defenses of Fortress New Zealand just too great. We finally realized that the world economy was not going to change direction to accommodate us. The onus for changing lay squarely with ourselves. For years we protected our producers in part because we were denied access to the markets of our natural trading partners. We have now come to realize through the hard school of experience that protectionism is self-defeating. Our sheltered industries have not been under international pressures to use our resources efficiently and to rationalize. They have imposed direct costs on our consumers and on our traditional exporters. At the same time new and potentially profitable lines of activity have been precluded.

We have decided to accelerate removal of our import controls and to rely instead on tariffs which are also being reduced. Our objective is to expose our domestic producers to the pressures of international competition by means of lower and more uniform levels of assistance. Our trade barriers have simply served to impede realization of the efficiency gains that accompany adjustment. If we were to go on waiting for our trading partners to remove their barriers, we would lose these benefits. If, on the other hand, our trading partners do remove their barriers, not only will they benefit from improved domestic resource allocation, but both parties will have incremental benefits from the increased trade flows. Freer trade is not a zero sum game. Nor is economic development.

A world economy performing at a high pitch would offer the prospect of unparalleled benefits for all. This happy state of affairs must, however, be based on a foundation of solid economic performance in individual economies. If we don't establish that sound economic base domestically, we will not individually have the capacity to obtain the incremental benefits that come from buoyant world economic conditions.

We cannot promote economic growth and development through IMF or World Bank decree. One persistent theme of discussions in the Executive Boards of the two institutions has been that neither institution can help member countries that fail to take the initiative to help themselves. The Bretton Woods institutions, and this applies as much to the GATT as the Fund and the Bank, can support appropriate development policies but implementation must remain the responsibility of individual countries.

In New Zealand, we have set in place a strategy that is changing our economic policy in a fundamental way. The adoption of medium-term perspectives in setting policies and in assessing benefits and costs is central to this process. In this context I am confident that we will soon be reaping benefits from the painful adjustments that are now taking place.

I would like to think that before too long we will also reap incremental benefits from the real growth in the international economy that would accompany the more widespread adoption of policies of the kind I have been talking about today. This does mean, of course, that we must all resist the growing tide of protectionism.

PAKISTAN: MAHBUB UL HAQ

Governor of the Fund

Let me at the outset thank the Korean Government for their legendary hospitality, as well as welcome the Kingdom of Tonga into our ranks.

Let me also say how sorry we are to see The World Bank's President, Mr. Clausen, leave. We admire him not only for what he actually achieved but what he had the courage to try to accomplish under the most trying international environment.

My remarks today are directed toward the same international environment. They may appear harsh but they are not meant to be. They are merely a gift of my honest opinion to the Bretton Woods system for which I have enormous personal affection and respect.

Unfortunately, during the last five years, the world has witnessed the fading twilight of multilateralism. The Bretton Woods institutions have been in deep trouble.

We can choose to look away, as we often have before. But the gathering evidence is too powerful to ignore. For instance:

(i) World Bank capital flows have declined precisely at a time when private flows have been shrinking, though our founding fathers had fondly imagined that The World Bank would act as the lender of last resort and compensate for lack of private flows and for limited or temporarily impaired creditworthiness.

(ii) IDA credits have declined from their peak of $3.8 billion in 1980 to $3.0 billion in 1985, without even adjusting for inflation. And while there has been some brave talk recently about the crucial importance of the IDA-VIII Replenishment, we have heard it so often before that we may be forgiven if we respect only actions, not words.

(iii) Drawings from the Fund which stood at SDR 14.1 billion in 1983 fell sharply to SDR 8.1 billion in 1984 and SDR 2 billion in the first half of 1985. And while the Fund must be complimented on financing the difficult adjustment process in many developing countries, particularly in Latin America, neither the Fund nor the world community can draw much comfort from the fact that this adjustment is generally being made at sharply reduced levels of income and employment.

(iv) So far as the third part of the Bretton Woods triplets is concerned —GATT—the actual situation is already reaching the point of a well-rehearsed and delightful hypocrisy. Country after country has adroitly learned the uncanny art of practicing protectionism while preaching free trade. I must confess that despite my own deep belief in multilateralism, I was obliged to adopt an aggressive countertrade strategy recently as I saw all possible doors of multilateral trade closing down on my country with the slow thud of sad finality.

(v) Commodity prices are at their lowest in the last 27 years, with no effective international mechanism to stabilize them.

This is certainly not the finest hour for multilateralism. But the fault is not that of the Bretton Woods institutions. They would have liked to do more, much more. They have often acted with rare courage under the most adverse circumstances. The fault is really ours—the member governments and we, the Governors—for we have failed these institutions and betrayed our own heritage.

If we are willing to face this bitter truth with raw courage, there is yet hope for a fresh start. We can still manage to reverse the rising tide of bilateralism and turn the next decade into a period of new internationalism. It is in this spirit that I venture to make some modest suggestions.

Most operational initiatives are always preceded by an intellectual breakthrough. But, unfortunately, the world lacks today any powerful central idea as its guiding star.

What we need today is *adjustment through growth*, not without growth, in developing and developed countries alike. What we ideally need is adjustment upward, not downward; at higher, not lower, levels of output and employment, nationally and internationally. This is often the central controversy between the developing countries and the Fund as well as with the developed world. Is it not possible to settle it on the same lines as was done with the raging controversy between growth and distribution schools in the early 1970s?

The intellectual breakthrough came via "Redistribution with Growth", a project financed by The World Bank at Sussex University. The operational breakthrough followed as it was recognized that growth and distribution goals could be combined by increasing the productivity of the poor, particularly the small farmer, and through the expansion of public services of education and health.

Today, we need similar thoughtful work on adjustment through growth, so that from a slogan we can proceed to an operational policy. I hope that the Bank and Fund would jointly sponsor such an intellectual initiative with an open mind.

Once we reach an intellectual breakthrough, the operational implications may be many and far reaching. Without trying to anticipate all of them, let me venture some:

(i) If output and employment levels are to be protected, adjustment periods must be suitably lengthened and Bank/Fund resources adequately increased.

(ii) The conditionality of lending must emphasize supply expansion even more than demand management, for without this change in emphasis the permanent imbalance simply cannot be removed.

(iii) The World Bank must take over the lead in the adjustment process when it is agreed that any viable adjustment in developing countries must be via the development route.

(iv) As a consequence, the new SDR allocation should be partially linked with development lending.

If international relations are to reach a new maturity, the developing countries must re-examine their own attitudes as well. It is often tempting for us harrassed decision makers to externalize our internal economic problems. But it creates an international credibility gap. And it obscures the reality that over 90 percent of the solution lies in our own hands.

It is, of course, legitimate to ask: "Must we starve our children to pay our debts?" But there are other equally legitimate questions. For instance, must we starve our children to raise our defense expenditures? For the sad fact is that from 1972 to 1982, the health and education expenditures of the low-income developing countries went down from 21 percent to 9 percent of their budgets while, at the same time, the defense spending of the developing world rose from $7 billion to over $100 billion. When our children cry in the middle of the night, shall we give them weapons instead of milk?

And let us also ask: Must we spend a good part of our development budgets to provide facilities for the rich and the privileged? For I discovered from my own experience that it took only the postponement of one expensive urban hospital to finance the entire cost of an accelerated immunization and health care program for all our children. Is it not our own responsibility to correct our distorted priorities and prices before making fervent appeals for the correction of international irrationalities?

I can only hope that the birth of such a new realism in the developing nations will evoke an equally mature response from the developed countries and the international institutions. But even if that does not happen, our people would have gained enormously from our honest effort to internalize our internal problems.

The implication of what I have said so far should be clear: In launching developing countries into the phase of sustained economic growth, the international community must spend much more intellectual capital than it did when it mechanically applied the medicine of demand compression and growth retrenchment all across the board. The lessons taught by recent history have been painful. We must not forget them too easily.

We need at least four elements for any sensible solution: An intellectual framework; a firm commitment by developing countries to tackle their own problems; some crucial Bretton Woods initiatives; and a process of constructive dialogue. I have already talked about the first two. Let me now turn to the last two and offer a five-point agenda for action.

First, we must at least double Bank lending by 1990 over the 1984 level and take it to a minimum of $24 billion. We should not be misled by the annual 10 percent growth rate this target implies in nominal terms. In terms of real resource transfers, annual growth will be barely 3 percent. This is perhaps the least ambitious target we can adopt in considering the needs of Latin America for longer-term development loans to rescue it from its present short-term liquidity squeeze; the orderly graduation of some Asian countries from IDA; and the continuing requirement to provide a cushion between the brutal criteria that private markets must adopt and the more humane criteria which are the *raison d'être* of a development institution. The "cost" for such an increase in Bank operations for the industrial world is more of a myth than a reality: No real cash is involved and no guarantees are ever invoked.

Second, we must candidly recognize that IDA's liberal terms which found such ready acceptance in 1960 are, after 25 years, no longer acceptable to most legislatures. High interest rates prevail and many poor countries have already made substantial economic progress. It is time we bend the future to the new realities. Let us be prepared for future IDA assistance to be fairly limited and let us agree to focus it entirely on the rapid development of low-income African countries. For the current IDA recipients in Asia and elsewhere, we must consider setting up a Third Window, on intermediate terms—such as 5 percent interest, a 30-year repayment period and a 10-year grace period—to which contributions are made directly by the industrial nations. A part of any new SDR allocation can also be used for this purpose. About 15 years after the birth of IBRD, we witnessed the birth of IDA. Now 25 years after IDA, let us dare innovate again.

Third, any viable solution to the $900 billion debt problem of developing countries must recognize that debt by itself is not a problem, but is the manifestation of a problem. Why the burden of debt appears so heavy today is that those who carry it have been weakened by the way we have treated them. It is vital that sustained growth be maintained in the debtor nations. The debt reschedulings must lower future costs, not raise them; they must change the debt profiles from short term to long term; they must allow a healthy expansion of productive capacities rather than only a painful squeeze of already low consumption levels; and they must provide for a continued increase in the lending of commercial banks. This requires a new international debt refinancing facility. Last year, I had proposed that this should be a Fund subsidiary. I have now come to the conclusion that we may have to be even more enterprising—to have the Bank and the Fund work together, raising their expanded resources through significant expansion in Bank capital, increase in Fund quotas, Trust Fund reflows, and new SDR allocation—and primarily under the Bank's leadership because of the new development conditionality.

Fourth, the third Bretton Woods institution, not fully represented here—GATT—must organize new trade talks within the next year. For this to succeed, both sides must give a little. Let the industrial nations consider discussing all forms of protectionism including restrictive quotas on textiles, footwear, and agricultural subsidies, and let the developing countries be willing to re-examine their stated stand on reciprocity and on inclusion of services in trade talks. The bargaining table must be full: Actual agreement can be graduated, according to the willingness and ability of the nations to adjust to a new trading order.

Fifth,is it possible at all to give our own annual deliberations a certain focus and a theme? Must we condemn ourselves, as Governors, in these Meetings to remain mute spectators of an international situation we can neither influence nor change? Must we each ritually say our own set piece, which is seldom heard and often ignored, and then take our formal bows from an empty world stage? Or do we dare be different?

Can we, for instance, select for 1986 the theme of a fundamental restructuring of the Bretton Woods institutions and guide our statements accordingly? Instead of slogans of a second Bretton Woods, can we analyze the past 40 years' experience dispassionately, each from his own vantage point, and offer some constructive solutions in this forum? Can we convert the next Annual Meetings into a collective think session, with relevant documents from the two institutions? It may not work. It may not work, at all. But can we really lose by trying?

The eternal question is the same as was posed by T. S. Eliot:

"Do we dare
Do we dare
Do we dare disturb the universe?"

PAPUA NEW GUINEA: PHILIP BOURAGA

Governor of the Bank

On behalf of the Government of Papua New Guinea, I wish to extend to you, Mr. Chairman, President of The World Bank, Managing Director of the International Monetary Fund, and fellow Governors, our warmest greetings. I would also like to thank the authorities and the people of Korea for the warm welcome and for hosting these Annual Meetings. I also wish to extend a warm welcome to Tonga as our newest member of the Bank and the Fund.

The last few years—1980-83—have witnessed the longest recession in 50 years with many countries struggling to maintain output and employment in the face of increasing fiscal problems and rapidly rising debt. The recession brought many problems, many challenges, and, more important I hope, many valuable lessons for policymakers throughout the world.

The recession also brought out the weaknesses that are inherent throughout the world's economic and financial system. Increased unemployment and inflation clearly highlighted the rigidities inherent in our economies.

An improvement in the world economy came in 1984. Many experts saw it as the start of a new period of sustained growth and prosperity. Certainly, this growth was expected to continue into 1985 and 1986.

This picture has now changed somewhat and there have been increasing signs of hesitancy in the face of world economic expansion in the first half of 1985. Growth in 1985 and 1986 is now expected to be somewhat less than was foreseen six months ago because of the sharper than expected deceleration of growth in the United States and weaker than expected demand for primary goods.

Economic growth in industrial countries is now expected to average around

3 percent a year over the next five years. I would emphasize, however, that this is dependent on policymakers learning from, and improving on, past performance.

Nevertheless, it is encouraging to note that the world economy remains fundamentally unchanged, and it should be possible to sustain the current modest pace of recovery. Inflation in industrial countries has been reduced considerably and is expected to average around 4 percent for the next five years or so.

I am pleased to see that developing countries have performed relatively well, recording growth rates of 4.4 percent in 1984 and 3.6 percent in 1985. Projections for 1986 indicate that developing economies will improve their performance and could improve their growth rate to around 4 percent. The downward revision in the growth rates of developing countries reflects the weak oil and commodity markets. In primary product-exporting countries like Papua New Guinea, the medium-term outlook appears gloomy. Commodity prices are not expected to improve, resulting in lower export receipts which directly affect domestic incomes and retard the growth of domestic demand and output. Forecasters see little prospect of a change in this trend.

For Papua New Guinea, the weakness apparent in gold and other mineral prices is having a significant impact on our mineral resources stabilization fund and will further compound the fiscal problem caused by falling real levels of Australian aid and unfavorable exchange rate movements. Export taxes will also be affected by declining commodity prices.

Because of these developments in the world economy, my Government has taken steps to ensure that Papua New Guinea alleviates the impact of falling commodity prices. Given the limited amount of resources available to the Government, it is important that these resources are put to good use. In Papua New Guinea, we believe that this means government doing the things it is good at and required to do and encouraging the private sector to contribute in other areas in which it has more expertise than the government. As part of our adjustment moves for this year we have tightened our monetary policy to be consistent with and to supplement our expenditure cuts.

This year, in which we celebrated ten years of independence, has been a special one for us. We have seen growth by way of increasing involvement of our people in the cash economy all around the country.

Our macroeconomic strategy has been commended by independent reviews and my Government has an established record of making hard decisions when the need arises. Often, many countries have devised sound economic policies but lack the political will and determination to implement those policies.

At present, my Government is preparing our 1986 budget and the medium-term development plan which together will be the major policy statements marking the beginning of our second decade of independence.

Our medium-term development plan is part of a broad program of administrative reform over the next five years and sets out our sectoral development strategies and sectoral targets. Its formulation involved provincial departments, the private sector, universities, and relevant national government departments.

My Government will allow the private sector a more active role in commercial investments. We will promote commercial investment but will refrain from being investors ourselves. It is encouraging to note that overseas investors continue to show considerable interest in large-scale agricultural and minerals projects upon which the health of the balance of payments would seem to rely over the next five years, and we will continue to encourage foreign investment.

Like other developing countries, there are constraints in achieving our goals of faster economic growth and increasing employment. We have identified a program of economic reform. In this program, we will continue to implement our macroeconomic strategy which has to date brought us considerable advantages. We have set our sights on reducing real wages, improving land allocation, streamlining investment regulation and procedures, assisting national investors, and encouraging foreign investment.

We want to encourage economic growth and create more employment opportunities throughout the economy. During the next decade, it is going to be necessary for Papua New Guinea to become more outward looking and aggressive in pursuing growth.

We hope our internal efforts will be aided by favorable developments in the world economy. To this end, we would appreciate responsible policy actions by industrial countries—namely, trade policy. Protection has been discussed for many years now, and time and time again protectionist tendencies have been unanimously condemned. We can only appeal to our consciences and hope that industrial countries will improve this aspect of their macroeconomic policies so that economic growth is encouraged and sustained.

In conclusion, I would like to stress and emphasize the importance of economic cooperation. The problems of growth, debt, international trade, and population growth are common, and we ought to work together to find solutions. Recent developments in the world economy calls for increased international cooperation within existing multilateral institutions.

I firmly believe that as a first step to reform we need to develop the right kinds of attitudes. We need to see the need for change and be prepared to cooperate in bringing about the desired changes to our economic and financial system.

PARAGUAY: CESAR ROMEO ACOSTA

Governor of the Bank

On behalf of the Government of the Republic of Paraguay, we are honored to present our most amicable and cordial greetings to the Chairman of these Annual Meetings; to the illustrious Government and the noble and progressive people of the Republic of Korea, joining them in commemorating the anniversary of its founding; to the President and Executive Board of The World Bank; to the Managing Director and Executive Board of the International Monetary Fund; and to the Governors and Delegates of member countries of participating institutions. On this occasion, we make special mention of our profound solidarity with the people of Mexico, in view of the painful events through which they have lived recently.

We come to this forum of international cooperation and solidarity with ever renewed confidence in the noble purposes and effective functioning of our two institutions.

Consistent with the demands of our time, the developing countries have continued their efforts toward recovery and reactivation of their economies. In most cases, their success is yet modest and declining relative to their expectations and to the considerable social costs that the policies of economic adjustment, fiscal discipline and resource allocation constraints demand in order to overcome stagnation and recession.

When at last year's Annual Meetings, the spokesmen of the industrial world predicted the beginning of a clear recovery in their economies and the potential positive implications of that recovery for the world economy, it was difficult to imagine that we would meet again to deal with problems that differ little from those that characterized the worst moments of the recent crisis in the Western Hemisphere.

The theory that the benefits of recovery would spread to developing countries sounded promising. But the fruits of the expected recovery in the industrial countries failed to trickle down to the level of our economies, and we have become even more tightly constrained by rising protectionism and the high financial cost of such capital as is available.

We are aware of the need for consistent actions to assure an equitable absorption of the effects of international maladjustments. Accordingly, those industrial countries capable of affecting the behavior of the fundamental variables of the world economy must urgently adopt the measures needed to restore their domestic and external equilibria and thereby effectively resume their role as providers of economic stimulus and financial resources to the developing community.

In these circumstances, we view as auspicious the attempts by certain industrial countries to reduce existing protectionist barriers, as well as the developing countries' proposals to examine carefully the factors that constrain recovery, which include the furnishing of additional resources to meet specific problems of low-income economies, the timely provision of foreign exchange, and real financial assistance, as prerequisites for the liberalization of international trade.

In view of the unsuitability and insufficiency of the original official development assistance targets, special significance attaches to the responsibility of international financial institutions to provide borrowers with the greatest possible assistance, with no condition other than reciprocal flexibility and understanding, so as to facilitate the balanced participation of their economies in the overall context.

During the last twelve months, our countries' will and ability to avoid or reduce their considerable vulnerability to external recessionary factors by implementing preventive and corrective measures appropriate to a recovering economy have again been put to the test.

After a difficult short-term stage for the Paraguayan economy, caused largely by external factors, a process of recovery commenced in 1984, with positive signs for the short and medium term. While negative growth rates of 2 percent and 3 percent were posted in 1982 and 1983, respectively, the economy grew by 3 percent in 1984, and the behavior of the principal indicators led to a growth estimate of some 4 ½ percent for the current year, which would provide the push required for more balanced development.

The present situation and the prospects for coming years require the use of all available elements to develop the national potential and to overcome the problems stemming from the world crisis and the recessionary trends of the recent past. In line with this, and as a way of guiding the national economy toward the objectives of greater stability and growth, the Government is pursuing a policy of public austerity accompanied by continuing review and improvement of fiscal policy, especially as regards the amount and composition of public expenditure and enhancement of revenue.

As regards improving utilization of our resources, we would mention in particular their joint use with our neighboring countries in major projects such as Itaipú and Yacyretá and in other potential large-scale undertakings that turn the desire for integration of our peoples into fact.

The already low level of unemployment has been appreciably reduced, and wages have been adjusted at levels designed to maintain the real purchasing power of the workers.

Development with political stability and social peace, viewed by the Government as the cornerstone of its economic policy, seeks to hold at controllable levels not only the money supply but also those factors that might prompt excessive rises in domestic costs and prices.

The Government's monetary and financial management efforts are aimed at counteracting the short-term problems by creating suitable conditions for reattaining the growth levels of prior years.

The credit policy has aimed basically at channeling the greater part of the banking system's financial resources into priority production sectors. Given the great importance of agriculture in the national economic system, special emphasis continues to be placed on investment intended to substantially increase the production and yields of export crops.

As regards the balance of payments, the Government is engaged in rationalizing the behavior of aggregate demand, so that imports of goods and services will not exceed the advisable levels imposed by the import capacity and the maintenance of a level of international reserves consistent with the country's needs.

Having regularly fulfilled its financial obligations, Paraguay has benefited from the support of friendly countries and of international financial institutions to complement its domestic development effort. In this regard, we wish to stress Paraguay's recognition of the significant role of international financial cooperation, reflected in adequate and timely flows of resources in conjunction with its effort and political determination for the welfare and full development of its people.

As a result of the gradual rehabilitation of the fiscal situation, in terms of a balanced national budget and progressive reduction of the deficit, the Government ensures the continuity of public investment programs by means of timely counterpart allocations and repayment service on financing contracted with cooperation agencies. Therefore, we reaffirm our confidence that we will continue to be able to rely on the valuable assistance and cooperation of the Bank and the Fund.

In conclusion, we express our recognition and gratitude for the manifold attentions we have received from the people and Government of Korea and from the organizers of this global event. We heartily wish that the efforts of our two institutions will result in effective benefits leading to enhanced well-being in all their member countries.

PERU: LUIS ALVA CASTRO

Governor of the Bank

In attending these Annual Meetings of The World Bank and the International Monetary Fund, we are not merely participating in a ritual to which all member countries have committed themselves for the last 40 years. We have come here for the purpose of making our own statement at these Annual Meetings, which through the action of all of us should be a milestone in the progress of these institutions.

We are not driven by arrogance when we express our desire that these Meetings mark a decisive moment in our history. We are driven by the urgency of a people hit hard by the world crisis.

We believe the gravity of this crisis has made evident to the leaders of all countries the need to undertake without delay a profound change in the international economic order. In our view, this necessarily entails a fundamental change in the operations of such institutions as the International Monetary Fund, as proposed by the Group of Twenty-Four and the nonaligned group.

Therefore, and as was recently stated by the President of Peru in the General Assembly of the United Nations, we have come to Seoul to urge you to take decisive steps along the road to reform of the international monetary system. We have come to tell you that the Government of Peru wants to take an active part in the task of building a new international economic order and that it commits itself, here and now, to become a member of any task forces these Meetings may deem necessary to set up for this purpose.

The Crisis of the Seventies

The declaration of the inconvertibility of the dollar in August 1971 marked the end of the international monetary system sanctioned in the Bretton Woods Conference of 1944.

Successive U.S. balance of payments deficits had weakened the dollar ever since the late 1950s. However, it was not until 1968, with President Johnson's declaration of the partial inconvertibility of the dollar, that we were warned of the impending deadline. And the U.S. economy was financed, indeed its importance as a world power was made possible, by the balance of payments deficits Jacques Rueff described as "tearless deficits."

When the dollar was made no longer convertible into gold in 1971, all currencies were theoretically put on an equal footing. However, the strength of its economy enabled the United States to continue incurring "tearless deficits." But unlike the situation of previous years, these deficits were no longer associated in any way with declining gold rèserves.

The lack of a convertible currency stripped the Bretton Woods agreements of their substance and thereby required a reconstruction of the international monetary system. But the United States, which should have led the reform of the system and the creation of a true international monetary asset, did nothing in this regard. The SDR, whose creation was linked to the initial stages of the dollar crisis, did not become a new currency; rather, it became a pretext for indefinite postponement of any true reform of the system.

The float that resulted from the declaration of inconvertibility of the dollar led to continuing instability of the international monetary system. The United States made use of the float to devalue its currency and launch a trade offensive against its competitors in Europe and Japan. The idea was that in this way the United States would recover the trade hegemony it had lost; the idea was that hegemony in trade was synonymous with hegemony in production.

But the oil price increase of late 1973 brought about even further changes in the standards of operation of the international economy. The existing imbalances were compounded by the imbalance resulting from the surpluses of the oil producing countries of the Middle East. The Europeans and the Japanese launched a hard fight to prevent possibly uncontrollable trade deficits.

As a result, during the 1970s the non-oil exporting countries of the Third World had to withstand a joint trade offensive by the industrial countries. The United States pressured Europe and Japan, who defended themselves not only from this pressure but also from the oil bill. The Third World countries, thus, had to bear extraordinary trade pressures.

As the recession of 1974-76 limited the international purchasing power of the Third World countries, the only way to have them continue buying was by giving them the money needed to maintain or even increase their imports. These purchases were financed by the oil surpluses, which amounted to $180 billion from 1974 to 1978. Commercial banks then carried out, with apparent success, an enormous recycling of financial resources between oil producing and non-oil producing countries of the Third World.

Of course, the debt of the Third World countries increased by a similar proportion, from $180 billion to $380 billion between 1973 and 1978.

Faced with this situation—which carried the seeds of an even greater crisis in that the Third World countries were not in a position to generate trade surpluses—the International Monetary Fund shirked its responsibilities and became an accomplice in the overindebtedness of the Third World countries.

The Crisis of the Eighties

In the late 1970s the United States decided to make a radical shift in its economic policy. It had apparently run its course, and the interests of the United States called for a different approach.

Thus, the United States committed itself to a restrictive monetary policy, ostensibly with the goal of fighting inflation—a policy that caused an immediate massive inflow of capital into the United States and the resulting international recession.

In any event, the essential point is that the new U.S. monetary policy induced a worldwide recession which, as the 1974-76 recession had not yet been fully absorbed, became more acute from the beginning of the 1980s.

The massive inflow of capital into the United States enabled the country to keep its recession from becoming as severe as that of other countries. It also enabled it to pursue a policy of expanding government spending while reducing the taxes of the rich. The rest of the world financed the fiscal deficits and the trade deficits of the United States.

The policy of industrial restructuring pursued by the United States over many years was carried out in the framework of a new international division of labor. Older industries—Steel, for instance—were hard hit and forced to change by imports from countries that had more competitive plants. Leading industries, largely linked to the defense industry, were not affected by the competition but instead were favored by government demand, that is, by external financing.

It is important to note that the U.S. fiscal deficit cannot be reduced unless U.S. economic policy undergoes a dramatic change. Even so, the volume of the public debt is so large that just keeping up with its service will make it difficult to reduce the deficit even if extreme cuts should be made in defense spending, which is so important to the U.S. Administration and so significant for industry.

Faced with this development, which significantly limits the possibilities of recovery in Europe and which has put the Third World in dire straits, the

International Monetary Fund has done nothing other than contribute to concentrating all capital in a single country, especially by imposing adjustment policies whose only objective—in the case of the Third World countries—is to generate trade surpluses to make it possible for the external debt to be paid.

The crisis of the 1980s has had an extraordinarily violent impact on the Third World countries. In the first place, it affected the prices of our countries' export products. Copper prices, for example, fell by 25 percent from 1971 until now, while silver prices declined by 29 percent in the same period.

Second, prices of industrial products have continued to rise, despite the slackening of inflation, with the result that from 1981 to 1984 Latin America's terms of trade deteriorated by some 25 percent.

Third, increased interest rates have meant a substantial increase in interest payments by the Third World. Latin America alone paid $40 billion in interests in 1984, an amount representing 42 percent of its exports during the year.

Fourth, protectionism in the industrial countries—and particularly that of the United States in the 1980s—has seriously affected the countries of the Third World. The European countries and Japan, in addition to the Southeast Asian countries, are the only beneficiaries of the U.S. trade deficit. This is not the case for the countries of the Third World, including those of Latin America other than Brazil and Mexico. Protectionist practices have driven these countries away from the only market that expanded during the 1980s. Implementation of the Trade and Tariffs Act of 1984 has made things even more difficult.

In addition, net external financing to the Third World was negative in 1983, 1984, and, so far, in 1985. To this is added the fact that the Fund, instead of automatically making resources available to the affected countries, has been interested solely in imposing adjustment policies aimed at deepening the recession and thus releasing resources for debt payment. In this manner, the strict conditionality of Fund lending has been joined by a hidden conditionality as the Fund plays the role of international banking policeman.

In view of all this, we declare that the conceptual foundations on which the Bretton Woods system was built are bankrupt and, therefore, that the International Monetary Fund has lost its legitimacy.

We have two conclusions:

One. We hold that the Fund does not fit its proposals to scientific criteria, because it ignores the structural nature of balance of payments disequilibria; because it is not consistent in applying its own criteria, as it uses different prescriptions for similar situations, depending on whether a Third World country or a more industrial country is involved; and because it is a political institution that replicates the old colonialism in its attempt to constrain national efforts toward structural change.

Two. We believe that, for all practical purposes, the monetary system agreed upon in Bretton Woods has already collapsed, and that it has been proved unacceptable to the South, inefficient to the North, and anachronistic to all.

The Case of Peru

The decline in Peru's purchasing power in the world market in the 1980s has been truly dramatic. Our export proceeds fell by more than 25 percent between 1980 and 1984. This result is explained in part by falling commodity prices, but also by protectionism in the industrial countries. During this period, the prices of our raw materials dropped by some 40 percent, and our exports of manufactures fell by approximately 20 percent.

Our terms of trade, which measure the real purchasing power of each dollar generated by our economy, also changed unfavorably. We lost approximately one third of our dollar purchasing power during the same period.

What is more, our exports fell by approximately one third between 1980 and 1984 and by about 50 percent between 1981 and 1984. Despite this, and reflecting both the increase in interest rates and a massive capital flight, our total external debt rose by approximately 50 percent.

In a word, an economic absurdity was transformed into a disaster, in which the International Monetary Fund is not uninvolved, as may be concluded from an evaluation of the economic policies adopted in our country during the last few years and the poor results obtained.

For this reason, we would not want to neglect to mention the Fund's letters of intent, which the President of Peru, in his statement to the U.N. General Assembly, referred to as "letters of colonial submission to injustice." The fact is that when an institution responds exclusively to the interests of the largest of its members, we are obviously faced with a policy like that of an imperial court.

The letters of intent imposed on various Peruvian governments have borne features of true instruments of submission. Through them we were forced to devalue our currency, contract the money supply, and reduce government expenditure, as if the imbalances of the Peruvian economy originated in excess domestic demand.

But the Fund has gone much farther than this. In an assault on our own sovereignty, it has made signing the letters of intent conditional upon the implementation of economic policies not directly related to the re-establishment of balance of payments equilibrium. On the contrary, the Fund compelled Peru to open its economy even in circumstances in which such an opening—as in 1983—worked directly against balance of payments equilibrium.

We must also recall that the Fund went so far as to make a loan of approximately \$100 million contingent on keeping in effect an allowance of \$8,000 a year for Peruvian tourists, despite the fact that abolition of this allowance would have meant a saving of approximately \$100 million in one year.

Furthermore, we must remember that the stand-by arrangement of April 1984 stated that Peru had to introduce "changes in the land tenure structure"—that is, that it had to completely alter the spirit of the Agrarian Reform Law. That letter of intent also noted that Peru had to make its labor legislation more flexible, which, in other words, meant that it had to put an end to the labor stability hallowed in the very Constitution of Peru.

We cannot fail to mention the establishment of untouchable blocked accounts at the Central Reserve Bank under successive agreements with the Fund. Thanks to these accounts, the Central Government and public enterprises continued to service the external debt that had been rescheduled with the creditors. Thanks to them, resources were sterilized at the Central Reserve Bank, contributing to the economic depression. Also, along the same lines (tying the hands of the public sector) is the thesis that net domestic credit must be directed solely to the private sector.

Application of these policies—which, moreover, violate Peru's Political Constitution—could only lead to further depressing our economy and further impoverishing our people.

As a result, Peru's per capita output is now equivalent to that of 20 years ago and some 17 percent less than that of 10 years ago.

Per capita agricultural output has fallen even more dramatically. Production of potatoes, a tuber that originated in Peru and is the basic staple of millions of Peruvians, was cut by half in the last 20 years. In the 1980s alone the drop was one third, or 66 percent of the 20-year decline.

A similar though less dramatic situation has occurred with the production of maize, also a staple food of the old Inca civilization. We now produce about one third less per inhabitant than we did 20 years ago.

Within the general context of deterioration, the wages and salaries of the small portion of our labor force that has permanent employment have of course been affected. From 1980 to 1985, the average worker's wage has been cut by 40 percent, and government employees have borne the brunt of the reduction.

External Debt

Regarding the external debt, the increase in which is associated both with the disequilibria of the 1970s and how they were handled and with the crisis of the 1980s, Peru stands by the positions it has been taking since July 28 of this year.

First, Peru considers that in view of the origin of the external debt, it is essential that debtors and creditors accept the principle of co-responsibility. It is not possible for the creditors to view the debt question as primarily a problem for the debtor countries. It is a problem of creditors and debtors alike, and possibly more for the former, who continued increasing their lending while knowing that repayment was out of the question. In any event, we are shouldering our responsibility and informing our creditors that, just as we acknowledge the existence of the debt, we also maintain that we are not in a position to pay it, at least not until there is a radical change in the world economic situation.

Meanwhile, and since we are neither maximalists nor do we think we can do everything by ourselves alone, we reaffirm our decision to pay not more than 10 percent of the value of our exports by way of debt service.

Of course, we do not expect other countries to take the same decision. Ten percent is not a magic figure; it is simply one that is compatible with our present capabilities. However, it is important inasmuch as it is linked to the value of our exports, that is, to our purchasing power in the world market. And especially because it expresses the sovereign decision of a poor country to regain by itself the right to decide its own destiny.

We said at the United Nations that we are not afraid of any reprisals that may be directed at us for having taken this decision. We know that the Third World's creditors and, in particular, the United States, have yet to show any flexibility in their position. We are also aware that they customarily respond with a wide variety of sanctions to those who have the temerity to take a sovereign decision.

At the same time, however, we are convinced that the time has come for reason. Our decision expresses above all a vital need of our economy. We will not pay more because we cannot pay more; and if we were to pay more we would be jeopardizing the very existence of our society, not to speak of the continued existence of a democratic regime, that is, one based on universal suffrage and the balance of powers that characterizes our civilization.

We would also like to inform our creditors that we are ready to talk directly with them; that we are not prepared to accept the International Monetary Fund as intermediary. This is purely and simply because the policies recommended by that organization have served the interests of a single country. They have served to enable the countries of the Third World to generate surpluses needed to pay off their debt, regardless of what happens to their peoples.

We accordingly demand direct negotiations, but also an early meeting of the United Nations to deal with the debt problem.

Peru is applying an emergency medium-term economic program designed to overcome the structural shortcomings from which our country has been suffering. The key components of this program are as follows:

a. Combating the inflation coupled with recession that has been seriously afflicting the neediest among our people.
b. Reactivating the national production apparatus, generating more employment, increasing productivity, and channeling financial resources and domestic savings into production.
c. Reducing the fiscal deficit by means of higher revenues, real austerity in public spending, and a voluntary and responsible reduction in defense expenditures.
d. Taking decisive action against terrorism and drug trafficking, two evils that have combined to undermine our society. Terrorism has taken advantage of the poverty of our people, aggravated as it has been by the application of recession-spawning adjustments (which we have criticized), and has sought to destabilize our democratic system, while the drug traffic is an illegal and immoral activity conducted to meet the growing demand from the large country to our north.

Clearly, we have a structural adjustment program that is consistent with our true situation, is based on our own internal efforts, and has gained the support of all Peruvians notwithstanding the sacrifices it requires.

We are convinced that an effort of this nature, which is already yielding its first fruits, should be firmly supported by the entire world community and should not be hurriedly and mistakenly dismissed as a "vain isolated effort" that might work against the projections of future growth.

International Monetary Reform

Clearly, solution of the debt problem will ease the way toward reform of the international monetary system. However, it is not a prerequisite for embarking on this reform. Rather, reform of the international monetary system may well make it possible to control and perhaps find a more rational solution to the debt problem. In any event, far-reaching changes in the international monetary system are essential. They are essential because the commercial and financial relations among nations can no longer be maintained under the old system. The old system has in fact ceased to exist, and it is the United States that governs financial relations and the world economy.

We therefore demand that reform of the system be begun without delay.

We affirm that the International Monetary Fund has not performed the role assigned to it under its Articles of Agreement. To begin with, the Fund was to foster the balanced expansion of international trade in a context of exchange rate stability. However, at no time since its establishment has the expansion of trade been balanced. On the contrary, the existence of disequilibria has been the essential feature of the development of world trade since 1945. And it is this unbalanced development of trade and international finance that made possible a large-scale expansion of trade and finally led to the nonconvertibility of the dollar.

In our view, for the Fund to be of any use it should adopt clear and symmetrical rules regarding adjustment. Both the deficit and surplus countries should be subject to international discipline of a general nature. There is no point in applying discipline to some but not to others. We accordingly support the Group of Twenty-Four's proposal that multilateral surveillance be developed together with bilateral consultations in order to ensure symmetrical adjustment.

This brings us to a matter of great importance: we refer to the democratization of the Fund. In our opinion, the right of veto that the United States has retained to the present day should be eliminated. If this is not done, the Fund will continue to serve that country's imperial policies. In this connection, we propose that the Third World countries' participation be raised to at least 50 percent of the quotas. We look upon this recommendation by the Group of Twenty-Four as a positive step toward democratization.

Of no less significance is the aim under the amended Articles of Agreement to make the SDR the principal reserve asset of the system. To this end, we believe that SDRs should be issued annually as advocated by the Group of Twenty-Four. Such issues should give rise to unconditional allocations, that is, automatic allocations subject to no restrictions whatsoever. As further advocated by the Group of Twenty-Four, we recommend an annual issue of SDR 15 billion.

In addition, or, if preferred, as part of this annual issue, the Third World countries ought to receive an allocation as development assistance.

In this latter case, consideration could also be given to the unconditional allocation of certain amounts for the poorest countries.

We demand a far-reaching change with regard to conditionality also, since we have been victims of the unusual conditions set for access to Fund resources.

We must point out that it was in the period when the backward countries needed assistance most, that is, the 1980s, that their economies were wrenchingly adjusted by Fund representatives. It is obvious that the drop in export earnings, the deterioration in terms of trade, and the rise in interest rates render the automatic granting of compensatory financing necessary. However, not only has the Fund not made any effort to provide this type of financing, it has actually tightened the terms for allocating the limited resources available. Even the compensatory financing facility has been reduced to the equivalent of 83 percent of member countries' quotas.

We must also point out the lack of compensatory funds to soften the impact of higher interest rates. Similarly, there have been no funds to cover the abrupt reduction in the flow of capital since 1982, following the Mexican debt crisis. The funds now available finance export short-falls only.

All of the foregoing points up one and the same conclusion: the Fund is doing precisely the reverse of what it ought to be doing in circumstances of this nature.

Thus, besides making the allocation of a certain volume of SDRs unconditional, there should also be a reduction in conditionality, especially in the event of disequilibria that would have occurred whatever the policy adopted by a country.

One point regarding the available resources. The Eighth General Review of Quotas did very little in the way of increasing quotas, while use of existing quotas was reduced from 600 percent to 400 percent and conditionality was augmented at the same time. Under the Ninth Review, we would like quotas to be increased significantly and for the increase in available resources to go hand in hand with a reduction in conditionality.

In sum, we concur with the Group of Twenty-Four since we consider that its recommendations are headed in the right direction.

However, we feel they do not go far enough. In our view, more ambitious goals are needed—a sort of target or optimum monetary program.

We accordingly insist on the need to convene a United Nations conference on currency and international finance.

Obviously, some preparatory work will have to be done for this conference; in particular, a working group will have to be formed to start right away preparing documents for discussion on the basis of guidelines imparted to the group at these Meetings.

First of all, we must tell the working group that we want to create a new international monetary order and, if enough headway has not been made with reform of the Fund, an agency that will supersede the Fund. This agency, unlike the Fund, would include all nations; its more balanced membership would therefore allow it to operate more democratically. No single country would be in a position to exercise a veto.

The monetary agency in question would establish an international currency that, unlike SDRs, would truly have the characteristics of a currency. It would therefore be not only a medium of value, but also a medium of exchange and a payment medium. All currencies, subject to certain rules to be set, would be convertible into this universal currency.

As will be readily apparent, allocation of this currency would be much more of an automatic matter than that of SDRs. In addition, allocation would be closely bound up with the global requirements of the development of trade, hence guaranteeing lasting monetary stability.

We believe that the working group we are suggesting here should be made up of ten prominent individuals from the academic and political spheres of the different regions of the world who have a clear grasp of the change that is required.

We also think that this working group should be given no longer than six months to prepare a proposal for comprehensive reform of the international monetary system.

In accordance with the foregoing, we believe the working group would be able to address the following topics:

1. The characteristics of the international currency to be created.
2. The guidelines for the distribution of international liquidity.
3. The allocation of international liquidity to the Third World countries.
4. The functions of the new international monetary agency.
5. The operating conditions of the international monetary agency.
6. The possibilities for absorption of the Third World countries' debt in the context of the new international agency.

Upon completing its report, the working group would submit it to the Secretary General of the United Nations, who would, within four months, convene the international conference we have proposed.

We have come to these Annual Meetings to have our say; to communicate to you the urgent needs of a country that is fighting for its survival and believes that the affirmation of its sovereignty is a necessary condition for its development.

We have come to the inescapable conclusion that we must demand an end to the era in which a single country imposes the conditions for their existence on the rest. We do not accept there being a single country that is subject to no control whatsoever while the countries of the Third World are condemned to hunger for the sake of re-establishment of economic equilibrium.

We affirm that the international disequilibria and, accordingly, our own imbalances, will only be remedied when certain countries accept that they must pay the bill for their excesses in all spheres.

However, we are not prepared to wait till this comes about. We have decided to take our destiny in our own hands. We have decided to remove, to the extent that we are able, the obstacles to our progress.

In this connection, we reaffirm our readiness to pay a maximum of 10 percent of the value of our exports by way of service on our external debt.

But we have also come to demand a far-reaching reform of the international monetary system, a reform based on the principle of equity in resource distribution and the safeguarding of the sovereignty of states.

In closing, we consider it relevant to repeat here what the President of Peru said to the United Nations: "The representatives of the nations gathered here should understand that it is not of interest to us, nor is it worth our while, to remain as members of an organization that serves the interest of a single country. We accordingly reiterate that the International Monetary Fund will not be an intermediary between us and our creditors; in the dialogue with our creditors we do not accept either condition that we mortgage our economic sovereignty or the imposition of policy conditions through the signing of letters of intent as negative instruments for our people."

ST. CHRISTOPHER AND NEVIS: KENNEDY A. SIMMONDS

Governor of the Bank

It is indeed a great pleasure for me to address you on behalf of the Governments of the Commonwealth Caribbean, namely, Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Christopher and Nevis, St. Lucia, and St. Vincent and the Grenadines. I wish to join previous speakers in extending a warm welcome to the Kingdom of Tonga which is represented here today as the 149th member of The World Bank. I wish also to join my fellow Governors in expressing our sincere appreciation to the Government and people of the Republic of Korea for the excellent arrangements which have been made for these Meetings.

Let me also take this opportunity to express my condolences to the Government and people of Mexico for the great suffering which they have incurred as a result of the recent earthquake.

One year ago, the prospects of global economic recovery, led by the U.S. economy, were tentative but, nonetheless, encouraging. Since then we have witnessed only marginal increases in world output and world trade. We have also experienced the successful reduction in the rate of inflation in most industrial countries, but at the same time unemployment has been at its highest postwar level in most OECD countries. The recovery of the U.S. economy has not been without its attendant problems caused by the appreciation of the U.S. dollar, historically high real rates of interest, and the unprecedented U.S. external account and fiscal deficits which threaten future growth. We note, also, that despite increased demand from North America, only modest improvement in growth performance in the European economies has been recorded. Most important, there appears to be a faster march toward increased protectionism in world trade, which reduces the capacity of developing economies to benefit from world economic recovery by barring free entry of their exports and cutting off vital foreign exchange earnings. Consequently, the Third World debt problem continues unresolved and, in some cases, has been aggravated by the unfavorable developments in the world economy.

The mixed global economic picture confirms the uncertainties of last year's outlook. Within the OECD countries, for example, there has been markedly uneven growth. Considerable effort must still be applied to ensure that the potential benefits of the modest economic upturn are distributed more equitably among the economies of the world.

While the uneven but generally favorable performance of the industrial economies suggests a somewhat hesitant recovery for that group as a whole, the contradictory policies on which recovery has been based raise doubts about its sustainability. It has also limited the spread of recovery from developed to developing countries.

In our own region there are indications that during the last year only a few of the countries of Latin America and the Caribbean were able to emerge from the deep recession of 1981. However, the reality is that the limited advances which have been made have been achieved through the adoption of stringent and often painful structural adjustment policies. These strict austerity measures, required for the achievement of adjustment objectives, have not reversed the financial disarray which still afflicts these economies. Nor have these policies achieved the restoration of sociopolitical balance so essential for sustained recovery. Indeed, such measures have often created worsening conditions for the poorest sections of society. Whatever marginal improvements in aggregate growth rates have accrued have been outpaced by population increases. Economic activity has been insufficient to keep pace with the expansion of the region's labor force and rising open unemployment continues to challenge and erode the economic well-being of these nations.

Turning to our own subregion, the Bank's Annual Report for 1985, page 122, erroneously refers to the "collapse of the Caribbean Community." Let me assure you that the Caribbean Community has not collapsed. The suspension of the multilateral clearing facility which was responsible for facilitating the financial arrangements for trading among members of the Community certainly has had a negative impact on intra-community trading. However, the Caribbean Community remains alive and well and continues to make positive progress toward re-establishing a freer flow of goods within the region.

The majority of the region's economies recorded a decline in per capita output and a worsening of the external terms of trade accompanied by a fall in the standard of living. Debt-servicing obligations continue to absorb a large share of revenue and, in all cases, divert resources which would otherwise be available for investment in growth. Consequently, the region, like the rest of the developing world, experiences an unacceptable outward net transfer of resources to the developed world. The disparate distribution of the benefits of global recovery is therefore very much in evidence and most critical in the case of the small open dependent economies of the Caribbean subregion.

In this regard, I must point out that for the smaller developing countries whose resource base is more limited, the choices of implementable policy options are commensurately more constrained. Consequently, while the larger economies have some capacity to withstand and absorb such adverse external factors as the vagaries of commodity markets, the resurgence of protectionist policies, and fluctuations in capital inflows, the microstate economies of the Commonwealth Caribbean are markedly less well equipped to deal with such adverse conditions.

I turn now to an issue of major concern to the smallest members of the Bank. Earlier in my address I welcomed the Kingdom of Tonga to membership of our institution as its 149th member. Most of the candidates for membership of our institution in the future will be very small countries. However, the Bank has been slow to recognize the importance of the impact of this feature on its operational activities. It is unthinkable that any country, however small, should fail to discharge its obligations as a member of our institution. It follows, too, that every country should enjoy an equitable share of the benefits of membership, which will differ according to whether the country is a borrower or a net contributor to the Bank's capital.

We recognize that the Bank must have a common standard of measurement for determining the varying needs of borrowing countries for its assistance. However, the standard of per capita GNP which is generally accepted as a comparative measure of economic and social performance is replete with imperfections in that it gives a distorted reflection of the true economic picture in relation to small economies. While the use of such a standard as the starting point for determining the conditions of access to various Bank programs is traditional, it is essential that an equitable arrangement be maintained for determining not only a member country's eligiblity for such programs, but also for the allocation of the resources available under them. Most important, the Bank must be flexible in tailoring its assistance to the circumstances of the borrowing country.

It has become increasingly clear, however, that the Bank places too heavy a reliance on GNP per capita as the criterion for determining eligibility for its programs in its smaller member countries. This single-factor rigidity was evident in the proposals which the Bank's management presented to our Executive Directors some two years ago, recommending the termination of lending from its ordinary resources to a number of very small borrowers whose total claims accounted for less than 1 percent of the Bank's annual commitments. The compromise understanding reached by our Directors in September last year presents a more reasonable framework for determining if and when a country's access to Bank lending should be terminated.

On the same basis of GNP per capita the management was prepared earlier this year to terminate lending from its International Development Association (IDA) window to Dominica, Grenada, St. Vincent and the Grenadines, and St. Lucia, for small members of the Organization of Eastern Caribbean States, and not to initiate lending to a fifth member, namely, St. Christopher and Nevis. Moreover, the termination of IDA eligibility would have denied concessionary lending to these countries without the prospect of assistance from any other Bank source. For the Bank itself, such a position would have clearly been unacceptable since it would cast serious doubts on the value of membership of this institution.

We are pleased, however, that there has been a great deal of sympathetic support for our position which has served to direct the Bank toward an equitable solution. We look forward to the resolution of this issue in a manner which will enable the Bank to continue to participate effectively in the development of the very small countries in the Eastern Caribbean.

In seeking a solution to this specter of "graduation," we must ask ourselves the question: graduation to what?

Countries which do not qualify for IDA assistance nor are among the least developed group, nor indeed have reached the success level of the newly industrialized countries, are suspended in a middle region where resource flows are not designed to help them along the ladder of development to a point of takeoff to sustained growth. The Caribbean group has among its membership some of these countries. Other areas of the world are replete with examples of countries in this middle level group.

It is for this reason that we propose the establishment of a "third window" to give emphasis to the need of this special group for which little specific provision has been made in resources to enable them to truly graduate to self-sustaining levels of growth. We call therefore on the Bank to urgently analyze the particular problem of these countries and examine ways in which it can respond.

Let us leave this issue by recalling that at every Annual Meeting over the past four years the spokesman for the members from the English-speaking Caribbean has noted that the attitude of the Bank to its smallest members has not been rooted in a good understanding of the reality of the constraints which impede their development. We feel that this deficiency could be remedied by strengthening the arrangements under which the Bank undertakes cooperative programs with the Caribbean Development Bank and other subregional institutions.

I shall now turn to the crucial issue of the need to equip the Bank with the resources necessary to carry out its mission as the premier development institution in the world. There can be no doubt that the Bank should play a key role in ensuring that there is sustained improvement in the global economic situation. It must be provided, therefore, with the resource base for financing programs for adjustment and growth in its borrowing countries against the background of a severe reduction in the availability of commercial credits.

The Bank must be in a position, also, to support the efforts of the Fund in providing effective financing packages to meet short-term requirements of adjustment and stabilization in a manner which does not erode the longer-term development capacity of borrowing countries. It is encouraging that his reality which has so long been obvious to developing countries now enjoys a more universal recognition. However, in many cases, this recognition has yet to be translated into effective policy. Consistent with such policy would be not only the approval of the general capital increase but the prudent adoption by the Bank of those new options in lending policy, which would put at the disposal of its most needy members a fair proportion of its increased resources.

It is clear that there is still greater scope for policy flexibility and improved sensitivity on the part of international financial institutions and both multilateral and bilateral donor agencies in recognition of the special circumstances of less resilient economies.

As dependence on current and future resource flows is likely to increase rather than decrease in the short to medium term, greater commitment must be directed toward the actual implementation of effective innovations in lending strategies. Among these would be to increase the upper limit on the size of Bank project loans, the possible relaxation of the Bank's 10 percent limit on exposure to any individual borrower country, and increases in the proportion of project costs borne by the Bank.

I wish to express support for the recommendations contained in the Report of the Task Force on Concessional Flows which underscores the need for more public support for aid and aid volume. We are in firm agreement with the view that the task of increasing official development assistance (ODA) flows should be accorded the highest priority, and that the major contributors to the Bank's capital should respond positively and with some urgency to our call for increased ODA, as this would certainly enhance the impact of the Bank's lending program on developing countries.

We are pleased therefore that the IDA Deputies have agreed to begin negotiations on the Eighth Replenishment of IDA early in 1986. IDA cannot continue to play its important role in arresting the decline in the economic situation in those countries which are entirely dependent on it unless it receives a significant increase in its resources.

Everyone recognizes that the resources available to IDA-VII have been highly constrained. In this regard the creation of the Special Facility for Sub-Saharan Africa is to be commended as a timely initiative aimed at augmenting the resources available to this region. It has become obvious that the decline in net capital flows to the region must be halted and donors urged to increase disbursements, particularly in support of reform programs. In the interim, net disbursements of ODA to the region continue to decline rapidly despite the recognition that programs of structural reform, however well conceived and adroitly administered, cannot be expected to succeed while the net availability of financial resources is declining as rapidly as it is.

Though the facility has only recently become operational, it is unlikely that it will achieve more than the temporary provision of urgently required incremental financial assistance. It is still, however, quite inadequate to service the longer-term capital requirements of the afflicted economies. Nevertheless, the response of contributing member countries and the expressed commitment of others are to be applauded as evidence of support for the program.

Similarly, I wish also to recognize the central role the Bank has played in the mobilization of members' support for the establishment of the Multilateral Investment Guarantee Agency (MIGA), and in preparing the Draft Convention which has been presented for consideration by the Bank's Governors.

We support the essential objectives of the agency which are to encourage the flow of resources to developing members by issuing guarantees as well as coinsurance and reinsurance against noncommercial risks, and by carrying out complementary activities such as the dissemination of information on investment opportunities and the provision of advice and technical assistance to member countries.

In principle, it represents a merging of the interests of developed and developing countries, although in practice the efficacy of the proposed structure remains to be tested. The justifiable concerns expressed by some member countries regarding the scope of the draft MIGA convention as might pertain to the national sovereignty of host countries notwithstanding, MIGA promises to enhance the flow of capital and technology for productive purposes to developing countries.

The role of the Bank and the perseverance exhibited by those whose responsibility it was to formulate the document submitted for consideration are to be congratulated. It is noteworthy that inherent in the structure of the proposed agency is the invaluable capacity for flexibility and adaptation so necessary for meaningful progress.

Over the past four years the Bank, under the able leadership of President Clausen, has shown a considerable capacity for innovative response to the problems which continue to confront the global economy. We regret therefore, that he has decided not to seek a second term. I join my voice with others in expressing appreciation for the outstanding quality of leadership he has given to the Bank.

There is a growing consensus that the Bank should be accorded a larger role in dealing with the problems of growth and development on a global scale, but it must be provided with strong and effective leadership and must be equipped with an appropriate financial resource base. Equally important, it must be assured of the continuing political support of both its major shareholders and its borrowing members.

The time has come for all of us as members of the Bank to remind ourselves of the objective of the Bank which is clearly enunciated in the Articles of Agreement, that is, to improve the standard of living of its members.

Neither we as members nor the Bank as an institution can ignore the social and political consequences of economic adjustment. We are not robots dispassionately fitting together the pieces of an economic jigsaw puzzle. Rather we need to reaffirm our commitment to ensuring that the Bank retains and enhances its capacity to help us all as member countries, whether large or small, to provide a better quality of life for our people. This, in the final analysis, is what these Meetings are all about.

SOLOMON ISLANDS: GEORGE KEJOA

Governor of the Bank

I have the honor to speak not just for Solomon Islands but also for our Pacific neighbors, Western Samoa and Vanuatu, who have agreed to my speaking on their behalf. My purpose is to highlight a few key aspects of these discussions as they affect smaller member countries.

The overriding concern of a developing country is to develop. Standing still, for us, means going backward. Our goal is always to strengthen and raise the fragile and inadequate standard of living of our people.

Our concern in economic managment therefore is to bring about growth. As we have said to each other so often, and I agree, we must aim at "sustained, noninflationary growth." Above all, it must be growth, real economic growth, in terms that benefit the mass of our people. Our ojectives in relation to balance of payments, the fiscal balance, money, and inflation all derive from and are secondary to that need.

To do this, we need (1) stability in exchange rates of the major trading currencies; (2) commodity prices that at least cover the production costs of an efficient producer; (3) fair access to markets both in industrial and in other developing countries, on terms unhindered by protectionist measures that eventually hurt everyone; (4) a steady inward flow of investable resources transferred to us, but successful competitive trade, by access to financial markets, by direct private investment, and by official aid; and (5) we must have domestic policies that enable those incoming resources to be put efficiently to work alongside our domestic factors of production, to generate economic growth. These policies must embrace taxation, employment, public/private sector balance, and a sound government budget.

The Bank and the Fund, whose governing body we here constitute, have assisted us all in different ways, first to identify and then to deal with constraints and needs on our path to growth. But the Bank and the Fund are only parts, though important parts, of a wider network of governments, banks, transnational trade, and investment flows—part of a world where economic linkages are becoming steadily closer and more complex.

Today, meeting in this hardworking, hospitable, and courageous country of Korea, I see some encouraging signs:

—An increased awareness now of the holistic interrelationship of all our development efforts;
—Growing acceptance of the need not only for convergence of policy aims, but coherence of policy implementation;
—Widespread appreciation for the efforts by the Group of Five to smoothly bring down the U.S. dollar from its absurd heights;
—Increased readiness to review the working of the international monetary system in a broad-based forum, in parallel with a review of world trade;
—Less weeping rhetoric from our big brothers about the ''magic of the market place''; and
—More recognition that for many of us the markets are cruel, fair deals do not come readily, and the weaker participants need continued and unstinting assistance.

We want to see this Korean sunshine lead on to solid achievement. Real improvements come step by step. We see useful potential in two concepts that are under discussion here.

In the Bank, we have welcomed the concept of the Multilateral Investment Guarantee Agency (MIGA). We hope that it will effectively remove one of the impediments to commercial investment in developing countries and that in time it will become a valuable force in promoting increased real transfers of private investment capital. We do not want its inception delayed. The dramatic curtailment of commercial capital flows over the past few years has been a serious handicap to development. We see MIGA as a valuable contribution to reversing this trend.

Meanwhile in the Fund, we have seen flashed across the screen a preview of some interesting ideas from the United States on how to use the money that is expected to flow back to the Fund in the next few years, as countries repay the Trust Fund monies distributed to them in the 1970s.

While it is certainly a welcome change to see the United States putting forward a positive proposal—and we are pleased with the greater understanding of economic realities this seems to show—it is important to remember the origin and nature of the Trust Fund reflows.

It will be a matter for all of us to consider how they should be used. The first idea tabled may not necessarily be the best. We would, for example, be opposed to any suggestion that the Trust Fund reflows could in any way reduce the need for early action to replenish the International Development Association (IDA), and organize a substantial general capital increase for the Bank. Similarly we are anxious that the Trust Fund reflows, or any related ideas, should not be seen to weaken the case for a new distribution of SDRs, and the need to start work on a further quota review in the Fund. And we shall obviously be looking for only such conditionality as to ensure that such monies are used efficiently to alleviate serious economic needs.

I sense, Mr. Chairman, that great progress is possible during the next few years if we can somehow learn to coordinate our effort. I hope my feelings of cautious optimism are not too much influenced by the warm welcome we have received here. We join everyone else in welcoming our neighbor island state of Tonga into the Fund and Bank family of nations.

We join with everyone in thanking my colleagues, Minister Kim, Governor Choi, all their assistants, and the Korean people for making these Meetings successful.

On a sadder note, we must all regret the decision of Mr. Clausen to leave the Bank when his term of office expires. His leadership will be greatly missed, but I am sure that his influence will remain with us for many years to come.

SOUTH AFRICA: B. J. DU PLESSIS

Governor of the Fund

Both The World Bank and the International Monetary Fund, under the distinguished leadership of Mr. Clausen, and Mr. de Larosière, deserve to be congratulated on their achievments in dealing with complex economic problems over the past year. Since Mr. Clausen has just announced his intended retirement, a word of special appreciation for his dedicated and competent services to the Bank and its member countries is very appreciated.

From the evidence before us it is clear that the world economic situation improved during the past year in certain important respects. In the industrial countries, output grew on average by nearly 5 percent in 1984. At the same time inflation rates in these countries receded to an average of 3.5 percent. In addition, the rapid growth in the imports of industrial countries materially assisted the developing countries by reducing their current account deficits and cushioning the domestic impact of their austerity policies.

In spite of these improvements, clouds are gathering on the horizon. Primary commodity prices have recently been declining, and coupled with the slowing down of economic activity in the United States, the export earnings of the developing countries and hence their growth prospects are weakening. Unless there is accelerated economic expansion in the other major industrial countries, overall industrial growth might well slow down in the year—at a time when unemployment in developing countries is a serious problem and a threat to social stability. Add to this the growing calls for protectionism and the reluctance of banks to extend new loans to Third World countries, and we have the making of a new international debt crisis.

Governors of the Bank and the Fund should therefore not be deluded that the international debt problems are being resolved satisfactorily. They are not. The debt crisis is getting worse, not better. This is a matter of concern not only for the debtor countries themselves but also for the creditor banks and the monetary authorities of industrial countries. Indeed, there is no denying that the interbank market and the international banking and monetary system as a whole are now more vulnerable than they have been for some time to disruptive influences, including precipitate actions by opportunistic individual banks. This is obviously a situation that can only have a detrimental effect on all concerned.

Recent developments in the South African balance of payments situation have provided further evidence of the vulnerability of and the threat to the integrity of the present international financial system. The events that led up to the forced declaration of a standstill period for the repayment of foreign debt as from September 1, 1985, however, were in many respects very different from those that created debt repayment problems for many other countries.

In brief, South Africa has for some time been applying restrictive monetary and fiscal policy measures and as a consequence, over the past year gross domestic expenditure has decreased sharply; imports have declined; and with enhanced exports, the current account surplus has equaled some 4 percent of gross domestic product.

A relatively large net inflow of long-term capital further supplemented the current account surplus and enabled the country to reduce its foreign debt by some $2.5 billion. The debt/export ratio is less than half the average for developing countries in the Western Hemisphere, and the ratio of interest payments to exports of about 7 percent is low for a developing country.

Moreover, South Africa has not experienced any difficulty in meeting both its interest and capital redemption commitments on long-term loans. Neither has the Government or public sector experienced an outflow of short-term capital. The country was forced into the credit standstill arrangement by a sudden large withdrawal by some foreign banks of short-term credit facilities previously extended to domestic banks and other business enterprises. In accordance with this standstill arrangement the repayment of capital was suspended temporarily, while current payments such as interest, dividends, and trade settlements have not been affected.

The solution to the South African problem, therefore, also cannot be copied from those applied to other countries. In view of obvious structural and political differences, the proecedure of negotiation which has to be followed already displays a unique pattern of its own. Good progress has already been made in this regard and, as is generally known, discussions have been initated with the major creditor banks.

South Africa has, however, one major interest in common with other countries in comparable situations and that is a keen desire to promote its exports. Indeed, its ability to meet its international financial commitments in the immediate future will in large measure depend on its ability to continue to expand its exports. As a country that has a firm belief in the virtues of the free market system, South Africa therefore unreservedly endorses the statement by members of the Interim Committee that:

> unless protectionist measures were resisted, the prospects for sustainable recovery in the world economy would be undermined and the management of the external position of heavily indebted countries would be severely

complicated. Protectionist pressures also make more difficult the task of countries that are taking steps to reduce restrictions and open their markets.

In these circumstances, I particularly welcome the firm determination expressed by members of the Interim Committee that their governments will preserve an open trading system in which all countries will have effective access to world markets. After all, any multilateral or bilateral restrictions on trade or political interference can only exacerbate the imminent danger of an eventual breakdown of the present fragile international financial system.

In these circumstances the new approach of the Group of Five to exchange rates is to be welcomed. The official recognition that the U.S. dollar has been overvalued for some time and that concerted intervention in the foreign exchange markets is necessary to improve the alignment of exchange rates, in general, should certainly help to reduce protectionist pressures in the United States.

Concerted intervention in the foreign exchange markets will, of course, not be enough. It is also necessary to address the root causes of the distorted exchange rate relationships. In this context the Interim Committee is surely right in emphasizing the need for budget deficits to be reduced where they are still excessive. A strong case can also be made for somewhat more expansionary policies in those industrial countries outside the United States which have succeeded in eliminating overspending by means of tight fiscal and monetary policies.

Last year at the Annual Meetings further momentum was given to the idea of a Joint Program of Action for Sub-Saharan Africa, highlighting the distressing plight of many parts of the continent. It was gratifying to note the recognition granted to the complexity of the situation, and the emphasis put on the extent of external support needed to assist the economies of African countries.

South Africa supports the calls that have again been made this year for adequate flows of concessional finance within the functional ambit of The World Bank. To the extent that the Fund also can collaborate in lending a stabilizing hand to facilitate this delicate adjustment process, the South African authorities would be only too pleased to promote the concept of a multilateral aid package encompassing integrated participation by all members of the Bretton Woods family.

At the same time, however, there can be no substitute for the initiative of private enterprise in enhancing the growth process in developing countries. One would hope, therefore, that international entrepreneurs and the authorities of such countries would find ways and means to join forces in opening up new fields of investment and development.

In Southern Africa further progress was made during the past year with the activities of the Development Bank of Southern Africa, established in 1983. The Bank's program are aimed at improving the living conditions of the poorest people in the region by helping to identify, and by supporting, high-priority, economically sound investments in the least-developed areas of the region. During the financial year ended March 31, 1985, the Bank almost doubled its fixed commitments under its lending, technical assistance, and guarantee programs, while a large number of important additional projects were under consideration and in the pipeline at the end of the latest financial year.

If ever there was a time when man's morality should match his technology, it is now. If ever his compassion was to be equal to his skills in material goods and wealth, the time is now. The challenge to those who have, lies in caring sufficiently to share their knowledge and other resources and to materially assist developing nations on the road to sustainable economic growth, with due regard to their dignity and self-respect.

In conclusion, it is a pleasure to join in welcoming the delegation of the kingdom of Tonga to these meetings and to extend to the people of Korea great appreciation for their overwhelming kindness and hospitality.

SPAIN: MARIANO RUBIO JIMENEZ

Governor of the Fund

When we last met a year ago in Washington, optimism tended to win out over feelings of uncertainty. The vigorous recovery of the U.S. economy had stimulated growth in world trade, and in turn this had spurred economic activity in the other industrial economies without interrupting their efforts to curb inflation; the U.S. recovery had also alleviated the problems of many developing countries. It was felt that the prevailing imbalances and difficulties would not stand in the way of the world economy's moving along a path of sustained growth.

Today, meeting in this hospitable country, we must acknowledge that the factors of uncertainty have not given way and have even become more serious in certain important respects. We still face major financial imbalances and structural rigidities which pose obstacles to progress in the industrial countries; the heavily indebted developing countries are still grappling with problems; and we are living under the growing threat of protectionism. All these factors cast new doubts on the world economic situation.

The International Monetary Fund's analysis of the global economic situation and world economic outlook concludes that, in these times of uncertainty, the industrial countries must stick with their disciplined financial policies aimed at medium-term objectives and with supply-oriented policies aimed at overcoming the structural rigidities of their economies. It is difficult to disagree with this recommendation. Spain, which is following this basic strategy, is well aware of the need for such policies to be adhered to, of the difficulty of consolidating the successes which have been achieved, and of the slow and uncertain pace at which rigidities can be overcome and the required adjustments made. Few industrial countries are as yet in a position to follow more relaxed financial policies; even fewer of them can be satisfied with what has been achieved so far by their supply-oriented policies.

But the Fund goes on to point to the crucial role being played in these uncertain times by the budget deficit of the United States; the Fund believes that a significant reduction in this deficit is a basic requirement for any expansion of the world economy on a firmer basis and for easing the task faced by the debtor countries of combining growth with financial stability. Indeed, the U.S. budget deficit has extremely important implications both for the economy of the United States and internationally. Its persistence calls into question the capability of the U.S. economy to move forward on a path of sustained expansion; its effects on interest rates, the exchange rate, and the balance of payments of the United States generate policy problems in all the other industrial countries, increase the external debt burden, give rise to elements of uncertainty which impede the international transmission of expansionary impulses, and increase the pressures in favor of protectionism. We must therefore encourage the U.S. authorities to act on their repeatedly announced intention of reducing the federal budget deficit which, according to the analyses provided by the International Monetary Fund and The World Bank, has enormously aggravated the problems of the debtor countries and weakened the recovery potential of the industrial countries themselves. The U.S. authorities have quite rightly pointed out to us in the past the need to make financial adjustments and deregulate markets in order to resolve the problems facing us; we must be equally frank in requesting that this task not be made more difficult for us by their maintaining a budgetary policy which enormously aggravates the problems of developing countries and industrial countries alike.

Generally speaking, the major industrial countries must formulate their economic policies in full awareness of the impact they have on the international community as a whole. The report drawn up by the Group of Ten has stressed the importance of coordination and convergence, in the financial sphere, among the economic policies of the countries in the group, so that the international monetary system may function reasonably and promote expansion of the world economy. To be sure, in a period like the present one, characterized by sizable variations in relative costs and prices and technological advances which alter the international pattern of comparative advantages and lead to considerable adjustments in the structure of production, the convergence of economic policies in the industrial countries must go well beyond the strictly financial area. An effort must be made to restore worldwide equilibrium on the basis of criteria that are consistent with the maintenance of an international economic order based on the principles of economic freedom, nondiscrimination, multilateralism, and cooperation. Failing this, there will be even greater uncertainties about the future, and the world economy will continue on its vacillating course, protection will continue to grow apace, and the problems of the developing countries will become even more severe.

The position of the developing countries remains extremely difficult, and even dramatic on occasion. This is one of the basic points on which our relative optimism of last year has not been borne out. It cannot be denied that, in the case of many countries overwhelmed by external debt, their current burdens are at least partially the result of past economic policies that were misguided and unsustainable. There is likewise no doubt that these countries must implement harsh and difficult policies to rehabilitate and reform their economies in order to overcome their problems. This is required both by the future of their economies and by the need to develop a favorable attitude on the part of the international financial community. There must be an awareness, however, of the effort being asked of them, of the limits of this effort, and of the external circumstances with which they must deal in order to achieve positive results from this effort. However, as noted in The World Bank's excellent *World Development Report 1985*, there is some question whether, in many developing countries, the socioeconomic fabric is sufficiently sound to resist such tensions indefinitely.

The scenarios prepared by the Fund and the Bank for the next five and ten years constitute the best guidelines on external economic development available to the heavily indebted countries. Both of the best-case scenarios project an improvement in the situation of these countries; however, the results are extremely sensitive to the assumptions on which they are based. In point of fact, the scenarios prepared by the Fund and the Bank demonstrate clearly that the situation of the debtor countries cannot improve unless real interest rates decline, which is strictly contingent on the budgetary policy of the United States, a reasonable rate of growth in the industrial countries, and a reduction in protectionism. Should these favorable assumptions not prove correct—and in times like these there are no grounds for optimism—the ability of the debtor countries to meet their external commitments will be seriously jeopardized; even though the debtor countries will be prepared to follow adjustment policies, it will be difficult to continue these indefinitely and the creditor countries will lack technical and moral arguments to maintain their recommendations of economic austerity and reform.

It is Spain's view that the international community is faced here with a combination of difficult and dangerous problems to which a genuine response must be worked out in a cooperative manner, and that the studies and discussions on this response should be put off no longer.

These concerns, then, underlie the approach my country takes to the various topics now under consideration within the Fund and the Bank. . . .

. . . Turning now to the activities of the World Bank Group, I would like to begin by expressing my satisfaction with the successful results obtained in the creation of a Special Facility for the countries of Sub-Saharan Africa. I would like to open my comments on the Bank by referring to this topic because Spain was one of the countries which, in this same forum a year ago, voiced the need to mobilize the international community to overcome the profound crisis afflicting the countries in Africa. I am thus pleased that my country was able to contribute to the creation of this facility.

We would like to extend special congratulations to the Bank and the International Development Association for the speed with which they carried out the task assigned them and for the success achieved; at the same time, we endorse the resolution to transfer $150 million from the Bank's net income to this Special Facility.

We wish to emphasize the disturbing nature of the situation facing this group of countries: despite having adopted structural adjustment measures, several of the nations affected have yet to see any light at the end of the tunnel. Nevertheless, we wish to indicate our agreement with the establishment of certain conditions for access to this Special Facility, since external financing can only prove effective in the medium and long term within the context of an economic adjustment program.

As regards Bank activities in general, Spain is of the opinion that the basic activities of the Bank should continue to be concentrated on financing operations associated with investment in projects. Furthermore, the Bank must intensify its role as a catalyst in channeling other resources to the developing countries alongside those from the institution itself, and it must continue to promote structural adjustment programs and programs aimed at correcting economic and industrial policies in the beneficiary countries. My country considers that the Bank should expand its operations in view of the magnitude of the problems to be dealt with and is prepared to support an increase in the Bank's capital.

As regards the International Development Association, events and the passage of time have served to demonstrate that the funds provided under the Seventh Replenishment are inadequate. The deterioration of the situation in certain areas of the world, especially in Sub-Saharan Africa, has prompted several countries, including Spain, to agree to the Association's request to accelerate their disbursements under the Seventh Replenishment.

Spain supports the establishment of the Multilateral Investment Guarantee Agency. We believe that the creation of this agency will help mobilize investment in the developing countries, covering an area which is not dealt with sufficiently by national or private agencies.

I would like to conclude by noting that, while adjustments and an expansion of the activities of both institutions are important, the success of their work will inevitably continue to be subject to progress in solving the major problems currently facing the international economy: adjustment of the fiscal policies of the major industrial countries, utilization of the available room for expansion in those countries which have achieved a reasonable degree of economic recovery, adoption of positive adjustment policies which will preclude recourse to protectionism and, finally, the issue of the degree of cooperation which it seems necessary to extend to the heavily indebted countries that are prepared to implement practical adjustment and economic recovery policies.

Finally, I would like to express my sincere thanks to our colleagues from Korea and its Government for the hospitality extended to us here.

SRI LANKA: RONNIE DE MEL

Governor of the Bank and Fund

On behalf of the Sri Lankan delegation and on my own behalf, I wish to express our sincere thanks and appreciation to the people of Korea and the Government of the Republic of Korea for the excellent arrangements made for these Meetings. Next, I wish to very warmly welcome our new member, the Kingdom of Tonga.

I am glad to be able to address these Annual Meetings for the ninth consecutive year. A strong and effective World Bank and a strong and effective International Monetary Fund are necessary for the world economy, and it is the duty of all of us to do everything in our power to strengthen these two institutions, which have played such an important role in the last 40 years. However, I must express some disappointment about the relatively slow progress we have made so far toward the establishment of an orderly and equitable international financial system. Although there was a modest global economic recovery in 1983 and 1984, the recession that set in since the early 1980s seems still to be lingering on, confirming our earlier position, stated last year, that the recovery was fragile. For this recovery to be sustained, it is vitally necessary to strengthen the economic base of developing countries by an adequate transfer of resources.

The world is full of challenges and opportunities. The developing countries are unable to face these challenges and seize the opportunities unless there is a deeper appreciation of their problems by the industrial countries. In the spirit of enlightened self-interest, we must learn to sacrifice short-term gains for long-term benefits. We must learn to work together in a spirit of international cooperation for the welfare of all. This would mean that the burden of international adjustment should be more equitably shared by the industrial and developing countries alike. It is important to recognize the interdependence between industrial and developing countries, and view such a relationship as mutually beneficial. It is only by ensuring greater access to trade and capital, and enhancing resource flows to the developing countries, that the industrial countries themselves can expand their economies. Adoption of such an enlightened approach to correct the present malady need not await a major reform in the international monetary system. Immediate action is necessary.

Many developing countries which have embarked on bold and imaginative adjustment programs have faced difficulties owing to lack of financial assistance when needed. While conditionality has increased, there has not been a corresponding increase in the availability of financial resources to undertake medium- and long-term structural adjustment. As a result, imports have been compressed, investment has been dampened, and prospects for economic recovery and growth have been made bleaker. It is the responsibility of the major international institutions, such as the Bank and the Fund, to promote world development by the provision of additional and sufficient levels of international liquidity. The question of supplementing international liquidity by the allocation of SDRs has been debated every time we get together and we have made no progress. As a result, the role of the SDR has diminished and our desire to make the SDR the principal reserve asset has been frustrated. Some have even challenged the raison d'être of the SDR. . . .

. . . When dealing with the subject of adjustment policies, it is not possible to ignore the political risks and social costs of adjustment that developing countries have to incur, in the short and medium term, mainly due to stringent demand-management policies. Therefore, every effort must be made by both funding agencies and recipient countries to safeguard the vulnerable groups in the developing countries during this process of structural adjustment. . . .

. . . The recent moves to improve coordination between the Bank and the Fund can be a positive step. The needs of borrowers may be better met if the two institutions act in a mutually supportive manner. However, it is of paramount importance that such coordination does not lead to cross-conditionality. For instance, a Fund arrangement must not be a precondition for structural adjustment lending by the Bank. Coordination between the Bank and the Fund must serve to improve access to resources rather than to further diminish resource transfers through enhanced conditionality. In the final analysis, the objective of such arrangements should be to extend a larger volume of resources to developing countries. This is very important because the Bank has not been able to meet its lending targets and the Fund remains highly liquid at a time when there is a most regrettable net outflow of resources from the developing world.

Let me now turn to issues which have a greater relevance to the Bank. The recent record of the transfer of real resources to developing countries has not been very impressive, as both multilateral and bilateral assistance have been well below the ODA norm of 0.7 percent of GNP. Hence, it is most important that the resources of the International Development Association (IDA) should be enhanced through adequate replenishments. As the IDA-VII Replenishment turned out to be grossly inadequate, we must take immediate steps to enhance the funding for IDA-VIII and sustain its growth rate in real terms in the future. The attempt to set up a supplementary fund to recapture the resources that might have been withheld from the IDA-VII Replenishment deserves the support of all donors.

IDA cannot expect to fulfill an expanding developmental role with a shrinking financial base, and that applies to the role of the Bank as well. There has to be a substantial general capital increase to enhance the Bank's lending capacity. Moreover, the catalytic role of the Bank has to be strengthened to enable member countries to obtain maximum resources from other financial sources. In this context, the proposed Multilateral Investment Guarantee Agency should have the potential to promote non-debt-creating capital flows, and we hope that any outstanding issues in this regard will be satisfactorily resolved.

The progress made so far toward reaching a workable solution to the debt problem has not been very encouraging. While multiyear restructuring of debts could help in preventing a bunching of maturities, it alone would not offer a lasting solution to the debt problem. The resolution of the debt problem requires much greater and more positive cooperation of debtors and creditors. In this connection, we should evolve a more comprehensive and integrated approach to the debt problem, rather than adopting a case-by-case approach.

While the debt crisis certainly deserves the attention of the multilateral institutions, it should not result in a shift of emphasis away from other developing countries who have managed their economies better, but who still face external difficulties owing to circumstances beyond their control and are undertaking strong adjustment measures. Continued assistance and encouragement to sustain their growth and development efforts must be ensured. There must always be due rewards for prudent economic management. Otherwise, those who have managed their economies better may suffer at the expense of those who have not. This is a situation we should avoid at all cost. Although we strongly support the program for Sub-Saharan Africa, we wish to emphasize that this should not in any way lead to a decrease in concessional lending for the low-income countries in Asia and other parts of the world.

Before I conclude, I wish to briefly focus on the painstaking efforts that Sri Lanka has been making toward structural adjustment. We have been able to increase the per capita real growth rate threefold, reduce unemployment by one half, bring down inflation, and enhance investment appreciably within a few years since the adoption of major economic reforms. We are thankful to the international community and multilateral institutions for the assistance they extended to us to supplement our own effort. We have responded by enhancing our savings rate, reducing our budget deficit, improving our external reserves position, and managing our debt satisfactorily. But we are finding it increasingly difficult to cope with the adverse trends in the external economic environment. Unfavorable commodity prices, exchange rate volatility, high real interest rates, and protectionist barriers have been exerting enormous pressure on our balance of payments, creating new difficulties in economic management. Therefore, it is extremely important for Sri Lanka to receive continued assistance on concessional terms if we are to build on the success achieved so far and fulfill our task of adjustment in a satisfactory manner. In this connection, I wish to emphasize that with the sharp decline in commodity prices, it is essential that the resources of the compensatory financing facility should be extended to affected countries without conditionality, automatically.

Before I conclude, let me place on record Sri Lanka's deep appreciation of the service rendered by Mr. Clausen to The World Bank and the international community as President of the Bank. He has shown a keen awareness of the needs of developing countries. I have had the pleasure and the privilege of working closely with him regarding the problems of my own country, and I thank him for his never-failing support and understanding. I wish him well in the future.

SWEDEN: KJELL-OLOF FELDT

Governor of the Bank

Speaking on behalf of the five Nordic countries, Denmark, Finland, Iceland, Norway, and Sweden, I would like to begin by warmly welcoming our new member, Tonga. Let me also take this opportunity to express our gratitude and appreciation to the Government and the people of the Republic of Korea for the warm hospitality extended to us here in Seoul.

The challenges facing The World Bank and its borrowers in the second half of the 1980s are likely to be significantly different from those of the 1960s and 1970s. In particular, the crisis in Africa and the debt problems of middle-income countries call for an adaptation of the Bank's future lending strategies.

The main function of the Bank should continue to be long-term financing of development projects. But the Bank will need to continue to adapt its operations to a changing environment and to seek the right balance between different lending instruments. On one hand, in countries where substantial progress has been achieved in stabilizing the economy, the Bank's operations should shift in the direction of support for project investments. On the other hand, in countries where economic policy reforms must be implemented, there is a continued need for structural and sector adjustment lending. The Bank should refine its use of these important lending instruments.

On the question of the relations between the Bank and the Fund, the Nordic countries feel that the two institutions should continue to have their own areas of responsibility. But it is increasingly clear that there is scope for a closer and more effective cooperation between the two institutions. Improved coordination between the Bank and the Fund is essential in order to ensure adequate attention also to the longer-term needs of the member countries. It is important that the two institutions endeavor to establish a common view on the problems and policies of the countries in which they are both involved.

The United States has presented ideas on the use of the Fund's Trust Fund reflows possibly supplemented by Bank and other resources to promote economic adjustment and growth in the poorest countries. These are ideas on concrete forms which Bank/Fund cooperation could take, and we welcome that. The Nordic countries are in general prepared to study proposals that would result in increased concessional flows to the poorest countries. In our view, the resources necessary to finance a program of this kind must be additional, which means that it should not be a substitute for a general capital increase in the Bank and a substantial replenishment of the resources of the International Development Association (IDA).

As a long-term development financing institution, the Bank must also play a greater role in the joint efforts to alleviate the present debt problems. In major debtor countries structural adjustment lending by the Bank could play an important role. The Bank can also assist in restoring confidence in the capital markets for debtor countries and in the resumption of voluntary lending by means of cofinancing arrangements. In some of the poorest countries, especially in Sub-Saharan Africa, it may be necessary to seek broad, coordinated approaches including—on a case-by-case basis—long-term debt restructuring as part of overall financing packages. In such cases, The World Bank could play an important role in coordinating the actions of the different categories of creditors. The Bank could also play a role in extending technical assistance for external debt management.

Expanded World Bank lending is desirable in particular for the following reasons: to meet the difficult economic situation facing many Bank borrowers, including a serious debt service burden; to promote the Bank's important catalytic role in attracting other flows of capital; and to avoid a negative figure for aggregate Bank *net* transfers within a few years' time. In the view of the Nordic countries, The World Bank must be allowed to expand its lending at a rate which is consistent with its traditional role as the major development financing institution.

Therefore, it is our position that the Bank should strive to reach the upper end of the envisaged lending program of $40-45 billion for the next three years, and up to $20 billion for each of the last two years of the five-year period. We should aim at an early agreement on a capital increase to provide the Bank with the capacity to reach this upper range. Therefore, negotiations on a general capital increase and its modalities should start immediately after this Annual Meeting.

The Nordic countries agree that the main responsibility for economic growth in the developing countries rests with these countries themselves. At the same time, the international community has a vital supportive role to play. We also recognize the necessity of policy reforms in support of structural adjustment in many developing countries.

In recent years international concern has grown about the inadequacy of concessional flows. In many of the poorest developing countries these flows constitute the major or sometimes even the only source of external financing. In the poorest countries, sustained investment and growth will require an increased amount of official development assistance (ODA).

The Nordic countries attach particular importance to the work of the Task Force on Concessional Flows, which has now presented its report to the Development Committee. The studies of the Task Force have clearly indicated that most development aid has been productive and helpful to growth and development. The Task Force has also drawn the unanimously accepted conclusion that—as a matter of urgency—donor countries should redouble their efforts to increase aid flows to the poorest countries. We can support this conclusion and hope sincerely that the prospects for declining ODA/GNP ratios for the rest of this decade will not come true.

IDA is the single largest source of concessional financing. It has proven to be a very effective channel of resources with a substantial catalytic function and high rates of return on most of its development projects. But its resources have been insufficient.

Events in the poorest countries—since the Seventh Replenishment was agreed—have reinforced the need for increased resources for IDA. The Nordic countries welcome the news that negotiations on the Eighth Replenishment of IDA will commence in early 1986. They should aim at an early agreement on a substantial increase of IDA's resources from the present inadequate level.

In the view of the Nordic countries, there is no need for any radical changes in the traditional role and structure of IDA. IDA's main function should continue to be long-term financing of development projects on highly concessional terms. But policy-contingent lending, including structural and sector adjustment loans, should constitute an important supplement to the traditional project lending.

The overriding aim of any changes of IDA should be the freeing of resources for the benefit of the poorest countries. As regards the allocation of IDA funds, priority should be given to the most needy countries, particularly in Sub-Saharan Africa. The lending terms should undergo no major revision, and there should be no revision with respect to the poorest countries.

The Bank's program of action for Sub-Saharan Africa is a priority in the Bank's activities. The Nordic countries have given their strong support to the Special Facility for Sub-Saharan Africa as an essential element of this program. The rapid establishment of the facility is an important accomplishment by the donor community and reflects the awareness of the acute and critical situation in Africa. We would wish to see those donor countries which have not so far given their support to the facility to join it and contribute to its operations.

We welcome the reference by President Clausen in his opening statement on the need for the Bank to increase its attention to the role of women in the development process. It is important that practical measures be included in development projects to address the particular problems faced by women. In our view, the Bank has not given sufficient weight to these problems, nor are they reflected in the present staffing policies. We therefore look forward to further consideration of these issues, especially in the light of the recommendations adopted at the Nairobi conference this summer.

The Nordic countries have supported the capital increase of the International Finance Corporation (IFC) and will take up their full shares. This increase will enable IFC to further expand and diversify its activities and to meet the anticipated demand for new private sector investments. We welcome this expanded role for IFC, and hope that it will strive in the years ahead to fulfill its intentions to put increased emphasis on investment in low-income countries and in sectors such as agriculture and energy.

Let me reiterate the strong support of the Nordic countries for The World Bank. In the present economic situation, with stagnating resource flows to the developing countries, The World Bank and its affiliates should stand ready and able to meet the growing demands for their resources and advice.

Before concluding, I wish to let it be known how sad we are in the Nordic Countries of learning yesterday morning that Mr. Clausen has decided to leave the Bank when his present term expires next summer.

Mr. Clausen, you have steered the Bank through a most difficult period, and you have prepared the ground for a new expansion of the Bank's activities. We thank you for your dedication and your hard work. We will miss you, and wish you all well for the future.

Thank you.

THAILAND: SOMMAI HOONTRAKOOL

Governor of the Bank

I would first like to join my fellow Governors in congratulating you, Mr. Chairman, on your election as Chairman of the Board of Governors for the current Annual Meetings. I would also like to express our appreciation for the able management by Mr. Clausen, President of The World Bank, and Mr. de Larosiere, Managing Director of the International Monetary Fund as well as for the performance of the staff of the Bank and of the Fund during the course of the past year. However, we regret to learn of Mr. Clausen's decision not to continue as President of the Bank for another term. We are grateful for his contribution to international development, and wholeheartedly wish him every success in all his future endeavors.

As regards the recent addition to our member countries, it gives us great pleasure to welcome the Kingdom of Tonga in our institutions. As a member of the Southeast Asian voting group, Thailand takes added pleasure in having Tonga join our constituency. We are anxious to work closely and actively in cooperation with Tonga in achieving the common objectives established by the Bank and the Fund.

Turning to problems of the global economy, the uncertain outlook makes it imperative that a multipronged approach be pursued if a recurrence of the debt crisis is to be avoided. Industrial countries must pursue consistent and more coordinated economic policies that support a healthy growth in world demand and resist the pressure to intensify restrictive trade practices, especially in connection with exports of developing countries. Developing countries on their part must adjust their own economies to the realities. In the interim, they need external assistance.

Let me now elaborate on some of the measures that are required.

The rapid proliferation of trade protectionist practices, both in terms of tariff and nontariff barriers, particularly by many industrial countries, is shutting the one last window once thought open to developing countries in their efforts to generate economic growth and pursue needed adjustment policies by relying on outward-looking policies. The decline in these countries' export earnings and the attendant deterioration in their balance of payments positions have inevitably led to a widening of the foreign exchange gap of such countries, compounding the already serious debt-servicing problem. Consequently, their development prospects have become increasingly unfavorable. The growing pessimism has also led to increased caution in the disbursement of loans already committed.

In view of the current unfavorable international economic situation, which further obstructs the chance of sustained development in countries receiving official development assistance, we wish to call upon donor governments to exert greater efforts to increase the supply of ODA funds. The Japanese example in this field of activity is noteworthy in that Japan is fulfilling its international responsibilities through continued expansion of ODA commensurate with that of the size of its economy as well as through continuing to improve the ratio of ODA to gross national product. The Government of Japan will make efforts to double the amount of ODA being given by 1992. We therefore urge that the other ODA donor countries be courageous enough to do the same. We would, in this connection, also like to support and urge an early outcome in the preparatory work for successful negotiations of IDA-VIII. Moreover, I welcome the "Program for Sustained Growth" as initiated by the United States as one possible approach to relieving the international debt problem.

In addition to the reasons already mentioned, failure of bank-financed development projects also increases the developing countries' debt burden. Unfortunately, such failure rests not only on lack of success in project implementation but sometimes on misguided project justification in Bank-assisted project appraisals as well. The consequent implementation of projects that are appraised as being viable when actually they are not has proven detrimental to the developing countries concerned. Projects should be appraised with the benefit of such countries kept in mind and not for the purpose of advancing the bureaucratic aims of the bank.

At this juncture, I would like to offer an observation that the Bank, so as to reach its set objectives, may need to play a more innovative role in devising ways to inject more flexibility into its development finance operations. Apart from ensuring adequate financial capital resources and innovative operational methodology, high-caliber policy formulation and decision making are obviously essential, and must therefore be maintained.

In terms of the Bank's authorized capital stock, we support a general capital increase, and would regret to see any Bank operation impeded by unnecessary resource constraints. . . .

. . . I would like to note that both the Bank and the Fund adjustment programs have already placed an overemphasis on austerity to such an extent that they unintentionally, but frequently, have implications on the survival of the democratic system in the countries concerned. In the pursuance of austerity policies, a proper balance must be struck between growth and economic as well as political stability. It is indeed a challenge for the Bank and the Fund to devise measures that would lead to the fulfillment of such an objective.

I welcome the deliberation by the Interim Committee concerning disposal of funds coming in from the Trust Fund. The so-called Trust Fund reflows should be used to provide assistance to low-income member countries on terms similar to the original Trust Fund. The possibility of more lenient terms, even on a grant basis, for a portion of the resources should be explored; so should the possibility of using it as a bridging facility for countries with serious problems or for those in arrears to the Fund so that they may overcome their difficulties.

For the international monetary system to function smoothly, there must be adequate international liquidity. I should like to reiterate the notion that the SDR must be assigned a useful role in meeting the long-term need for unconditional reserves and in providing a safety net for future contingencies. SDRs have declined in relation to most indicators. Furthermore, there are a large number of countries with acute stringency in reserves or with difficulty in gaining access to capital markets. I therefore strongly support a reasonable SDR allocation by the Fund at the earliest opportunity.

Finally, I would like to praise the admirable efforts exhibited by the joint Secretariat in the preparation of the Meetings. Last, but not least, must be our sincere acknowledgment of the Government of the Republic of Korea's invaluable contributions to the Meetings by being such a commendable host. On this note, we would like to express words of appreciation and gratitude for the kind hospitality extended by the host Government and by the people of Korea.

TONGA: JAMES CECIL COCKER

Governor of the Fund

First, may I congratulate you, Mr. Chairman, on your election. May I also thank the President of The World Bank and the Managing Director of the International Monetary Fund for their incisive statements. I would like to express, on behalf of my delegation, our sincere appreciation to the people and the Government of the Republic of Korea for their gracious hospitality and the excellent arrangements for these Meetings.

I am indeed grateful for this opportunity to thank delegates for the many words of welcome which have been extended to Tonga since the opening of the joint Annual Meetings of the Bank and the Fund. I would also like to express our appreciation to the staffs of the Bank and the Fund for their excellent preparations, in particular the efficient manner in which our membership application was processed, culminating in our becoming the 149th member of the Fund on September 13, 1985. On behalf of the people and the Government of Tonga, I would like to express our gratitude at the warm and hospitable reception we are accorded here on our first attendance at these Annual Meetings.

We in Tonga, like other developing small nations throughout the world, face various social and economic issues which need resolving. We trust that our joining The World Bank and the International Monetary Fund will afford us the opportunity to explore various alternatives toward resolving our problems. We are aware that many issues face each individual member country and that because of our global interdependencies it will be necessary for continuous cooperation and concerted action by members, if these issues are to be successfully resolved. The Government of Tonga looks forward with anticipation toward the opportunity for greater and more effective dialogue and cooperation which will enable us to build the foundation for a stable and prosperous future.

UNITED KINGDOM: IAN STEWART

Governor of the Fund

I offer warm thanks to President Chun Doo Hwan and the people of the Republic of Korea for the generous welcome we have received in Seoul, for the opportunity many of us have had to see for the first time this increasingly prosperous country, and for the excellent arrangements made for our Annual Meetings.

We always owe a great debt to the President of The World Bank and the Managing Director of the International Monetary Fund, but I should like to place on record, on this occasion in particular, our appreciation of the great contribution that has been made by Mr. Clausen during such a critical period for the Bank.

At the outset, I should also like to join my colleagues in extending a very warm welcome to Tonga as a new member of the Bank and Fund.

I speak today in place of the Governor of the Fund for the United Kingdom, Mr. Nigel Lawson. He has asked me to convey to you, Mr. Chairman, to his fellow Governors and to the heads of the institutions whose Annual Meetings these are, his regret at being unable to be present today, because the date of the Meetings, being rather later than usual, unfortunately clashes with the annual conference of the British Government Party.

After commenting briefly on the world economic outlook I want to concentrate on the main risks to the continuation of the present healthy recovery in the world and to the further progress of our individual economies. Those main risks are the growing threat of protectionism and the danger of mismanagement of debt.

The World Economy

Although experience in individual countries was uneven, the world economy as a whole in 1984 showed remarkable strength. Growth in the seven major industrial countries together was over 5 percent. The volume of world trade rose almost 9 percent and imports of OECD countries rose 12 percent. This rapid recovery was achieved without the renewal of inflation which has often accompanied recovery in the past. In OECD countries, on average, inflation was around 5 percent in 1984, with expectations of a further fall this year.

The recovery in industrial countries has helped to support the remarkable adjustment efforts of many developing countries grappling with the heavy burden of debt incurred in earlier years. The aggregate current account deficits of developing countries fell from $100 billion in 1982 to around $40 billion in 1984 and are expected to remain around $40 billion this year. The severe cutback in imports which many had to accept are now being succeeded by a balanced expansion of their trade.

The pace of recovery in 1984 could not be expected to be sustained. The U.K. assessment is similar to that of the Fund. We expect economic growth in the major industrial countries to continue at around 3 percent per year, a rate in line with longer-term productivity trends. We believe that the strategy of sound finance to which the major industrial countries have committed themselves provides a firm foundation for sustained growth without renewed inflation.

The U.K. economy itself is now in its fifth successive year of steady growth. Since the trough of the recession in the first half of 1981, the GDP of the United Kingdom has grown at an average rate of just over 3 percent per year. The recovery has owed much to our success in bringing down inflation in a framework of sound fiscal and monetary policies, in liberalizing markets, and in encouraging enterprise. It has been a well-balanced upswing. Since 1981 investment has grown twice as fast as consumption. Domestic demand has broadly matched the growth of domestic output, so that growth has not relied excessively on exports. Throughout this period we have been running current account surpluses, although not at an excessive level that could cause difficulties for others. These surpluses, based on exports of North Sea oil, have financed a corresponding capital outflow, unencumbered by any form of exchange control. Oil is a nonrenewable asset and it clearly makes sense to replace its foreign currency earning capacity in part by investing in assets overseas. As a result, the United Kingdom's net overseas assets have risen from $25 billion in 1979 to $85 billion, at the last count.

Regrettably, like most other European countries, the United Kingdom has continued to suffer from high levels of unemployment. Rigidities in the labor market remain a problem; but it has to be said, too, that management has not always been quick enough to adapt to the improvements that have taken place. Nevertheless, employment levels have been rising, and unemployment would have fallen if it had not been for a rapid expansion of the work force.

In the industrial world as a whole, growth is becoming more balanced between the different countries. But major imbalances of other kinds remain, notably those arising from the size of the U.S. budget deficit in relation to its domestic savings ratio. Partly as a result of this, we have seen large and disturbing movements in the relative values of currencies, with inevitable but undesirable effects on trade performance. This is the background to the first of the main threats to our continued progress.

Protectionism

The rise of protectionist pressures is the major and most immediate danger to the world economy. Protectionist sentiment has been increasing in Europe, and even more so in the United States. The extent of these pressures is reflected in the long catalogue of measures under discussion in the U.S. Congress. We welcome and applaud the way in which the U.S. Administration has resisted such proposals and its determination to continue to do so.

We cannot remind ourselves too often of the damage done by an escalation of barriers to international trade, the effect of which is to reduce growth in industrial countries, to limit employment opportunities, and to deprive developing countries of export markets which are vital to their prospects, especially for those grappling with the problems of debt.

This was why the United Kingdom, along with Germany, France, and Japan, responded positively to the initiative taken last month by the Governor for the United States, Secretary Baker. The five countries together committed themselves at their meeting on September 22 to continue to pursue and reinforce policies which are already bringing about steady growth and declining inflation, to resist the forces of protectionism, and to take such action as might be necessary to secure an early adjustment in the exchange rate between the dollar and other major currencies.

But resisting new protectionist pressures, although of the first importance, is not enough. We urgently need more progress in rolling back long-established barriers and in extending the scope of the open trading system. The best guarantee we have against the erosion of free trade is to make further progress in the multilateral context of GATT. This is in the interests of all of us—developing and industrial countries alike. We should all be concerned about the way nontariff barriers and other discriminatory practices have grown up, precisely when multilateral action in successive GATT rounds has reduced formal tariff barriers. Such measures are as harmful to the developing countries as to the industrial world.

We all have much to gain from freer trade—just as we all have something to contribute. For this reason the United Kingdom strongly supports the proposed new round of trade negotiations. A good start was made at the special GATT meeting last week. When the Contracting Parties meet in November, and in the negotiations which I hope will follow, my Government will support the broadest possible agenda.

We need also to look behind the present imbalances of trade which have given rise to protectionist pressures, to get at and to eliminate the root causes. If I refer in particular to the United States and Japan it is because their major influence in the world economy means that their policies cannot be judged solely by domestic criteria.

As in other industrial countries, U.S. monetary policy must be aimed at avoiding a resurgence of inflation. But it is also important that U.S. interest rates should remain at relatively low levels. The best chance of securing these two things is through significant reductions in the Federal budget deficit. We welcome the recognition of this by the U.S. Administration, and their recognition that the measures in the 1986 budget resolution can be seen only as a first step.

A better balance in the external trade of the United States must inevitably imply a reduction in the net exports of other countries to the United States. There is no need for this to mean recession for the world economy. Other major industrial countries are now showing a stronger recovery. Their performance can be helped to some extent by the impact of a lower dollar on their domestic costs and by the prospect of a gradual reduction in interest rates.

Japan has a particularly important contribution to make to the process of adjustment. Although Japanese growth and inflation performance have been enviable, they have relied too heavily on external demand. The recent appreciation of the yen exchange rate, particularly against the dollar, will help. The announced intentions of the Japanese authorities to liberalize their financial markets and promote opportunities for increased imports are very much to be welcomed, but they need to be implemented and made effective quickly. And some further encouragement to domestic consumption can surely be afforded in a country with so high a domestic savings ratio.

There has been much talk, at these and earlier Annual Meetings, in the Interim and Development Committees, in the Group of Ten, and elsewhere, of the need for better policy coordination and mutual surveillance among our countries. The agreement reached last month by the United States, Japan, Germany, France, and the United Kingdom marks an important advance in international economic cooperation.

Management of International Debt

These are the fourth successive Annual Meetings at which the problems of international debt have dominated our agenda. The international community can fairly take some legitimate satisfaction from the efforts which have been made over the past three years by all concerned—borrowing countries, creditor countries, commercial banks, the Bank, and the Fund alike. But though the sense of crisis of the early stages has eased, debt burdens remain a threat to the world economy and to the international banking system.

It was clear at the outset that the debt problems would not be solved quickly. It was bound to take a considerable time for individual debtor countries to recover, and longer still for the group of major borrowing countries as a whole.

It is worth reminding ourselves that the process of adjustment does not require the elimination of all external debt, or anything like that. It is natural that capital should flow from industrial to developing countries, and that developing countries should in consequence be fairly substantial net debtors, supplementing their domestic saving by external borrowing. The problems arise, as in the 1970s, when borrowers and lenders overestimate the capacity of the borrowing countries to service debt, particularly when this is coupled with the unproductive use of some of the proceeds.

During these past years, the immediate need has been met by the case-by-case strategy which has been followed. The wide differences between countries meant that the problems of each of them had to be considered separately on their merits. In all cases, there had to be a considerable adjustment in the domestic economies of the indebted countries, and the task during these years has been to get that process started. At the same time, there was need for creditors—private and official alike—to roll over outstanding debt and add some new financing to help ease the burdens. This approach was embodied in the London summit communiqué in 1984 which, with its encouragement of multiyear rescheduling, also made a start in tackling the longer-term aspects of the problem.

We now need to carry this approach further. I listened with particular interest yesterday to ideas put forward by the U.S. Governor, Mr. Baker. I welcome the lead the United States is now giving on these problems. There are difficulties to be overcome; but the objectives—the adoption of the right economic policies by the debtor countries, a continuing central role for the Fund, and a more prominent role for The World Bank and other development banks, and increased lending by the private banks in support of economic adjustment programs—are ones which we fully support. These three elements are interdependent; they require the cooperation of all parties concerned; and each element is indispensable to the resolution of the debt problem.

The need for continued adjustment cannot be avoided. Difficult and painful as the initial process inevitably is (and some debtor countries have tried harder than others), it can be at least as difficult to sustain it over a period of years. Many countries have had to accept a reduction in living standards and must still contemplate a period of restraint as they establish a sounder basis for growth. But this is the contribution which debtor countries must make and without which the necessary finance will not be forthcoming and could not be effective.

The part played by the Fund remains essential. Fund-supported adjustment programs have often been unfairly characterized as simply meaning cuts in budget deficits and imports. Correcting unsound fiscal and monetary policies is certainly a necessary element of such programs, but adjustment also involves structural reforms aimed at improving future performance. The Fund has thus rightly sought realistic exchange rates and pricing policies to ensure that scarce resources are not wasted. The Republic of Korea is a practical and highly instructive model of how a developing country can combine adjustment with growth and make productive use of capital inflows.

As part of this longer-term strategy for debt, the United Kingdom would support a larger and more effective role for The World Bank and its affiliates over the next few years. The Bank is already providing fast-disbursing loans in support of broad policy reform. While project financing should continue to be the main focus of the Bank's activities, lending linked with improved economic policies has the potential for greatly increasing the efficiency and growth of debtor economies. It is an approach which I believe should be further strengthened and expanded. Increased lending by the Bank, if it can be matched by improved policies and performance by borrowers, should help to encourage additional bank financing and private investment in their economies. The United Kingdom will look sympathetically at the need for the Bank to add to its resources as its lending program expands.

The third element is financing from the private sector, particularly the commercial banks. Decisions on lending must remain matters for judgment by the commercial banks themselves and for negotiation with individual debtor countries. But in making their judgments the banks will certainly be looking for some assurance from the commitment of debtor countries to sound economic policies and from the part which the Fund, and we hope increasingly the Bank, will be playing.

There have been valuable discussions about these problems here at Seoul, in the Interim and Development Committees, and the decisions taken reflect our common concerns.

In view of the uncertainties remaining in the world economy and the difficulties some debtor nations continue to face, I am glad that the Interim Committee has decided to renew the policy on enlarged access for 1986 with only marginal changes.

Particularly welcome, too, are the principles on which we have agreed regarding the future use of the Fund's Trust Fund reflows. These apply primarily to the poorest countries (above all those in Africa) and I am glad to pay tribute to the helpful decisions by China and India not to exercise their right to draw on the Trust Fund until 1991.

I was also very pleased to hear of the decision in principle taken in the Executive Board here in Seoul to make available a drawing of SDR 300 million under the emergency assistance facility to give the Government and people of Mexico some special help toward rebuilding after the tragedy of the recent earthquake.

Finally, I welcome the text of the Convention for a Multilateral Investment Guarantee Agency which, despite many difficulties, has now emerged from the work of the Executive Board of the Bank.

I conclude by emphasizing three vital contributions which the industrial countries must make. First, to sustain the noninflationary growth of the world economy. Second, to allow the free export of investment capital to developing countries. Third, to resist protectionist pressures and keep their markets open to the exports of the developing countries and of each other.

UNITED STATES: JAMES A. BAKER, III

Governor of the Bank and Fund

It is a pleasure to be here for the Fortieth Annual Meetings of the International Monetary Fund and The World Bank. Strong, effective international financial institutions are as essential to our economic well-being today as they were 40 years ago.

Our host country, Korea, is a nation whose economic success is surpassed only by its warm hospitality. Korea's market-oriented approach and strong emphasis on private initiative are a lesson for us all.

Foundation for Growth

I would like to focus my comments today on policies for growth within the context of the international debt strategy. Sound policies and sustained, low-inflation growth in the industrial countries must provide the essential foundation for a successful debt strategy, and are a prerequisite for stronger growth in the debtor countries.

The major industrial countries have already made considerable progress in this direction. Two weeks ago in New York the Finance Ministers and Central Bank Governors of the Group of Five industrial nations underscored the progress which had been achieved, particularly with regard to the convergence of economic performance toward sustained, low-inflation growth. They also announced a set of policy intentions that will help to consolidate and extend that progress and to improve and sustain growth for the longer term.

We emphasized, for our own countries, the central importance of reducing structural rigidities, strengthening incentives for the private sector, reducing the size of government, and improving the investment environment. We also rededicated our governments to resisting protectionist pressures that threaten our own prosperity and the opportunities for others. We must jointly accelerate our efforts to launch a new round of trade negotiations within the GATT.

These industrial nations agreed that the significant progress already achieved in promoting a better convergence of their economic performance had not been fully reflected in exchange markets and that some further orderly appreciation of the main non-dollar currencies against the dollar was desirable. We expressed our willingness to cooperate more closely to encourage this when to do so would be helpful.

This package of measures had an immediate, significant impact on exchange markets which continues to be positive, and reflects the importance of the commitments made.

I am convinced that if each of the major industrial nations fulfills its policy intentions and maintains or improves access to its markets, we will have taken a major step toward more balanced and sustainable growth, while providing a solid framework for improving the debt situation in the developing world.

Strengthening the Debt Strategy

Fellow Governors, it is essential that we begin the process of strengthening our international debt strategy.

Three years ago the international financial community developed a flexible, cooperative, case-by-case strategy to address the debt problem and lay the basis for growth in the debtor nations. In three years:

—Aggregate current account deficits in developing countries have been sharply reduced from $104 billion in 1982 to $44 billion this year.

—Growth in developing countries has been restored to about 4 percent, compared to less than 2 percent in 1982.

—This growth has been fueled by sharp increases in developing nations' exports, including a 21 percent increase in their exports to the United States last year.

These developments reflect improved growth and sharply lower interest rates in the industrial nations, as well as adoption of improved policies within most debtor countries. These policies have been given important support by reschedulings and rollovers amounting to approximately $210 billion, and by net new commercial bank lending.

The international financial institutions have also played an important role in the progress that has been achieved. The IMF in particular has very capably played a leadership role, providing guidance on policies and temporary balance of payments financing, both of which have catalyzed commercial bank flows.

Despite this progress, some serious problems have developed. A number of principal debtor countries have recently experienced setbacks in their efforts to improve their economic situations, particularly with regard to inflation and fiscal imbalances, undercutting prospects for sustained growth. Bank lending to debtor nations has been declining, with very little net new lending anticipated this year. The sense of increasing reluctance among banks to participate in new money and debt rescheduling packages has introduced serious uncertainties for borrowers, in some cases making it more difficult for them to pursue economic reforms.

These problems need to be addressed, promptly and effectively, by building upon the international debt strategy in order to improve the prospects for growth in the debtor countries. This is an enterprise which will require, above all, that we work together and that we each strengthen our commitment to progress.

If the debt problem is to be solved, there must be a "Program for Sustained Growth," incorporating three essential and mutually reinforcing elements:

—First and foremost, the adoption by principal debtor countries of comprehensive macroeconomic and structural policies, supported by the international financial institutions, to promote growth and balance of payments adjustment, and to reduce inflation.

—Second, a continued central role for the IMF, in conjunction with increased and more effective structural adjustment lending by the multilateral development banks (MDBs), both in support of the adoption by principal debtors of market-oriented policies for growth.

—Third, increased lending by the private banks in support of comprehensive economic adjustment programs.

I want to emphasize that the United States does not support a departure from the case-by-case debt strategy we adopted three years ago. This approach has served us well; we should continue to follow it. It recognizes the inescapable fact that the particular circumstances of each country are different. Its main components, fundamental adjustment measures within the debtor nations and conditionality in conjunction with lending, remain essential to the restoration of external balance and longer-term growth.

We need to build upon the current strategy to strengthen its ability to foster growth. There must be greater emphasis on both market-oriented economic policies to foster growth and adequate financing to support it.

In essence, what I am suggesting is that adequate financing can be made available through a combination of private creditors and multilateral institutions working cooperatively, but only where there are reasonable prospects that growth will occur. This will depend upon the adoption of proper economic policies by the developing countries. Financing can only be prudently made available when and as effective policies to promote economic efficiency, competitiveness, and productivity—the true foundations of growth—are put in place. We cannot afford to repeat the mistakes of the past. Adjustment must continue. Adjustment programs must be agreed before additional funds are made available, and should be implemented as those funds are disbursed.

These efforts should be mutually reinforcing. Sound policies in the principal debtor countries will not only promote growth, but will also stimulate the needed private bank lending. And it will be important that these policies be supported by the IMF, complemented by the MDBs. These institutions can help encourage and catalyze both needed policies and financing.

In today's highly interdependent world economy, efforts at economic isolationism are doomed to failure. Countries which are not prepared to undertake basic adjustments and work within the framework of the case-by-case debt strategy, cooperating with the international financial institutions, cannot expect to benefit from this three-point program. Additional lending will not occur. Efforts by any country to "go it alone" are likely to seriously damage its prospects for future growth.

I would like to elaborate on the actions that will be required by each participant in this three-point program.

Structural Change in the Principal Debtors

The essence of the need for structural change in the principal debtors is captured in two quotations I would like to share with you.

First:

> "The only way to overcome our economic crisis is to tackle at their root the structural problems of our economy to make it more efficient and productive."[1]

And second:

> "Economic growth will have solid foundations only if we reestablish trust and stimulate private enterprise, which must be the flagship of our economic

[1]President de la Madrid at the Mexican Bankers Association Annual Meeting, July 22, 1985.

development. . . . We will promote authentic institutional change in the economic sector."[1]

These are not the words of a U.S. Secretary of the Treasury. They are statements made in July of this year by the Presidents of Mexico and Brazil. I believe they reflect a growing sentiment in Latin America.

It is essential that the heavily indebted, middle-income developing countries do their part to implement and maintain sound policies. Indeed, without such policies, needed financing cannot be expected to materialize. Policy and financing are not substitutes but essential complements.

For those countries which have implemented measures to address the imbalances in their economies, a more comprehensive set of policies can now be put in place, which promises longer-term benefits from stronger growth, higher standards of living, lower inflation, and more flexible and productive economies. These must not only include macroeconomic policies, but also other medium- and longer-term supply-side policies to promote growth.

We believe that such institutional and structural policies should include:

—increased reliance on the private sector, and less reliance on government, to help increase employment, production, and efficiency;

—supply-side actions to mobilize domestic savings and facilitate efficient investment, both domestic and foreign, by means of tax reform, labor market reform, and development of financial markets; and

—market-opening measures to encourage foreign direct investment and capital inflows, as well as to liberalize trade, including the reduction of export subsidies.

This broader approach does not mean that policy areas that have been the focus of efforts to date—in particular fiscal, monetary, and exchange rate policies—can receive less attention. Indeed, macroeconomic policies have been central to efforts to date and must be strengthened to achieve greater progress. These policies should consist of:

—market-oriented exchange rate, interest rate, wage, and pricing policies to promote greater economic efficiency and responsiveness to growth and employment opportunities; and

—sound monetary and fiscal policies focused on reducing domestic imbalances and inflation and on freeing up resources for the private sector.

The cornerstone of sustained growth must be greater domestic savings, and investment of those savings at home. Macroeconomic and structural policies which improve economic efficiency, mobilize domestic resources, and provide incentives to work, save, and invest domestically will create the favorable economic environment necessary for this to occur. Such an environment is also critical to attract supplemental foreign savings.

As a practical matter, it is unrealistic to call upon the support of voluntary lending from abroad, whether public or private, when domestic funds are moving

[1] President Sarney in a televised address to the nation, July 23, 1985.

in the other direction. Capital flight must be reversed if there is to be any real prospect of additional funding, whether debt or equity. If a country's own citizens have no confidence in its economic system, how can others?

There are essentially two kinds of capital inflows: loans and equity investments. Foreign borrowings have to be repaid—with interest. Equity investment, on the other hand, has a degree of permanence and is not debt-creating. Moreover, it can have a compounding effect on growth, bring innovation and technology, and help to keep capital at home.

We believe that the debtor nations must be willing to commit themselves to these policies for growth in order that the other elements of a strengthened debt strategy can come into place.

Enhanced Effectiveness of the International Financial Institutions

The international financial institutions must also play an important role in strengthening the debt strategy to promote growth. However, we must recognize that the international financial institutions cannot have sufficient resources to meet the debtor nations' financing needs all by themselves. An approach which assumes that the IMF and The World Bank are the sole answer to debt problems is simply a nonstarter. For most developing countries other sources must play a more important role. These include private sector borrowing, increased export earnings, foreign equity investment, and repatriation of capital which has fled abroad. All these routes should be pursued.

Among the international financial institutions, the IMF has played a major role in advising member nations on the development of policies necessary to promote adjustment and growth. There has been a particular focus on monetary, fiscal, and exchange rate policies, although increasing attention is being paid to other areas such as trade liberalization, pricing policies, and the efficiency of government-owned enterprises.

Emphasizing growth does not mean de-emphasizing the IMF. Through both its policy advice and balance of payments financing, the Fund has played a critical role in encouraging needed policy changes and catalyzing capital flows. It must continue to do so. But it must also develop new techniques for catalyzing financing in support of further progress. "Enhanced surveillance," for example, can sometimes provide an effective means of continued IMF involvement.

The Fund should give higher priority to tax reform, market-oriented pricing, the reduction of labor market rigidities, and to opening economies to foreign trade and investment. This will help assure that Fund-supported programs are growth-oriented. It will be particularly important for the Fund to work closely with The World Bank in this effort.

I would now like to turn more directly to the role of the MDBs, which need to be brought into the debt strategy in a stronger way, without diminishing the role still to be played by the IMF.

The World Bank, and indeed all MDBs, have considerable scope to build on current programs and resources, and to provide additional assistance to debtor nations which is disbursed more quickly and targeted more effectively to provide the needed stimulus to growth.

There is ample room to expand The World Bank's fast-disbursing lending to support growth-oriented policies, and institutional and sectoral reform. An increase in such lending can serve as a catalyst for commercial bank lending.

A serious effort to develop the programs of The World Bank and the Inter-American Development Bank (IDB) could increase their disbursements to principal debtors by roughly 50 percent from the current annual level of nearly $6 billion.

Increased disbursements would require greater borrowing by the MDBs in world capital markets. Their ability to borrow at low rates is a precious asset which must be preserved. Therefore, their lending must be in support of sound economic programs that enhance the borrower's ability to service its debt and grow.

It should be possible, with a concerted effort by both The World Bank and borrowers, to streamline World Bank operations in order to reduce considerably the time period required to formulate and implement such assistance programs. This will expedite the actual disbursement of funds.

The value and role of an indigenous, competitive private sector needs to be recognized and developed more fully than it has in the past. The Bank, for its part, should actively promote the development of the private sector and, where appropriate, provide direct assistance to this sector. In addition, the Bank should seek to assist, both in a technical and financial capacity, those countries which wish to "privatize" their state-owned enterprises, which in too many cases aggravate already serious budget deficit problems.

Given the importance of increasing commercial bank flows to the principal debtors, there is also an urgent need for efforts to expand the Bank's cofinancing operations. These efforts should be pursued vigorously to increase the effectiveness of the Bank in helping its borrowers to attract private finance, and should have substantial potential in the context of this three-point program.

The enhanced program of the International Finance Corporation, with an expanded capital base, and the recently negotiated Multilateral Investment Guarantee Agency (MIGA) are two important Bank Group initiatives in support of developing countries. Both organizations can do much to assist their members in attracting nondebt capital flows as well as critical technological and managerial resources. We urge all Bank members and particularly the principal debtors to give their full support to establishment of the MIGA.

If developing countries implement growth-oriented reform; if commercial banks provide adequate increases in net new lending to good performers; and if increased demand for quality IBRD lending demonstrates the need for increased capital resources, we would be prepared to look seriously at the timing and scope of a general capital increase.

We believe The World Bank's efforts can be supplemented actively by the regional development banks. Since some of the most serious debt problems are found in Latin America, special emphasis should be placed on strengthening the IDB's policies to enable it to be a more effective partner in support of growth-oriented structural reform.

In the case of an IDB capital increase, it will be critical to assess the extent to which the institution strengthens its lending policies. There must be well-defined economic and country strategies tailored to enhance economic reforms which encourage growth. Given a firm commitment by the IDB to move in this direction, we believe that it should be permitted to introduce a major program of well-targeted non-project lending. In the meantime, such lending could be associated with World Bank programs until the IDB has implemented the necessary reforms.

Increasing Lending by the International Banking Community

The international banking community has played an important role during the past three years. I am, however, concerned about the decline in net bank lending to debtor nations over the past year and a half, particularly those nations which are making progress. All of us can appreciate the commercial bank's concerns, but we believe these concerns would dissipate if the banks were confident that new lending is in support of policies for growth in the developing nations.

If creditor governments, in an age of budget austerity, are to be called upon to support increases in multilateral development bank lending to the debtor nations, and if the recipient nations are asked to adopt sound economic policies for growth to avoid wasting that financing, then there must also be a commitment by the banking community—a commitment to help the global community make the necessary transition to stronger growth.

Our assessment of the commitment required by the banks to the entire group of heavily indebted, middle-income developing countries would be net new lending in the range of $20 billion for the next three years. In addition, it would be necessary that countries now receiving adequate financing from banks on a voluntary basis continue to do so, provided they maintain sound policies.

I would like to see the banking community make a pledge to provide these amounts of new lending and make it publicly, provided the debtor countries also make similar growth-oriented policy commitments as their part of the cooperative effort. Such financing could be used to meet both short-term financing and longer-term investment needs in the developing countries, and would be available, provided debtors took action and multilateral institutions also did their part.

We would welcome suggestions from the banking community about arrangements which could be developed in order to ensure that adequate financing to support growth is available.

The Poorest Countries

Before concluding my statement, I would like to focus briefly on the problems of another set of debtor countries, the low-income debtors with protracted balance of payments problems. Special efforts are being made to assist these countries, but more can and should be done to improve their longer-term prospects.

The United States believes that the resources provided by the Trust Fund reflows provide a unique opportunity to help address the economic problems of the poorest countries with protracted balance of payments difficulties. Recent experience demonstrates that successful resolution of the economic problems of these countries requires a comprehensive approach, including fundamental structural policy changes, as well as sound macroeconomic policies.

The $2.7 billion in Trust Fund reflows present us with an opportunity to utilize IMF resources, possibly supplemented by funds from other sources, in support of such comprehensive economic programs. The effectivness of such programs would be enhanced by close cooperation between the Fund and Bank. In some cases, this could best be accomplished by a joint approach by the two institutions in support of comprehensive programs.

The United States is also prepared to consider a bolder approach, involving more intensive IMF and World Bank collaboration. We believe that this approach would help ensure that the institutions provide sound, mutually consistent advice on the full range of policies to promote growth.

The United States, which supported African countries with $1.7 billion in bilateral aid in 1985, would be prepared to consider seeking resources in support of such a far-reaching approach if other donors were prepared to make equitable contributions.

We recognize that some may have reservations about such an approach, viewing it as complicated and difficult to implement. I can understand some of those concerns, and believe they suggest the need for further reflection on certain aspects of this proposal. But, we cannot let parochial resistance or unfounded suspicions block an idea that can significantly help the poorest countries and strengthen ties between the Fund and the Bank. I urge you to give this approach further consideration during the months ahead.

Conclusion

In conclusion, much has been accomplished in the past few years in addressing the pressing economic problems of the early 1980s and preparing the foundation for future global growth. We must now join together to consolidate our progress in building stronger economies for the future.

Sound policies and growth in the industrial world can provide a solid foundation for strengthening and adapting the current international debt strategy. Let us not lose the present opportunity. I have proposed a three-point "Program for

Sustained Growth'' to provide renewed impetus for resolving the debt problem. We must not deceive ourselves. There are no easy solutions, and none of us can escape our responsibilities.

The principal debtor nations must make the hard policy decisions to restructure their economies. The commercial banks must provide adequate resources to support these efforts. The MDBs must increase the efficiency and volume of their lending.

Moving from proposal to implementation will be a demanding exercise and cannot be accomplished overnight. As we adapt our strategy, we must continue to look to the IMF as the catalyst for new financial flows. And with these new flows will come new hope.

We will be building on the efforts of the past. The needs are clearly recognized by borrowers and creditors alike. Fundamentally, there is no disparity of interest among our nations. We have a common interest in growth—sustained growth that rests on productivity, innovation, and investment. Let us begin our efforts now.

VENEZUELA: BENITO RAUL LOSADA

Governor of the Fund

I am honored today to speak on behalf of Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, the Philippines, Spain, Suriname, Trinidad and Tobago, Uruguay, and Venezuela.

Just a few weeks after the fortieth anniversary of the signing of the Articles of Agreement of the International Monetary Fund, which marked the beginning of a new era of economic and financial cooperation, the world economy is showing serious signs of uncertainty. Changes in the short- and medium-term outlook are at the root of these concerns. By this I mean the unceasing volatility of international exchange markets, the reversal of economic growth in the OECD countries, the restrictions hampering free international trade, and the difficulties imposed by the high external debt of the developing countries, particularly in Latin America. This picture, when compounded by the existence of a net flow of resources from the developing countries to the industrial countries, high real rates of interest, rising unemployment and the inadequacy of development financing, forces us to conclude that what is on the horizon is less than auspicious.

These phenomena are of special concern for Latin America. In the absence of encouraging prospects in the industrial countries, some Latin American countries will slide deeper into recession while the rate of growth will decline in others. As a consequence, and despite the adjustment efforts already made, the essential search for economic recovery will not only be rendered more difficult but will tend to be frustrated, in particular by the critical situation created by the debt and its negative impact on economic, political and social stability and on the future of democracy.

Latin America's efforts to deal with its crisis have emphasized adjustment programs that have required enormous sacrifices, in some cases reaching limits that could be considered intolerable and which call for the fullest understanding on the part of the multilateral institutions and the international financial community in general.

The economic adjustments in Latin America and in almost all the developing countries were initially based on policies to restrict aggregate demand, drastically reduce imports, modify exchange rates and slash the level of public spending in relative terms. The overall result was the restoration of certain balances in the macroeconomic accounts. But this came with unacceptable increases in unemployment, accompanied by high rates of inflation and general declines in the quality of life and standard of living in our countries.

The high social costs of these successes and the problems faced in maintaining them in the current economic climate make it necessary to take new approaches which, rather than generating progressive and dangerous economic, social and political damage, lead the way to self-sustaining economic growth. This approach, which has been referred to as "positive" economic adjustment, is oriented toward growth and toward reconciling the fulfillment of external obligations with the development that is required in order to ensure progress, both of the individual countries concerned and of the international financial system.

The processes of adjustment bear a direct relationship to what probably constitutes the major challenge to the international financial community. By this I mean the serious problem of debt, which has placed and for many years will continue to place a heavy burden on the stability of the financial system, with serious political and social consequences in all countries, especially those bearing the burden of the debt. While at various times there were some grounds for optimism about the possibility of finding a way out, the hopes that arose have been dashed since it has become clear that the basic problem persists, giving rise once again to worldwide concern.

Consequently, the challenge is to take urgent and concrete decisions that will ease the uncertainties about future financial stability. The crisis must be managed with firmness and within a context of close cooperation on the part of the debtor and creditor countries, the international banking community, and the multilateral financial institutions, in that it is becoming progressively more clear that all of them must play a decisive role in the process. It is essential that responsibility be shared by all parties concerned, which necessarily implies the existence of dialogue between the governments of the creditor and debtor countries. Although some flexibility has been achieved by restructuring debts, it has not been sufficient, and solutions have yet to be found to the problems raised by high interest rates and the banking community's disinclination to provide resources once again. The cooperation of which I speak is necessary so as to alleviate once and for all the burden of debt service, which in many cases is intolerable, and to make arrangements for taking into account the possibility of special situations arising because of accidental circumstances, *force majeure*, or significant economic changes that alter the bases on which agreements were reached.

In the difficult context described, international cooperation is essential for achieving sustained economic growth and generating employment. In this connection, it is an irritating paradox that while the Latin American countries, like the other developing countries, are making strenuous efforts to promote and increase their exports as a basic means for re-establishing their external equilibria, protectionist pressures on the part of the industrial countries are becoming increasingly evident. The paradox is all the greater since statements are made condemning this dangerous trend in all forums and in every official declaration, as the international community is well aware of the harm it can cause to all and the untenable situation it creates for our countries. We trust that the statements made by the Group of Five on this subject will be reflected in immediate and effective action.

It is also apparent that since the last Annual Meetings, and more recently since the Interim Committee met in April of this year, the terms of trade for our products have deteriorated; the prices of commodities, including those of oil and agricultural products, have fallen in the international markets. This drop, combined with the protectionist barriers, has aggravated our economic situation. Dismantling these barriers is, therefore, a vital necessity requiring firm action on the part of the international community. In the same way, cooperation requires that the developed countries pursue consistent policies that will lead to symmetrical adjustments and resumed growth of production and world trade. This context requires reduction of the U.S. budget deficit and, in other OECD member countries, expansionary policies that are noninflationary. The consequences for our countries would be positive and would make it possible to reverse the trend in the net transfer of resources to them, an essential prerequisite for their growth.

Before closing I would like to refer to the proposal formulated here by the U.S. Treasury Secretary, Mr. Baker, regarding a "Program for Sustained Growth" to help the debtor countries. We view with interest the presentation of a specific plan for joint action and consider that its features should be analyzed without delay. The plan put forward has some undeniable complexities that will require it to be developed in more detail, and it is to be hoped that the viewpoints of the debtor countries will be taken into account as its possibilities are explored.

To conclude, and using the same terms as the document of the Group of Twenty-Four, the countries I represent express their solidarity with the people of Mexico regarding the tragic earthquake that has caused so much loss of life and suffering, and call on the international community to furnish energetic assistance in order to ease the economic and financial pressures occasioned by this disaster.

On behalf of the same countries, I would like to thank the people of the Republic of Korea for their magnificent hospitality and the efficiency of their arrangements for the success of these meetings, and also to express our appreciation to Mr. de Larosière for his management and to wish Mr. Clausen, in view of the announcement he made here, every success in his future activities.

WESTERN SAMOA: TOFILAU ETI ALESANA

Governor of the Bank

Although the Governor for the Solomon Islands is addressing these Meetings on behalf of Vanuatu and Western Samoa, as Prime Minister of Western Samoa I am particularly anxious to make a brief intervention.

First, however, I would like to express my appreciation and admiration to the President and people of the Republic of Korea. Appreciation, for the generous arrangements they have made for these Meetings and all the courtesies extended. Admiration, for the success in rapidly developing the nation's economy, with consequential benefits to all. The economic development attained is a remarkable demonstration of what can be achieved, with careful planning, hard work, and financial and economic discipline.

I am delighted to welcome our closest South Pacific neighbor, the Kingdom of Tonga, in its membership of the Bank and the Fund. I feel sure that the many tangible benefits of membership, not the least of which is rapid access to a wide variety of high caliber technical advisory services, will bcome increasingly apparent over the years.

Western Samoa's experience with both the Bank and the Fund over our 14 years of membership has, on balance, been overwhelmingly positive. From our experience, the Fund's endorsement of an agreed stabilization program means much more than the financing made available. It is a signal of confidence to the country's bankers and creditors. . . .

. . . The innovations of the Bank in recent years in response to particular situations and problems are to be welcomed and commended. The continuation of a solid banking approach remains in the long-term interest of the borrower and the Bank. In our experience, the success of a project is usually closely related to adequate and careful planning, and to monitoring of implementation. The planning stage must be regarded as vital. Once a project has been soundly planned and agreed between the borrower and the Bank, ensuring its successful implementation must be of the highest priority. By requiring and assisting with high standards of initial project planning and monitoring of implementation, the Bank will, in a most practical way, assist with ensuring the success of the project.

Finally, I wish to express sincere appreciation for the dedication and fine work carried out by Mr. Clausen during his term of office. He can surely take great satisfaction from the fact that the results of his actions have had the effect of assisting the desperate plight of millions of people.

YUGOSLAVIA: VLADO KLEMENCIC

Governor of the Bank

It has been frequently stated over the past few days that the results of the world economy in 1985 were less favorable than expected, and that prospects for further development are uncertain. For developing countries as well, and particularly those burdened by external debts, 1985 is but one in a series of years in which they are facing stagnation in their economic development, high rates of unemployment, a decline in the standard of living, and accumulated social and political problems.

However, with enormous efforts, developing countries have achieved significant results in their economic adjustments. This particularly refers to improvements achieved in their foreign trade and current account balances, a more balanced supply and demand, and the introduction of numerous market criteria in their economies.

But developing countries can only accept adjustments conducive to overcoming crises through economic development, technological progress, increased exports, and a gradual rise in living standards. This is the only way to help solve their debt problems and accomplish a more balanced development of the world economy.

The current international financial system, including present external debt reorganization mechanisms, is not favorable for developing countries. We all know the difficulties which exports from developing to industrial countries have been facing. Less developed countries have experienced net outflows of financial resources over the last few years. Interest rates are still too high, international economic developments and financial flows are strongly influenced by some overvalued currencies, and by large budget deficits of industrial countries and slow structural adjustments in these countries.

Therefore, the international community should introduce changes and create new solutions, because the danger of further serious disruptions in the international monetary and financial system is gaining strength. Indebtedness not only affects normal financial flows, but may also bring into question the stability of the international and financial system.

Although we are aware that problems relating to indebtedness are also caused by the economic policies of developing countries, and that these countries should resume efforts to overcome economic difficulties, it is also important for the international community to find lasting solutions for the external debt problems of developing countries. Due to greatly needed structural changes, the introduction of multiyear reschedulings is of great importance. It will be necessary to consider solutions which would limit the level of annual repayments in proportion to export earnings. Solutions must be found for compensatory financing of a part of above-average high interest payments.

We repeat that obligations related to external debts are not at stake and stress the urgency of seeking solutions for debts through cooperation between debtor and creditor countries, international financial organizations and banks. Therefore, in their recent conference in Luanda, Angola, the nonaligned countries called for a political dialogue aimed at durable solutions to the debt problem.

We support this year's Group of Twenty-Four Report proposing solutions and directions of changes in the international monetary and financial system, which may significantly contribute to development financing and to the solution of the debt problem. They relate to the IMF symmetrical surveillance, curbing of protectionism, allocation of SDRs, quota increases, replenishment of IDA funds, a special facility for the Sub-Saharan Africa countries, and The World Bank general capital increase. Of special significance are the warnings relating to tightening of conditionality in the extension of financial assistance, in particular to cross-conditionalities in the IMF and The World Bank programs.

Decisions on these and other urgent matters should be taken regardless of our parallel proposal to discuss the reform of the world monetary and financial system. We support the establishment of a representative body from developing and industrial countries that would study and recommend changes in this system within the Interim and Development Committees.

Allow me to refer briefly to the efforts which Yugoslavia has been making to overcome its economic problems. The most significant result has been achieved in stabilizing our current balance of payments. Persistent current balance of payments deficits from the 1970s were converted into surpluses in the last two years. Our expectations are that 1985, for the third subsequent year, will end with a surplus. It is also significant that in both 1984 and 1985 a further rise of external debt was halted. The decline of output and its stagnation in the early 1980s was followed by a rise in the last two years. The first significant steps to strengthen financial discipline were also made. It would be erroneous, however, to underestimate the problem still to be overcome: primarily curbing inflation and increasing productivity.

Ladies and Gentlemen, I would like to thank Mr. Clausen who successfully conducted the World Bank in the recent years. We highly appreciate his contribution to the shaping of the development policies and financing for the developing countries.

I would like also to join the congratulations extended to our hosts for the successful organization of the Annual Meetings, and express our gratitude for their hospitality.

ZAIRE: LOMA OKITONGONO DJAMBOLEKA

Governor of the Bank and Fund

On behalf of the countries that make up the African Caucus, and personally as well, I would like to take this opportunity to express to the people, the President and the Government of Korea my heartiest congratulations and sincere gratitude for the warm welcome we have received and the outstanding organizational efforts made with a view to facilitating our work in this beautiful capital city of Seoul.

I wish also to congratulate the Chairman of these meetings on his selection to head our discussions.

Finally, on behalf of all the African delegates here, I would like to salute Mr. Clausen and Mr. de Larosière. In particular, I would like to express to Mr. Clausen the African countries' thanks for the sensitivity he has shown to the problems of our continent during his term of office. Under his leadership, Africa has benefited from, and continues to benefit from, a certain priority as regards the World Bank Group's assistance to developing countries. We cannot but regret Mr. Clausen's decision not to seek another term.

To the people of Mexico, recently the victims of violent earthquakes, I would like to express the complete sympathy of the African Governors. The African people have themselves been the victims of a number of natural disasters and are in a position to understand and properly appreciate the pain being endured by the Mexican people. The African Governors speak as one with the entire international community in expressing their solidarity under these trying circumstances with the Government and people of Mexico.

In examining the development of the world economic situation, some maintain that the recovery noted in a number of industrial countries over the past two years or so constitutes both the beginnings and the guarantee of economic recovery worldwide.

In large measure, however, Africa has not benefited from this recovery because most African countries are continuing to suffer from a heavy debt service burden that imposes various restrictions even as flows of resources are continuing to dry up and all other factors reflecting the degree of our well-being are developing unfavorably.

Despite optimistic forecasts, for 1985, which project a growth rate of 3.2 percent and a decline in the rate of inflation to 3.8 percent in the industrial countries, the possibility of lasting recovery is still jeopardized by the lack of policy convergence in the industrial countries.

Thus the problems attributable to high real interest rates, fiscal deficits, external payments imbalances, and unsustainable fluctuations in exchange rates, are with us still.

The international community must resolve all these issues if it is to create the conditions for a genuine recovery benefiting all countries.

I do not believe I exaggerate in stating that the current international economic order is more favorable to the industrial countries and that, since national economies are interdependent, it is up to the major industrial countries primarily to follow policies that will promote economic growth and stability throughout the world. In this connection, reducing the real interest rates that have significantly contributed to the debt service burden of the developing countries and stabilizing the exchange markets would constitute a first step toward improving the functioning of the international monetary system, a prerequisite for world economic recovery.

In the existing international economic order, the industrial countries are the driving force behind world economic growth. It is important that these countries play this role properly. We therefore call upon them to dismantle the protectionist barriers that are preventing many developing countries from benefiting fully from their comparative advantage in international trade.

It goes without saying that the exacerbation of protectionist practices aggravates the problems of servicing the external debt, reducing the chances that adjustment programs will succeed and slowing down economic growth in the developing countries.

It is in the interest of the world economy that the industrial countries take steps now to reduce obstacles to international trade.

In view of the growing importance of the external debt problem in recent years, it must rank high on the list of obstacles to recovery and economic growth. I wish especially to stress that the solution to this problem is the responsibility of all, and only by concerted action will one be found.

The developing countries have done and are continuing to do everything that has been and is required under their adjustment programs, many of which are supported by the Bank and the Fund. These programs have entailed reductions in imports, cutbacks in capital spending and declines over extended periods in the standard of living of the people. We Africans believe that the burden of adjustment ought not to be borne by the developing countries alone, not only for reasons of equity but also because international economic order and good economic sense indicate that, in view of the impact on the world economy of the economic policies of the major industrial countries, the only approach with any chance of success is that of solidarity.

For all these reasons, the industrial countries should move to restructure their economies.

In our opinion, this is the only approach that can harmonize structural adjustment, economic growth and the fight against poverty. We are convinced that sound management amounts to more than simply reducing balance of payments and budget deficits; it must entail special consideration of the improvement in living standards that can come only from economic growth and development and which constitutes a prerequisite for the proper application of adjustment policies.

Turning my remarks now to Africa in particular, there can be no doubt that its economic situation remains a source of serious concern. Affected by a persistent drought, some of the countries of Sub-Saharan Africa are battling relentlessly for the very survival of their populations. The somber picture of conditions on the African continent can be better illustrated by a few figures: in five years, the cumulative decline in real GDP has ranged from 10 to 12 percent while the standard of living has declined by more than 15 percent.

The African countries are conscious of the efforts of the international community in coming to their assistance and are grateful. However, they wonder if the same community is sufficiently aware of the gravity of this situation and of the political and social consequences of this crisis and the adjustments it requires.

It is not my intention to question the need for adjustments, but in view of this situation, which calls for a lasting, structural solution, our countries have doubts about the pace of execution of adjustment programs and about the general policy recommendations formulated within the context of these programs. Fund programs in particular lay too much stress on short-term aspects and on financial equilibrium while underplaying long-term restructuring. This is the consequence of an excessively narrow interpretation of the role of the Fund, which is running the risk of no longer meeting the needs of a large part of the international community, the majority of which is made up of developing countries.

What is desirable for our countries—and this view is largely shared by the other developing countries—is a better combination of adjustment programs with development efforts that involve inflows of the necessary resources from our partners.

In saying this, I am not in any way attempting to downplay the obligations of the African countries and shift all the responsibility for finding solutions onto the international community. We are fully aware of the crucial role that must be played by domestic reforms in order to turn the situation around.

But it is undeniable that the situation of the African countries makes substantial external support essential. This support must have an impact on the domestic production of essential goods and services and on the fight against poverty in order to ensure the success of domestic reforms. The countries of Africa face a situation marked by the scarcity of domestic resources and by a sizable amount of outstanding external payments. While the debt service ratio in other areas of the world is expected to stabilize or decline, it is climbing in the low-income African countries, a sign that debt service obligations are increasing more rapidly than the capacity to cover them.

The conclusion to be drawn from this state of affairs is obvious: more than ever, the problems of Africa call for a coordinated and integrated approach, not only on the part of the Bank and the Fund, but involving bilateral agencies as well.

This approach must be reflected in:

—increased flows of concessional development assistance and balance of payments assistance;

—an easing of the debt service burden, releasing ever larger amounts of resources for development; and

—increased investment, with net inflows of external resources.

I wish at this juncture to stress the need for institutionalizing multiyear rescheduling and for converting the public debt of the poorest countries into grant form.

The situation of our countries demands an improvement in the way our institutions, the International Monetary Fund and the World Bank group, function and contribute to promoting world economic recovery. . . .

. . . They share the positions espoused by the Group of 24 and support that Group's proposal to organize an international conference at which the developing countries would be full participants. The topics to be covered by this conference would include international liquidity, the creation and allocation of reserves, the participation of the developing countries in decision making at the Fund and the World Bank, and the means of increasing the stability of the exchange system.

I would like now to turn to the activities of the World Bank Group.

In recent years, the World Bank has been able to adapt its operations to the extremely difficult circumstances facing the borrowing countries. But we are greatly concerned by the reduction in the IBRD lending program for fiscal 1985 at a time when the developing countries, especially those in Sub-Saharan Africa, have a great need for additional resources to help them restructure their economies and restore their growth.

We therefore call upon the Bank to be imaginative and flexible in eliminating this downward trend in its operations, which is attributable in part to an increase in its conditionality. We believe that the Bank has the means and resources that will enable it to provide the developing countries with the external assistance they need. Only if it does can some of the African countries that have already embarked on difficult adjustment processes have any chance of succeeding.

In our view, it is both just and equitable for the international community to place particular stress on the development problems of Sub-Saharan Africa and to see to it that the announcement of priority accorded to this portion of the African continent becomes fact. For some of these countries, we are convinced, operations involving rapid disbursements under sectoral and subsectoral adjustment programs are every bit as important as structural adjustment loans proper.

The African Governors would like to thank the Bank's Management for the considerable efforts made to establish the Special Fund for Sub-Saharan Africa. They would also like to express their gratitude to all the donor countries that have contributed directly or indirectly to the creation of this Fund. Of course, the amount of this facility is clearly insufficient in view of the immense requirements of Sub-Saharan Africa, needs which have been aggravated by the drought. We therefore call upon other donor countries to join this vital effort, which stands as a proof of international solidarity in dealing with African problems on a priority basis. We strongly suggest, however, that the eligibility requirements and the other criteria associated with this facility be applied flexibly so as to avoid blocking out the very countries that need it and to ensure the smooth functioning of the Special Fund.

We are profoundly concerned by the negative attitude of certain donor countries with regard to multilateral concessional assistance. Such an attitude can only limit the effectiveness of institutions such as IDA and the African Development Fund, two important sources of aid for the least advantaged African countries. We are disturbed by the downward trend for IDA resources and stress that the amounts provided for under the Special Fund for Sub-Saharan Africa must not stand in the way of an increase in Africa's share in them; in no case should Special Fund resources take the place of other flows of official development assistance in favor of our region. It is in this spirit that we call for the earliest possible initiation of negotiations on IDA-8, and for the use of this approach to mobilize the resources necessary for overcoming the economic crisis in Africa on an urgent basis.

As you know, this crisis has been accentuated by the persistent drought. Its effects, combined with a world economic climate that remains unfavorable, have seriously impeded the development of certain African countries. In this connection, we wish to congratulate the international community and the Management of the World Bank, which were able promptly to extend assistance to member countries affected by the drought. We would also like to take this opportunity to thank the Secretary-General of the United Nations for having established a new office for emergency operations in Africa.

The fundamental and structural imbalances which exist in the majority of the African countries require the cooperation of our governments and the various institutions in finding long-term solutions to the problems of water supply, food production, grazing, livestock production, desertification and deforestation.

As regards the coordination of aid, we recognize the importance and necessity of ensuring better use of domestic and external resources. We are therefore following with interest the efforts under way to improve the coordination of financial flows to the African countries. In this connection, we are pleased by the creation of several consultative groups for some of the countries of our region. The major aim of aid coordination is primarily to mobilize additional resources for financing priority development programs.

The indebtedness problem of Africa is of particular concern because of its negative impact on the development of the region. Although Africa's debt is relatively small, the debt service burden has reached such proportions in recent years that it has simply become unbearable and seriously jeopardizes the continued pursuit of the policy reforms undertaken in several African countries. The drought and the decline in commodity prices have aggravated an already precarious situation. In view of the seriousness of the problems, we call upon the Fund, the World Bank and the international community to reply affirmatively to the recent call of the Heads of State and Government of the Organization of African Unity for an international conference on the external debt in order to give international creditors and African borrowers the opportunity to discuss the problem of Africa's external indebtedness and reach agreement on appropriate emergency measures for the short, medium, and long term, thereby contributing to the solution of the problem.

Despite the adjustment efforts made in the developing countries, there has been a considerable reduction in public and private capital flows to these countries. In order to increase flows to the developing countries, we support the creation of a Multilateral Investment Guarantee Agency. The various member countries will need more time to examine the draft agreement closely, and we hope that this agency will extend its support only to economically and technically sound projects.

We encourage the multilateral institutions, in particular the World Bank, to continue and intensity their efforts to mobilize and increase capital flows to the developing countries. The World Bank's activities involving cofinancing with commercial banks and export credit agencies have, overall, proved of great value to the borrowing countries. Cofinancing should always result in additional resources and take into account the development plans of member countries.

It is generally acknowledged that the possibilities open to the developing countries to obtain the external capital essential to finance their adjustment policies, inter alia from the commercial banks, have been uncertain in recent years. It is therefore necessary to intensity efforts to provide the multilateral institutions with sufficient resources to enable them to better meet the pressing and growing needs of borrowing countries. Discussions on the future role of the World Bank should therefore be placed in such a context.

In our opinion, given the present world economic climate, the World Bank should adopt new orientations and policies for the future with a view to enabling it more effectively to meet the needs of the borrowing countries. It should therefore be given the resources it needs for its efforts, this by the authorization of a general capital increase such that it will be possible to increase IBRD commitments in real terms during the 1990s.

As regards cooperation among the Bretton Woods institutions, we are concerned that such cooperation is going hand in hand with a reciprocal strengthening and hardening of the conditionality associated with the use of the resources of the World Bank and International Monetary Fund. Once again, we wish to stress the fact that we are strongly opposed to cross-conditionality. We call upon the managements of both institutions to take the steps necessary to avoid it.

As regards the African Development Bank Group, despite the vigorous support provided by the participating states in the operations of the African Development Fund last year, the fourth replenishment of that Fund's resources fell short of the desired levels for the 1985-1987 period. This year, the African Development Bank is making preparations for a general capital increase. We hope that the international community will react favorably and thereby enable that institution more effectively to respond to the priority needs of the African countries.

In conclusion, I would like once again to stress the fact that the economic crisis now facing Africa is truly unprecedented. The problems facing the African countries are in large measure the result of difficult international conditions, the effect of which is exacerbated by the natural disasters, including in particular the drought and desertification which our countries are continuing to experience. We have made many efforts to find solutions to our crisis. Recently, the Heads of State and Government of our African countries met in Addis Ababa. Their deliberations at this summit were focused on the examination of economic problems and the solutions to them, in particular in the areas of food, agriculture and the external debt.

Mr. Chairman, I have touched upon only some of the pressing problems which, to our way of thinking in Africa, can be resolved with the assistance of the International Monetary Fund, the World Bank and the international community as a whole. On behalf of the African Governors, I call upon the entire international community to provide the support necessary to implement measures aimed at promoting growth and stability in the most severely affected continent of all.

CONCLUDING REMARKS BY MR. CLAUSEN

We have had a very constructive week's work here at these Meetings. The nature of the economic and financial problems confronting the international community, and actions that must be taken to deal with them, have been fully articulated and frankly discussed. And, as you, the Governors, have consistently urged through this week, the time to act is now.

What, then, have we agreed to do?

We have agreed that the problems of the heavily indebted middle-income nations require an integrated plan of action for each country involving the four parties to the process—governments of the indebted nations, the multilateral financial institutions, the commercial banks, and the governments of the industrial nations. They must all agree on a strategy to solve the problems and then act in close collaboration to implement it. And each partner must bear his responsibility fully.

The governments of the indebted countries must continue their courageous commitment to and implementation of adjustment programs. After fiscal balance has been restored, structural change is essential if countries are to resume accelerated growth and restore creditworthiness. The multilateral financial intitutions, for their part, must strengthen their support of these second-phase programs of adjustment with growth. You expect the Bank to play a central role in helping this process forward with timely advice and with substantially increased financing. We will do this in close collaboration with the Fund as it continues to assist countries in the formulation of their fiscal, monetary, and exchange rate policies. We are encouraged that we can play this role by the strong endorsement of the Development Committee of our plans for a substantial expansion in the Bank's lending program, and its agreement that the Bank should be provided with the capacity to increase its lending unconstrained by lack of capital or borrowing authority to meet future demand.

The third partner in this integrated approach is the commercial banks. Their importance has been stressed repeatedly and I want to underline it again today. Their interest in a strong buoyant international economy and financial system is as strong as that of the other partners in this effort. And I am pleased that our conversations this week indicate that this view is shared by the banks, and they will participate with us in support of sound country programs.

The industrial world's governments constitute the fourth partner. I am delighted that Governors from these countries have strongly endorsed the need for an integrated approach to the debt problem of the middle-income countries. We look to each of these governments, then, to play its part by helping to sustain an adequate flow of financial resources by ensuring that regulatory agencies do not make it impossible for the commercial banks to expand their net lending modestly and prudently, and that their export credit agencies participate fully both in the rescheduling of debts and the provision of new funds in the support of agreed programs. The same partners must collaborate to help deal with the difficulties of the poorest developing countries in their struggle to lay the foundations of growth and alleviate their still excruciating poverty. The problems they face, especially in Sub-Saharan Africa, call for the international community's, most energetic and urgent attention. Governors have rightly applauded the growing numbers of governments of this troubled group of countries who are taking courageous steps to do what is within their power to do to solve these problems. But they, no more than the middle-income countries, can solve their problems by themselves. The international community must more determinedly assume the responsibility to help these nations do what they cannot do alone.

That is the spirit which must imbue the forthcoming negotiations for the Eighth Replenishment of IDA. We are much encouraged that agreement has been reached to launch these negotiations in January 1986. And we are equally encouraged by the calls of so many Governors for an increase in IDA's resources better reflecting its members' growing needs and its own ability to help them realize their great potential for growth. I believe you fully recognize IDA's crucial role. We urge you to enable IDA to play it. And IDA must play this role in coordination with increased flows from other sources, including bilateral assistance. We welcome the enhancement of EEC resources embodied in the Lomé III Convention and we look forward to a continued close cooperation with the EEC. Not only are more resources needed, resources must be used more efficiently. One central element in this is better aid coordination. We urge all donors to work with us, in individual countries, to strengthen aid coordination mechanisms so that our resources can be focused on the highest priority activities.

Mr. Chairman, at these Meetings we have sought to give new impetus to the specific actions we know must be taken to help the heavily indebted middle-income countries on the one hand, and the poorest nations on the other, to overcome their problems. But, as numerous Governors have confirmed in their statements, there are actions to be taken in the common interests of growth in both middle-income and low-income countries alike. You, the Governors, have spelled them out clearly: Sustained noninflationary growth in the industrial world, and, most especially, resistance to protectionist pressures and a rolling back of existing trade barriers. A commitment to strengthening and maintaining a liberalized trading system has been a constant theme at these Meetings, starting with President Chun's opening address, all the way through the week to these closing remarks. Your statements have spelled out the resolve. The resolve must now be translated into reality. Our hopes that this will be so have been lifted by the progress made recently in the GATT toward agreement on the launching of a new round of trade negotiations. But in the meantime it is vital that we resist further trade restricting measures. The adjustment policies advocated here are not limited to the developing countries. All countries must adjust in a growing and changing world economy. The liberalizing policies on which so many developing countries have embarked will fail if trade contracts. The debt problem is only soluble in an expanding world economy.

Another recurring feature of our discussions this week has been the clear recognition of the important role of the private sector in development. Support for IFC and its expanded role has been strong, and we are most appreciative of this. We are also greatly gratified by your approval for the opening for signature of the Convention establishing MIGA. Several Governors will sign the Convention already here in Seoul. Next week, the Convention will be transmitted to member Governments and the Government of Switzerland for signature. We hope soon to receive sufficient signatures to convene a preparatory committee which will work out MIGA's operational policies and we are confident that, in the course of time, MIGA will prove to be a very significant factor in the enhancement of international private investment.

Mr. Chairman, Governors, on a personal note, may I say how deeply appreciative I am of the warm words and generous praise you have addressed to me during this week. I see them as a reflection of your appreciation of what our institutions stand for, and what they have achieved. I treasure the honor you did me in inviting me to serve these institutions, and the opportunity you gave me in inviting me to make my own contribution to our common task of securing a better life in a better world for hundreds of millions of our fellow human beings.

But my efforts in your service are far from over. This week you have challenged us to address the global economic development problems we have discussed with even greater energy and determination. The coming months will be critical.

But you will not find us wanting for vigor and resolve. These efforts will be closely coordinated with yours. We are proud of our partnership with you, our shareholders, with our sister institution, the IMF, and with you, the bankers from the private sector. Let us strengthen this formidable partnership in the great cause of alleviating poverty, securing economic progress for all, and thus helping to build a peaceful world.

And now, Mr. Chairman, I wish to thank you wholeheartedly for the wise and skillful manner in which you have presided over and guided these Meetings. The way you have chaired these, our Fortieth Annual Meetings, has done great honor to our institutions, and we deeply appreciate it.

I offer my congratulations to the new Chairman of the Boards of Governors, the Governor for Colombia, on his election and wish him well in his year of office.

It only remains for me now to express once again our most profound appreciation to the President, the Government, and the people of the Republic of Korea for so magnificently hosting these Meetings here in Seoul. For all of us, your hospitality and friendship, and your exemplary collaboration in making these Meetings a success, will remain a most treasured memory.

I wish you all a safe journey home and, on behalf of The World Bank, assure you of a warm welcome to Washington for the 1986 Meetings.

CONCLUDING REMARKS BY THE CHAIRMAN THE HON. MAMOUDOU TOURE

During our joint discussions this week, Governors have underscored the point that all of us—the industrial and the developing countries, and the international institutions—have vital roles to play in achieving our foremost objective: sustainable economic growth throughout the world.

In their comments on the world economic situation, Governors noted with concern the slowing of growth in industrial countries in the first half of 1985, the decline in commodity prices, and the weakening of payments positions and growth prospects of many developing countries. These trends have complicated the difficult adjustment tasks of developing countries, especially the heavily indebted and poorest countries. Governors also underscored the existence of major uncertainties about the outlook for the world economy; these uncertainties arise from the persistence of fiscal imbalances, especially in countries that have a major impact on the world economy, the unsustainable pattern of current account positions of some major developed countries, weak commodity prices, and the fragility of the external position of many developing countries. Governors were unanimous in their concern about the dangers of protectionism; in that connection, they welcomed the steps and intentions announced recently by the Group of Five.

Governors agreed that industrial countries needed to take effective measures to correct the fiscal and external imbalances that endanger sustainable growth, and many Governors considered that other industrial countries that are in a position to do so should stimulate their economies in order to strengthen their contribution to sustaining world economic growth. At the same time, the developing countries must persevere in their efforts to promote the conditions required to achieve durable growth. It must be recognized, however, that many developing countries have already taken difficult steps to adjust their economies and that further adjustment by those countries will be greatly facilitated by satisfactory growth in the industrial world, a further decline in interest rates, adequate flows of official and commercial finance, and a reduction in trade barriers. Governors made it clear that such conditions are vital if the continued heavy debt burden of many developing countries is to prove to be manageable.

Many speakers pointed out that the debt problem is the responsibility of the entire international community. Thus, while the developing countries struggle to carry out adjustment programs and to service their debts, the industrial countries must maintain vigorous and open economies, as well as provide adequate financial assistance. If adjustment is to be successsful in the long term, it cannot be separated from the need to combat poverty and ensure growth. In this regard, the Bank and the Fund must take the initiative in helping to overcome debt problems. Indeed, the Development Committee has requested the Bank management to prepare for its next meeting a report dealing with how sustained growth can best be acheived in the heavily indebted countries. The Development Committee has also requested the Bank management to prepare a study focused on the resource problems of Sub-Saharan Africa for its next meeting.

There were some strong suggestions by Governors for a larger role to be played by the Bank, especially in assisting the debt-burdened nations. There appears to be a growing consensus that if the Bank is to play its assigned role in the coming years, a capital increase is absolutely necessary. Many Governors welcomed the successful launching over the past year of the Bank's Joint Program of Action for Sub-Saharan Africa. They expressed particular support for the establishment of the Special Facility for Sub-Saharan Africa. Moreover, the outlook for IDA-VIII negotiations and the size of the Eighth Replenishment itself seem far more encouraging than was the case for IDA-VII. Governors also strongly endorsed an expanded role for the International Finance Corporation (IFC) in stimulating the growth of the private sector in its developing member countries. In addition, the Governors took decisive action to establish a Multilateral Investment Guarantee Agency for the promotion of direct foreign investment flows to the developing countries. The convention establishing this new institution is now open for signing.

On the Fund side, there was unaninous agreement that, in light of the uncertainties about the world economic outlook and the serious difficulties still facing many countries, the enlarged access policy should be continued in 1986. Governors expressed strong support for using Trust Fund reflows to provide financing to the poorest countries that are willing to implement programs designed to achieve structural adjustment and growth in the medium term. This move, together with a sizable replenishment of IDA resources, would go part of the way toward meeting the poorest countries' need for external support of their arduous adjustment efforts. In this connection, cooperation between the Bank and the Fund in designing structural adjustment programs would be valuable, provided that there is no cross-conditionality. Many Governors reiterated the view that allocations of SDRs would help developing countries to meet their liquidity needs and would be fully consistent with the Fund's Articles of Agreement. Finally, a number of Governors said that they looked forward with interest to the results of the Executive Board's examination of the proposals contained in the reports on the international monetary system presented by the Group of Ten and the Group of Twenty-Four.

These objectives that were widely supported by Governors during our deliberations will not be easy to achieve. But we must make it clear that the international community is ready to take up the challenge. In that respect, we can feel somewhat reassured as we bring these Meetings to a close and return home with a greater awareness of the cooperative effort required of all of us.

There is no room for complacency about what needs to be done. The debt problem will continue to demand our constant and careful attention. And further initiative will be required to help alleviate the plight of Sub-Saharan Africa.

I want to thank all my fellow Governors for making my tenure as Chaiman as pleasant and as rewarding an experience as possible. I especially want to thank my capable Vice-Chairmen, the Governors for Canada and Ecuador. I would also like to extend my warm good wishes to the Governor for Colombia who is succeeding me in this office.

I want to express my deepest thanks to Mr. Tom Clausen, the President of the Bank, IDA, and IFC, who this week announced his intention to lay down his heavy burden at the end of his term in 1986. Mr. Clausen has guided the Bank and its affiliates with skill, imagination, and deep commitment through five of the most difficult and turbulent years since the establishment of the Bank. In his address to us last Tuesday, Mr. Clausen reminded us that the development process is a long-term proposition and added that he had no delusions that if he stayed at the Bank, the problems he would be bringing before us in the future would be any less daunting than they are today. I am confident I speak for all the Bank's member countries when I say that without Tom Clausen the problems facing us would have been much more daunting than they are today. Thank you, Mr. Clausen, for your tremendously hard work on our behalf and for the skill with which you carried out your task as President of the Bank, and we wish you great success in the future. We hope we will be able to take advantage of your wisdom in the years to come.

Finally, I want once again to express my gratitude to President Chun Doo Hwan and the Government and people of the Republic of Korea for their warm hospitality and for the excellent arrangements they have provided for our Meetings. I think all of us who have attended these Annual Meetings in this impressive city of Seoul now have a much clearer understanding and deeper appreciation of the "Korean miracle."

It only remains for me to wish you all a safe journey home, to bid you farewell, and to wish you every success in the year ahead.

COLOMBIA: RAMIRO ZAMBRANO CARDENAS

Temporary Alternate Governor of the Fund

As a member of the International Monetary Fund and The World Bank since their foundation, Colombia is honored to accept the chairmanship of the Forty-First Meetings of the two institutions, and views this as an honor for the developing countries in general and for the countries of Latin America and the Caribbean in particular.

On behalf of Dr. Hugo Palacios, Minister of Finance and Governor of The World Bank for Colombia, I wish to express his thanks, and those of my country, for the honor bestowed on us, to all the delegations that elected him to this high office, and particularly to the Latin American and Caribbean delegations, whose valuable assistance in securing this election deserves acknowledgement here. Through this election, the distinguished Governors and heads of delegations have expressed their faith in Colombia, and Colombia in turn has faith in the international community, in its financial institutions, and especially in The World Bank and the International Monetary Fund. These organizations, with their multilateral goals and objectives, perfect and complement bilateral relations; they have provided support for the development of the international community in the past and are making valiant efforts to continue and to expand this valuable support in the future, despite the difficulties of the present moment.

The Governor for Colombia, Dr. Palacios, my country's economic authorities now in office, and those to be taking office next August 7, following the general elections marking the 176th year of independence and democracy in Colombia, are now and will in future be prepared to fulfill the responsibilities growing out of Colombia's recent selection to chair the Meetings of the International Monetary Fund and The World Bank in 1986.

This will mark yet another step in the ongoing tradition of cooperation established by the 40 distinguished Governors who have chaired these Meetings in the past.

It is fitting at this time to express the gratitude of my country and my delegation to Mr. J. de Larosière, Managing Director of the International Monetary Fund, and Mr. A.W. Clausen, President of The World Bank, and their associates, and thank the authorities of the Republic of Korea for the excellent arrangements made and hospitality extended for these Meetings.

Finally, permit us to express our admiration and gratitude to Mr. A. W. Clausen, who will be stepping down from the presidency of The World Bank after five years of service to the international community, after having been a genuine banker to the developing world within that institution, and having evidenced singular dedication, talent, and creativity in that task. It would be appropriate at this the last gathering Mr. Clausen will attend as President of The World Bank and a gathering that he will long remember, as will we all, to extend these public thanks and to express the sincere gratitude of the Government and people of the Republic of Colombia.

From the moment of his official designation, the Governor for Colombia will fully assume his responsibilities as Chairman of the Forty-First Annual Meetings of the International Monetary Fund and The World Bank.

DOCUMENTS OF THE BOARDS OF GOVERNORS

SCHEDULE OF MEETINGS[1]

Tuesday October 8	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 October 9	9:30 a.m.	—Annual Discussion
	3:00 p.m.	—Annual Discussion
Thursday October 10	9:30 a.m.	—Annual Discussion
	3:00 p.m.	—ICSID Administrative Council[2]
	5:30 p.m.	—Joint Procedures Committee
Friday October 11	9:30 a.m.	—Annual Discussion Joint Procedures Committee Reports Comments by Heads of Organizations Adjournment

[1] *All sessions were joint sessions with the Boards 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.

PROCEDURES 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 Members.

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 February 13, 1985 pursuant to the By-Laws, IBRD Section 5(d), IFC Section 4(d) and IDA Section 1(a).*

BANK AGENDA[1]

1. 1984/85 Annual Report
2. Financial Statements and Annual Audit
3. Allocation of Net Income
4. Administrative Budget
5. Joint Development Committee
6. Multilateral Investment Guarantee Agency
7. Officers and Procedures Committee for 1985/86

IFC AGENDA[1]

1. 1984/85 Annual Report
2. Financial Statements and Annual Audit
3. Administrative Budget

IDA AGENDA[1]

1. 1984/85 Annual Report
2. Financial Statements and Annual Audit
3. Administrative Budget

[1] *Approved on August 2, 1985 pursuant to the By-Laws, IBRD Section 5(a), IFC Section 4(a), and IDA Section 1(a).*

JOINT PROCEDURES COMMITTEE

Chairman	Senegal
Vice Chairmen	Canada
	Ecuador
Reporting Member	Iceland

Other Members

Cameroon	Qatar[1,2]
Dominican Republic	Saudi Arabia
France	Sri Lanka
Germany	Swaziland
Indonesia	Syrian Arab Republic
Italy	Turkey
Mexico	United Kingdom
New Zealand	United States
	Yemen Arab Republic

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[1] *Not a member of IFC*
[2] *Not a member of IDA*

REPORT I[1]

October 11, 1985

At the meeting of the Joint Procedures Committee held on October 10, 1985, the items of business on the agenda of the Boards of Governors of the Bank, IFC, and IDA were considered.

The Committee submits the following report and recommendations on Bank and IDA business:

1. *1985 Annual Report*

The Committee noted that the 1985 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 1985 Bank and IDA Annual Report, together with the Report dated August 19, 1985.

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 1, 1985 on the Allocation of FY85 Net Income. . . .[3]

The Committee recommends that the Board of Governors of the Bank adopt the draft resolution. . . .[4]

4. *Multilateral Investment Guarantee Agency*

The Committee considered the Report of the Executive Directors of the Bank dated September 12, 1985, on the Convention Establishing the Multilateral Investment Guarantee Agency. . . .[5]

The Committee recommends that the Board of Governors of the Bank adopt the draft Resolution attached to the said Report.

The Committee submits the following report and recommendations on IFC Business:

1. *1985 Annual Report*

The Committee noted that the 1985 Annual Report and the activities of IFC had been discussed at these Annual Meetings

[1]*Report II related to the business of the Fund*
[2]*See pages 243 and 254*
[3]*See page 255*
[4]*See page 243*
[5]*See page 256*

2. *Financial Statements, Annual Audit, and Administrative Budget*

The Committee considered the Financial Statements and the Accountants' Report contained in the 1985 Annual Report, and the Administrative Budget attached to the Report dated August 19, 1985.

The Committee recommends that the Board of Governors of IFC adopt the draft resolution. . . .[1]

Approved:

/s/ Mamoudou Toure	/s/ Johannes Nordal
Senegal—*Chairman*	Iceland—*Reporting Member*

This Report was approved and its recommendations were adopted by the Boards of Governors on October 11, 1985. With reference to Item 4 of the Report, the Secretary of the Bank reported that the Governor for India and the Governor for Venezuela, who stated that he was speaking also on behalf of Argentina, Brazil, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Nicaragua and the Philippines, wished the record to show that they were abstaining on the Resolution.[2]

[1]*See page 249*

[2]*By memorandum dated October 11, 1985, Mr. Kenneth Coates, the Executive Director for Peru, requested that Peru be included in the list of countries presented by the Governor for Venezuela as abstaining on this Resolution.*

REPORT III

October 11, 1985

The Joint Procedures Committee met on October 10, 1985 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 1985/86*

The Committee recommends that the Governor for Colombia be Chairman and the Governors for India and Norway 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 Meeetings, 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: Algeria, Barbados, Bolivia, Burma, Colombia, Congo, France, Germany, Guinea-Bissau, Hungary, India, Japan, Jordan, Luxemburg, Norway, Rwanda, Saudi Arabia, Somalia, Trinidad and Tobago, United Kingdom, United States, and Western Samoa.

It is recommended that the Chairman of the Joint Procedures Committee shall be the Governor for Colombia, and the Vice Chairmen shall be the Governors for India and Norway, and that the Governor for Germany shall serve as the Reporting Member

Approved:

/s/ Mamoudou Touré	/s/ Johannes Nordal
Senegal—*Chairman*	Iceland—*Reporting Member*

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[1]*See page 261*

RESOLUTIONS ADOPTED BY THE BOARD OF GOVERNORS OF THE BANK BETWEEN THE 1984 AND 1985 ANNUAL MEETINGS

Resolution No. 402

Direct Remuneration of Executive Directors and their Alternates

RESOLVED:

THAT, effective July 1, 1985, 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, $77,900 per year for Executive Directors and $65,200 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), $9,000 per year for Executive Directors and $7,200 per year for their Alternates.

(Adopted August 2, 1985)

Resolution No. 403

Membership of the Kingdom of Tonga

WHEREAS the Government of Tonga 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 Tonga, 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 Tonga 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, Tonga shall subscribe to 14 shares of the capital stock of the Bank at par.

3. *Membership in the Fund:* Before accepting membership in the Bank, Tonga shall accept membership in and become a member of the International Monetary Fund.

4. *Payment on Subscription:*
   (a) Before accepting membership in the Bank, Tonga 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.

5. *Representation and Information:* Before accepting membership in the Bank, Tonga 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 6(d) and (e) of this resolution and Tonga shall furnish to the Bank such information in respect of such action as the Bank may request.

6. *Acceptance of Membership:* Tonga shall become a member of the Bank with a subscription as set forth in paragraph 2 of this resolution as of the date when Tonga shall have complied with the following requirements:
   (a) become a member of the International Monetary Fund;
   (b) made the payments called for by paragraph 4 of this resolution;
   (c) furnished the representation, and such information as may have been requested, pursuant to paragraph 5 of this resolution;

(d) 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

(e) signed the original Articles held in the archives of the Government of the United States of America.

7. *Limitation on Period for Acceptance of Membership:* Tonga may accept membership in the Bank pursuant to this resolution until December 31, 1985, or such later date as the Executive Directors may determine.

8. *Additional Subscription on Terms and Conditions of General Capital Increase Resolution:*

(a) Tonga may subscribe up to 13 shares of the capital stock of the Bank subject to adjustment as provided in paragraph 8(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 8(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 Tonga to the same extent as if the subscription authorized by paragraph 8(a) of this resolution had been authorized under paragraph 2 of the General Capital Increase Resolution.

9. *Additional Subscription on Terms and Conditions of Additional Capital Increase Resolution*

(a) Tonga 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 to capital stock pursuant to pararaph 9(a) of this resolution 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 September 6, 1985)

RESOLUTIONS ADOPTED BY THE BOARD OF GOVERNORS OF THE BANK AT THE 1985 ANNUAL MEETING

Resolution No. 404

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 1984/84 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 October 11, 1985)

Resolution No. 405

Allocation of Net Income

RESOLVED:

1. THAT the Report of the Executive Directors dated August 1, 1985 on "Allocation of FY85 Net Income" is hereby approved;

2. THAT the Bank transfer by way of grant $150 million to the International Development Association out of the net income of the Bank for the fiscal year ended June 30, 1985, such transfer to be made at a time and in a manner decided by the Executive Directors;

3. THAT the Bank transfer by way of grant $150 million out of the net income of the Bank for the fiscal year ended June 30, 1985, to the Special Facility for Sub-Saharan Africa, established by Resolution No. 85-1 of the Executive Directors of the International Development Association of May 21, 1985, and administered by the International Development Association, such transfer to be made at a time and in a manner decided by the Executive Directors; and

4. THAT the allocation of the balance of the net income of the Bank for the fiscal year ended June 30, 1985 to the General Reserve is hereby noted with approval.

(Adopted October 11, 1985)

Resolution No. 406

Multilateral Investment Guarantee Agency

WHEREAS the Executive Directors of the Bank have

(a) recommended the establishment of a Multilateral Investment Guarantee Agency to enhance the flow to developing countries of capital and technology for productive purposes by (i) issuing guarantees against non-commercial risks and (ii) carrying out promotional activities, and

(b) formulated a draft Convention Establishing the Multilateral Investment Guarantee Agency which, in their view, provides a suitable legal framework for the operations of such Agency and has the most favorable prospects of being widely accepted by the members of the Bank;

NOW THEREFORE the Board of Governors hereby resolves as follows:

1. The Convention establishing the Multilateral Investment Guarantee Agency . . .[1] and the Commentary on this Convention . . .[1] are hereby approved for transmittal to the member Governments of the Bank and the Government of Switzerland;

2. Governments are invited to consider signature of the said Convention in view of the benefits expected to ensue from the Multilateral Investment Guarantee Agency to their countries and to economic development in general;

3. The President of the Bank shall transmit a copy of the said Convention and Commentary to each member of the Bank and to Switzerland;

4. The President and the Vice President and General Counsel of the Bank shall sign a copy of the said Convention on behalf of the Bank to indicate the Bank's agreement to fulfill the functions with which it is charged under the said Convention;

5. The copy of the Convention so signed on behalf of the Bank shall remain deposited in the archives of the Bank and shall be open for signature on behalf of Governments in accordance with the terms of the said Convention; and

6. The President of the Bank shall, upon the signature of the Convention by the minimum number of countries whose ratification is required for its entry into force, convene a committee of the signatory states to prepare for consideration by the Council or the Board of the Multilateral Investment Guarantee Agency, as the case may be, draft bylaws, rules and regulations as shall be

[1] *The texts of the Convention Establishing the Multilateral Investment Guarantee Agency and the Commentary on this Convention have been published separately.*

required for the initiation of the Agency's operations and shall provide the committee with such necessary services as may be required for this purpose.

(Adopted October 11, 1985)

Resolution No. 407

Resolution of Appreciation

RESOLVED:

That the Governors of the International Bank for Reconstruction and Development and its affiliates, and of the International Monetary Fund, express their deep appreciation to President Chun of the Republic of Korea and to the Government and people of Korea and the city of Seoul for their gracious reception and warm hospitality;

That they express their gratitude for the excellent facilities made available for the Meetings in Seoul; and

That they express particular appreciation to the Governor and Alternate Governor for Korea and to their associates for the many contributions which they made toward ensuring the success of the 1985 Annual Meetings.

(Adopted October 11, 1985)

RESOLUTIONS ADOPTED BY THE BOARD OF GOVERNORS OF IFC BETWEEN THE 1984 AND 1985 ANNUAL MEETINGS

Resolution No. 145

Membership of the Hungarian People's Republic

WHEREAS the Government of the Hungarian People's 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 Hungarian People's 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 Hungarian People's 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 Hungarian People's Republic shall subscribe to 1,364 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 Hungarian People's Republic shall pay $1,364,000 to the Corporation in full payment of the capital stock subscribed.

4. *Information:* Before accepting membership in the Corporation, the Hungarian People's Republic shall furnish to the Corporation such information relating to its application for membership as the Corporation may request.

5. *Acceptance of Membership:* The Hungarian People's 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 Hungarian People's 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 Hungarian People's Republic may accept membership in the Corporation pursuant to this resolution until December 27, 1985, or such later date as the Board of Directors may determine.

(Adopted February 15, 1985)

Resolution No. 146

Membership of the Kingdom of Tonga

WHEREAS the Government of Tonga 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 Tonga, 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 Tonga 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, Tonga shall subscribe to nine 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, Tonga shall pay $9,000 to the Corporation in full payment of the capital stock subscribed.

4. *Information:* Before accepting membership in the Corporation, Tonga shall furnish to the Corporation such information relating to its application for membership as the Corporation may request.

5. *Acceptance of Membership:* Tonga shall become a member of the Corporation with a subscription as set forth in paragraph 2 of this resolution, as of the date when Tonga shall have complied with the following requirements:
(a) become a member of the International Bank for Reconstruction and Development;
(b) made the payment called for by paragraph 3 of this resoluton;
(c) furnished such information as may have been requested by the Corporation pursuant to paragraph 4 of this resolution;
(d) 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
(e) signed the original Articles held by the International Bank for Reconstruction and Development.

6. *Limitation on Period for Acceptance of Membership:* Tonga may accept membership in the Corporation pursuant to this resolution until December 31, 1985, or such later date as the Board of Directors may determine.

(Adopted September 20, 1985)

RESOLUTIONS ADOPTED BY THE BOARD OF GOVERNORS OF IFC AT THE 1985 ANNUAL MEETING

Resolution No. 147

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 1984/85 Annual Report, and the Administrative Budget attached to the Report dated August 6, 1985, 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 October 11, 1985)

Resolution No. 148

Resolution of Appreciation

RESOLVED:

That the Governors of the International Bank for Reconstruction and Development and its affiliates, and of the International Monetary Fund, express their deep appreciation to President Chun of the Republic of Korea and to the Government and people of Korea and the city of Seoul for their gracious reception and warm hospitality;

That they express their gratitude for the excellent facilities made available for the Meetings in Seoul; and

That they express particular appreciation to the Governor and Alternate Governor for Korea and to their associates for the many contributions which they made toward ensuring the success of the 1985 Annual Meetings.

(Adopted October 11, 1985)

RESOLUTIONS ADOPTED BY THE BOARD OF GOVERNORS OF IDA BETWEEN THE 1984 AND 1985 ANNUAL MEETINGS

Resolution No. 135

Membership of the Hungarian People's Republic

WHEREAS the Government of the Hungarian People's Republic (hereinafter called Hungary) 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 Hungary has expressed its intention to seek legislative approval to make resources available to the Association under the Seventh Replenishment as set forth in the Report of the Executive Directors to the Board of Governors entitled "Additions to IDA Resources: Seventh Replenishment," dated May 24, 1984; and

WHEREAS, pursuant to Section 9 of the By-Laws of the Association, the Executive Directors, after consultation with representatives of the Government of Hungary, have made recommendations to the Board of Governors regarding the application of Hungary for admission to membership in the Association;

NOW, THEREFORE, the Board of Governors hereby

RESOLVES:

THAT the terms and conditions upon which Hungary 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) "Ft" means forint in currency of Hungary.
   (d) "$" means dollars in currency of the United States of America.
   (e) "Seventh Replenishment Resolution" means Resolution No. 132 of the Board of Governors adopted on August 6, 1984.
2. *Terms and Conditions of Membership:*
   (a) The terms and conditions of the membership of Hungary 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 the original members listed in Part II of Schedule A thereof.
   (b) Upon accepting membership in the Association, Hungary shall make resources available to the Association in the form of a subscription in

the amount of Ft 454,071,000 (equivalent to $10,000,000 at the IMF representative exchange rate of January 13, 1984).

(c) Hungary shall, in respect of such subscription, have 41,009 votes, calculated on the basis of 11,100 membership votes plus 29,909 subscription votes.

(d) Payment of such subscription shall be made on the same basis, and the rights and obligations of the Association and Hungary with respect to such subscription shall be on the same terms and conditions, as provided in paragraphs 7(c), 14 and 15 of the Seventh Replenishment Resolution for the resources made available by Part II members under the Seventh Replenishment.

3. *Acceptance of Membership:* Hungary shall become a member of the Association as of the date when Hungary shall have complied with the following requirements:

(a) deposited with the Association a notification, as provided in Section F of the Seventh Replenishment Resolution, that Hungary 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;

provided, however, that the membership of Hungary in the Association shall not become effective until the Seventh Replenishment of the Association's resources shall have become effective in accordance with the provisions of Section F of the Seventh Replenishment Resolution.

4. *Limitation on Period for Acceptance of Membership:* Hungary may accept membership in the Association pursuant to this resolution until December 27, 1985, or such later date as the Executive Directors of the Association may determine.

(Adopted February 15, 1985)

Resolution No. 136

Membership of the Kingdom of Tonga

WHEREAS the Government of Tonga 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; and

WHEREAS, pursuant to Section 9 of the By-Laws of the Association, the Executive Directors, after consultation with representatives of the Government of Tonga, 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 Tonga 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) "Dollars" or "$" means dollars in currency of the United States of America.

2. *Initial Subscription:*
   (a) The terms and conditions of the membership of Tonga 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 (including, but not by way of limitation, the terms and conditions relating to subscriptions, payments on subscriptions, usability of currencies and voting rights).
   (b) Upon accepting membership of the Association, Tonga shall subscribe funds in the amount of $70,000 expressed in terms of United States dollars of the weight and fineness in effect on January 1, 1960.
   (c) Before accepting membership in the Association, Tonga shall make all payments on its initial subscription which would have been payable on or before the date of acceptance had it become a member of the Association as an original member listed in Part II of Schedule A of the Articles.

3. *Acceptance of Membership:* Tonga shall become a member of the Association with a subscription as set forth in paragraph 2(b) of this resolution as of the date when Tonga shall have complied with the following requirements:
   (a) become a member of the International Bank for Reconstruction and Development;
   (b) made the payments called for by paragraph 2 of this resolution;
   (c) deposited with the International Bank for Reconstruction and Development an instrument stating that it has accepted in accordance with its laws 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 International Bank for Reconstruction and Development.

4. *Limitation on Period for Acceptance of Membership:* Tonga may accept membership in the Association pursuant to this resolution until December 31, 1985, or such later date as the Executive Directors of the Association may determine.

5. *Additional Subscriptions:* Upon or after acceptance of membership, Tonga shall also be authorized at its option to make the following additional subscriptions:

(a) An additional subscription in the amount of $8,456 which shall carry 9,641 votes and be subject to the following terms and conditions:

(i) Payment of such additional subscription shall be made in the currency of Tonga within 30 days after Tonga notifies the Association of its intention to make such additional subscription.

(ii) The rights and obligations of the Association and Tonga with regard to such additional subscription shall be the same (except as otherwise provided in this resolution) as those which govern the 90% portion of the initial subscriptions of original members payable under Article II, Section 2(d) of the Articles by members listed in Part II of Schedule A of the Articles, provided, however, that the provisions of Article IV, Section 2 of the Articles shall not be applicable to such subscription.

(b) A further additional subscription in the amount of $625 which shall carry 1,225 votes, calculated on the basis of 1,200 membership votes and 25 subscription votes. The rights and obligations of the Association and Tonga with regard to such further additional subscription shall be the same as those which are applicable to the subscriptions authorized for Part II members under Section E of the Seventh Replenishment Resolution (No. 132) adopted by the Board of Governors on August 6, 1984.

(Adopted September 20, 1985)

RESOLUTIONS ADOPTED BY THE BOARD OF GOVERNORS OF IDA AT THE 1985 ANNUAL MEETING

Resolution No. 137

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 1984/85 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 October 11, 1985)

Resolution No. 138

Resolution of Appreciation

RESOLVED:

That the Governors of the International Bank for Reconstruction and Development and its affiliates, and of the International Monetary Fund, express their deep appreciation to President Chun of the Republic of Korea and to the Government and people of Korea and the city of Seoul for their gracious reception and warm hospitality;

That they express their gratitude for the excellent facilities made available for the Meetings in Seoul; and

That they express particular appreciation to the Governor and Alternate Governor for Korea and to their associates for the many contributions which they made toward ensuring the success of the 1985 Annual Meetings.

(Adopted October 11, 1985)

REPORTS OF THE EXECUTIVE DIRECTORS OF THE BANK

Allocation of Net Income

1. The Bank's net income available for allocation for the fiscal year ended June 30, 1985 is estimated at $1,137 million. A net translation adjustment due to exchange rate changes of $222 million has been charged directly to the General Reserve. As of June 30, 1985, the Special Reserve created under Article IV, Section 6 of the Bank's Articles of Agreement totalled $293 million and, without regard to the 1985 fiscal year's income, the General reserve amounted to $3,727 million. Total reserves including accumulated net income therefore amounted to $5,157 million, of which the $293 million in the 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, 1985.

3. The Executive Directors have considered what portion of that net income should be allocated to the General Reserve. The Executive Directors have concluded that that part of such net income which is not necessary to retain in the Bank's business amounts to the equivalent of $300 million. They have further concluded that the interests of the Bank and its members would best be served by the transfer by way of grant of $150 million thereof to the International Development Association and of $150 million thereof to the Special Facility for Sub-Saharan Africa administered by the International Development Association, also as a grant.

4. The Executive Directors have allocated the balance of such net income to the General Reserve.

5. As far as drawings on the transfers are concerned, the attached draft Resolution provides that the transfers would be made at a time and in a manner decided by the Executive Directors.

6. Accordingly, the Executive Directors recommend that the Board of Governors approve the present Report and adopt the draft Resolution. . . .[1]

This report was approved and its recommendations were adopted on October 11, 1985.

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[1]*See page 243*

Report of the Executive Directors on the Convention Establishing the Multilateral Investment Guarantee Agency

I

1. The Executive Directors of the Bank have formulated a Convention Establishing the Multilateral Investment Guarantee Agency (MIGA) with a view to enhancing the flow of capital and technology for productive purposes to developing countries. They recommend that the Board of Governors adopt a Resolution which would open the Convention for signature by members of the Bank and Switzerland. This action by the Executive Directors does not, of course, imply that the governments represented by the individual Executive Directors are committed to take action on the Convention, nor would an affirmative vote by a Governor on the Resolution imply such a commitment.

2. The action of the Executive Directors has been preceded by extensive preparatory work, as detailed in paragraphs 3 to 5 below. The Executive Directors are satisfied that the Draft Convention provides a suitable legal framework for the operations of the MIGA and that the prospects for the Convention being widely accepted by members of the Bank are favorable.

II

3. The present Bank initiative for establishing a multilateral investment guarantee agency originated with Mr. Clausen's address to the Bank's Board of Governors at the Annual Meeting in September 1981. Mr. Clausen suggested that the possibility of creating a multilateral investment guarantee agency which would assist in mobilizing additional investment capital for the developing countries should be explored and that the Bank should facilitate this effort.

4. After consultations on issues related to the establishment of a MIGA with representatives of some member governments, national insurance agencies, the private insurance market and the international business community, Bank staff prepared a preliminary report which concluded that further discussions were warranted. In August 1982, the Executive Directors agreed, on the basis of this report, that staff should continue to examine the feasibility of establishing a MIGA within the framework or under the auspices of the World Bank Group with a view to submitting a progress report or reports and, as soon as practicable thereafter, a final report on the matter. As directed, the major issues were examined by the staff; Staff Studies were submitted to the Executive Directors in June 1983 and discussed in December of that year. In the Spring of 1984 a paper, "Main Features of a Proposed Multilateral Investment Guarantee Agency," embodying a specific proposal for a multilateral investment guarantee scheme, was presented to and discussed with the Executive Directors. As a result of these discussions, a draft Outline of the Convention Establishing the Multilateral Investment Guarantee Agency was circulated to Executive Directors in October, 1984. This draft served as a basis for consultations which were conducted with member governments from October 1984 to March 1985. Meetings were held

with individual member governments or with groups of them; views of other member governments were obtained through Executive Directors. Consultations were also held with international organizations and with business and professional associations. The draft Convention was revised in light of these consultations and a new draft was submitted to Executive Directors in March of this year. In April, there were two further developments. The Development Committee at its meeting in Washington, D.C., after expressing agreement that "private direct and portfolio investment could make useful contributions to development" and that "[s]uch flows can be promoted by improving the policy environment toward foreign investment in both developing and industrial countries," encouraged the Bank "to hold further discussions in order to reach an understanding among governments for the creation of MIGA on a voluntary basis." In addition, the Executive Directors decided that the text of the proposed Convention should be discussed in depth by them in a Committee of the Whole before it was considered by the Board of Executive Directors. The Board would then formally refer the Convention to the Board of Governors with its recommendations.

5. Twenty sessions of the Committee of the Whole were held in Washington between June and September 1985 (June 10-14; July 18-19; August 6-7; and September 5). In the Committee, Executive Directors were assisted by experts from member governments and by a drafting team from the Bank's Legal Department. On September 5, 1985, the Committee agreed on the text of a draft Convention for submission to the Executive Directors who met in a formal session on September 12, 1985, and agreed to submit a draft Resolution to the Board of Governors for its approval.

III

6. The Bank's initiative to establish the MIGA is all the more timely due to the dramatic decline in private capital flows to developing countries. From a level of about $17 billion in 1981, foreign direct investment in developing countries fell to some $12 billion in 1982 and to approximately $8 billion in 1983. Against this background there has been a renewed interest in the positive role that can be played by foreign investment in developing countries in assisting the resumption of economic growth. In this context, the idea of removing obstacles to international investments and improving investment conditions has gained a new momentum. As discussed in greater detail below, the MIGA is designed to remove barriers to foreign investment and thus to stimulate the flow of resources to developing countries.

IV

7. The objective of the MIGA is to encourage the flow of resources to its developing members by issuing guarantees, as well as coinsurance and reinsurance, against non-commercial risks and by carrying out complementary activities such as the dissemination of information on investment opportunities and the provision of advice and technical assistance to its member governments. The

MIGA is expected to provide an important forum for policy cooperation between capital-importing and capital-exporting countries.

8. In its operations, the MIGA would cooperate with and complement national investment insurance schemes as well as regional entities and the private insurance market. Arrangements for coinsurance and reinsurance are expected to be among the cooperative endeavors with these entities.

9. The Agency would basically cover four broad categories of noncommercial risks: (a) the transfer risk resulting from host government restrictions on conversion and transfer; (b) the risk of loss resulting from legislative action or administrative action or omission of the host government which has the effect of depriving the investor of his ownership, control, or substantial benefit from his investment; (c) the risk resulting from the repudiation of a contract by the host government when the investor has no access to a competent forum, faces unreasonable delays, or is unable to enforce a final judgment; and (d) the war and civil disturbance risk.

10. The funding requirements of the MIGA are to be met through a combination of capital subscriptions and sponsorship. The Convention provides for an initial capitalization of SDR one billion, with a paid-in portion of 20 percent (10 percent in cash and 10 percent in promissory notes) and a callable portion of 80 percent. All members would subscribe to the capital in accordance with their present allocations in the authorized capital of the World Bank. The maximum amount of guarantee that could be issued on the basis of this capital would initially be one hundred and fifty percent of the amount of the subscribed capital plus reserves and a portion of reinsurance cover. This risk-asset ratio could over time rise to a maximum of 5 to 1. In addition, the MIGA, as administrator, could issue guarantees on the basis of "sponsorship" by members. Under this supplementary operation, which would be totally separate from the operations of the MIGA on its own account, sponsoring members would share pro rata in any losses which cannot be met through the "Sponsorship Trust Fund" financed by premiums paid by sponsored investors. It should be emphasized that, in both cases, the MIGA would be expected ultimately to operate at no cost to its members, financing itself from its own revenues.

11. Upon payment or agreement to pay compensation to an insured investor, the MIGA would be subrogated to such rights or claims as the investor might have had against the host country. Disputes between a host country and the Agency as a subrogee of an investor would be settled in accordance with either (i) the procedure set out in Annex II to the Convention (which provides for the settlement of disputes by negotiation and, failing negotiation, by international arbitration or, if the parties agree, by conciliation) or (ii) a bilateral agreement to be entered into between the MIGA and the members concerning methods of settlement of disputes related to guaranteed investments before the Agency begins its guarantee operations in the territory of that member.

12. The MIGA's basic structure would be patterned after other international financial institutions, notably the Bank and International Finance Corporation.

13. The MIGA would have full juridical personality and function autonomously. It would have, however, an organizational link with the Bank in that the President of the Bank would be *ex officio* Chairman of the MIGA Board of Directors and, in that capacity, would nominate MIGA's President.

14. Oversight of the MIGA would be shared by the two Categories of States mentioned in Schedule A of the Convention for purposes of subscriptions and voting. The voting structure of the Agency ensures equality of voting power between the two groups when all eligible countries become members of the MIGA. Because of the gradual accession of countries to MIGA membership, arrangements for a 3 year transition period would serve as protection for the rights of the minority.

15. Membership in MIGA would be open to all members of the World Bank and to Switzerland. MIGA would become operational upon ratification of the Convention by five Category One countries and fifteen Category Two countries, provided that the total subscriptions of these countries amounted to at least one-third of MIGA's authorized capital, i.e., SDR 333 million.

V

16. The Bank's role in establishing the MIGA is consistent with its mandate as defined in Article I of its Articles of Agreement. It complements current Bank Group efforts—such as cofinancing and the expanding activities of the International Finance Corporation—to channel international investment to developing countries. In view of the benefits expected to result from the operations of the MIGA, the Executive Directors recommend that the Board of Governors adopt the draft resolution[1] which:

(a) Provides for approval of the Convention establishing the MIGA and of the Commentary on the Convention for transmittal to the member Governments of the Bank and the Government of Switzerland;
(b) Invites governments to sign the Convention;
(c) Directs the President of the Bank to transmit a copy of the Convention and Commentary to members of the Bank and Switzerland and directs the President and the Vice President and General Counsel of the Bank to sign a copy of the Convention to indicate the Bank's agreement to fulfill the functions with which it is charged under the Convention;
(d) States that the Convention signed by the Bank will be deposited in the archives of the Bank and will be open for signature; and
(e) Directs the President of the Bank to convene a preparatory committee of signatories of the Convention prior to its entry into force to prepare for consideration by the MIGA Council or Board the draft documents necessary for the initiation of MIGA operations.

This report was approved and its recommendation was adopted on October 11, 1985.

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[1]*See page 244*

REPORT OF THE CHAIRMAN OF THE DEVELOPMENT COMMITTEE

October 7, 1985

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 1984-June 1985. 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 1984-June 1985)

I. *INTRODUCTION*

1. This is the eleventh 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 1984 to June 1985.

2. During the year under review, the Committee considered a number of critical international economic issues of importance to the developing countries. These issues relating to capital flows of various types, trade and the promotion of development, the future role of the World Bank and Sub-Saharan Africa were discussed extensively. The agendas for the Committee's meetings sought to focus on these important development issues in an effort to improve understanding of these issues by developed and developing countries, promote international consensus and facilitate action in appropriate bodies at the national and international level.

3. The Committee held three meetings during the year. The first meeting was in Washington, D.C. on September 23, 1984 at the time of the Annual Meetings of the Boards of Governors of the Bank and the Fund. This was followed by a procedural meeting on September 26, 1984 for the selection of a new Chairman, after the election of Members on the basis of the Fund constituencies. The Committee selected His Excellency Ghulam Ishaq Khan, Minister of Finance, Commerce and Economic Coordination of Pakistan, as Chairman for another term. The other meeting during the year—an extended meeting—was also held at Washington, D.C. on April 18-19, 1985.

4. The Committee focused its attention, in the year under review, on the development problems of Sub-Saharan Africa, the structural and developmental constraints to economic growth of developing countries within a medium- to long-term framework and the future role of the Bank. The major developmental aspects discussed were the structure of capital flows (both private and official, as well as concessional and non-concessional), and trade and protectionism. Consideration of the topic "Future Role of the Bank" was initiated at the September 1984 meeting and extensively discussed at the April 1985 meeting.

II. *COMMITTEE CONSIDERATION OF MAJOR DEVELOPMENT ISSUES DURING THE YEAR JULY 1984–JUNE 1985*

A. *Economic Situation and Prospects Facing the Developing Countries in 1985*

5. The Committee had discussions on major development issues facing the developing countries in the perspective of reports and papers presented by the World Bank and the Fund on the current world economic situation and the prospects for the world economy. These served as documents for meetings of the Committee during the year. In particular, the Bank's World Development Report 1984 and the Fund's World Economic Outlook provided valuable general background. For the April 1985 meeting, extensive background material for the various subjects was prepared by the staff of the Bank and the Fund. The Committee also had the benefit of written statements presented by some observer organizations.

6. The background documents indicated that following widespread recession of 1981-82 the world economy had now revived with a recovery which had strengthened and spread in 1984. Growth in industrial countries averaged 4¾ percent while inflation rates continued to decline and average growth rate for the developing countries reached the level of 3¾ percent. The developing countries also effected a marked improvement in their overall current account position, largely the result of an 8 percent increase in exports in volume terms.

7. Despite these encouraging results, the reports indicated several areas of concern. Many industrial countries faced large fiscal and balance-of-payments imbalances and high interest rates. Continued high levels of unemployment in many industrial countries added to pressures for trade protectionism. Among developing countries, few had made the transition to a sustainable growth path. In particular, the economic situation in Sub-Saharan Africa continues to be a matter of great concern with the expected negative growth in per capita income. For the major debtor countries in Latin America, many of these countries would be able to recover rapidly if world trade continued to expand, rates of interest to decline and appropriate economic and financial policies were pursued.

8. The conclusion of these reports is that policy changes need to be implemented by both the industrialized and developing countries over the next few years if the basis of sustainable growth is to be established in the world economy. The Committee, at its meeting in April 1985, was encouraged by the strengthening of the world economy over the last two years and welcomed the progress made by many indebted developing countries in restoring normal relations with their creditors. However, it noted that debt servicing difficulties, exacerbated by high interest rates, remained for a significant number of countries and stressed that continued adjustment was needed in both industrial and developing countries within the limits of social and political tolerance.

B. *Development of Sub-Saharan Africa*

9. The critical situation of Sub-Saharan Africa was discussed at each of the meetings of the Committee since April 1984, in light of the grim economic prospects for the region, exacerbated by severe drought conditions with dire social and human effects. Special attention was given to Sub-Saharan African problems at the September 1984 meeting of the Committee when a report by the World Bank entitled "Toward Sustained Development: A Joint Program of Action" was presented to the Committee. At the previous meeting the Bank/IDA management had undertaken to prepare a program for Africa to guide the Bank and the international community in helping Sub-Saharan Africa deal with its severe human, social and economic problems. The Action Program prepared by the Bank proposed a package of actions consisting of the design and implementation of national development programs and adjustment policies by African Governments, increased donor support with enhanced flexibility for these programs, improved donor coordination and actions to maintain net capital flows to Sub-Saharan Africa at least at the 1980-82 levels in real terms.

10. At its September 1984 meeting, the Committee endorsed the proposed action program in the Bank's report, underlining the need for complementary actions by African Governments, bilateral donors and international organizations for its implementation. The World Bank was requested to take a leadership role in strengthening aid coordination efforts and in exploring with donors ways to mobilize the resources needed for the Program. A progress report by the World Bank on the implementation of the Joint Program of Action for Sub-Saharan Africa was considered by the Committee at its April 1985 meeting. The Committee noted the successful consultations which the Bank had conducted with donors at a meeting in Paris on January 31, 1985 and welcomed the agreement that had been reached with 14 governments for the establishment of a Special Facility for Sub-Saharan Africa for some US$1.2 billion. In recognition of the fact that the Facility could only meet a portion of the large financial needs of the region, donors were encouraged to increase their efforts to provide additional flows of concessional resources and to contribute to the Facility, directly or indirectly. The impressive Governmental and private response to the emergency needs of the region was welcomed by the Committee. Noting the special problems of Sub-Saharan countries with debt servicing difficulties, the Committee encouraged official creditors, on a case-by-case basis, to take into account the long-term nature of these countries' problems; debtors should pursue appropriate policies and donors provide adequate flows of aid.

C. *Medium- and Longer-Term Setting for Developing Countries' Growth*

11. As agreed at its previous meeting in September 1984, the Committee reviewed the medium- and longer-term setting for developing countries' growth.

Adjustments undertaken by many of these countries based on flexible arrangements by international lenders (both private and official), and economic reforms introduced by debtor countries had eased the problem. But the debt problem of many countries remained. The Committee noted that debt servicing difficulties had become more serious from high interest rates. The Committee concluded that the restoration of creditworthiness required continued adjustment efforts, supported by financial flows, improved market access and multiyear rescheduling arrangements in appropriate cases.

D. *Trade and the Promotion of Development*

12. In view of the importance of expanding world trade for economic growth and the development of the developing countries, the Committee continued extensive discussions on the links between trade and development which had been initiated in April 1983. The Committee had presentations at its meetings by the Director-General of the GATT on trade policy developments. It was noted from background papers that the trading environment has slipped from a trend towards free trade until the late 1970s to a situation of increasing protectionist pressures. In spite of some limited initiatives, the onset of world recovery had not led to an easing of protectionist pressures, indeed they seemed to have increased. Action to reduce protectionism was important to structural adjustment in both industrial and developing countries. The proliferation of non-tariff barriers was harmful to the multilateral trading system and impeded the growth prospects of all countries.

13. The Committee called for a strengthening of the role of GATT in promoting an open trading system. Governments were urged to resist protectionism and, as far as feasible, roll back existing barriers to trade and remove measures inconsistent with GATT. The Committee also supported efforts to carry forward the unfinished business of the 1982 GATT work program which could lay the basis for a general participation of all countries in another trade negotiations round. The Committee took note of the fact that a number of countries have agreed to participate in a new round of multilateral trade negotiations and that full participation would be encouraged by improvements in market access for the developing countries.

E. *Medium- to Long-Term Capital Flows*

14. At its meeting in September 1984, the Committee agreed to discuss, at an extended meeting in Spring 1985, the structure of capital flows and obstacles to direct investment and equity capital flows, within a medium- to long-term framework. Against the background of papers prepared by the Bank and the Fund, the Committee held discussions on Official Development Assistance, Foreign Equity Investment, Export Credits and Commercial Bank Lending.

15. The critical importance of concessional flows to help support important

economic reforms aimed at improving the long-term growth prospects in low-income developing countries was stressed. It was also noted that the 1980-83 period marked the first downturn in total net ODA flows, although there was a marginal increase in OECD countries' flows. While attention was being focused on providing emergency and long-term development assistance to Sub-Saharan Africa, the constraints on future concessional flows to Asian countries from IDA was significant. Issues relating to ODA are being considered in depth by the Development Committee's Task Force on Concessional Flows, which will present its report to the October 1985 meeting of the Committee. At the Spring 1985 meeting, the Committee underlined the high priority of increased ODA flows for low-income countries and requested the management of IDA to initiate consideration of a range of possibilities for addressing the needs of poor countries for concessional resources. The management of IDA was also requested by the Committee to carry-out a mid-term review of IDA-7.

16. A background paper on direct and portfolio investment suggests that these types of investments have the potential for increased financial flows to developing countries. The package of management skills, technical knowledge, marketing connections, as well as capital could make a significant contribution to development. It was recognized, however, that given the small present size of these flows, a significant increase cannot by itself offset a decline in other private flows to developing countries. The Committee considered that flows of private direct and portfolio investment for development could be stimulated by an improvement in the policy environment toward foreign investment in both developing and industrial countries. Note was accordingly taken of the proposal being developed by the World Bank for the creation of a Multilateral Investment Guarantee Agency (MIGA) which would provide guarantees against non-commercial risks and seek to improve the investment environment in developing countries. The Bank was encouraged to hold further discussions with governments toward the establishment of MIGA on a voluntary basis.

17. The Committee discussed the role of export credits in its contribution to development. A background paper pointed out that medium and long-term export credits have formed a key element of financial flows to developing countries, especially to lower-income countries with limited access to other flows of private long-term capital. However, there has been a sharp decline since 1981 in the net flow of medium and long-term export credits to developing countries, particularly to low-income countries in Africa. In noting the importance of officially guaranteed export credits, the Committee agreed that steps should be taken to enhance the developmental impact of such credits through cooperation between the developing countries and export credit agencies with the World Bank and the Fund.

18. The Committee noted the uncertainties in commercial flows to the developing countries in the changing world economic situation. Following a decade of a sharp increase in growth, spontaneous commercial bank lending to developing countries has declined continuously since 1982. Commercial bank financing was

linked in many countries to debt rescheduling arrangements in close collaboration with the national authorities of creditor countries and the Fund. Such efforts have put several of these countries in a position to re-establish normal financial relationships with the commercial banks. Accordingly, a background paper noted that this approach favored the resumption of spontaneous commercial lending to countries experiencing balance-of-payments difficulties. It was also noted that by careful monitoring of the adjustment and development process in borrowing countries and support for policy reform, international institutions, particularly the Fund and the World Bank, can facilitate the flow of private bank lending.

F. *Future Role of The World Bank*

19. The Committee discussed the future role of The World Bank. In April 1985, the Committee reviewed a Bank background paper summarizing the informal discussions on this subject in the past year in the Executive Board of the Bank, and endorsed the broad consensus reached in these discussions on the Bank's direct and catalytic roles. The Bank's direct contribution by investment should remain the "mainstay" of the Bank operations in future years, as well as the commitment to assist governments alleviate poverty. The Bank is also seen as playing a catalytic role in exercising a constructive influence on the overall flow of capital and technical assistance of the developing countries.

20. Against this consensus on the qualitative aspects of the future role of the Bank, the Committee called for an expansion in the Bank's lending program so as to be responsive to the needs of its borrowers and stimulate capital flows from other sources. In this connection, the management of the Bank was requested by the Committee to present five-year lending projections in a report to its next meeting in October 1985 in Seoul. This report should set out the resource implications of the projected lending program, with a view to reaching an early consensus on the future financial requirements of the Bank, including the possibility of a General Capital Increase.

G. *Task Force on Concessional Flows*

21. The Task Force on Concessional Flows, set up by the Committee in May 1982 to conduct an in-depth study of the problems affecting the volume, quality and effective use of concessional flows, under the Chairmanship of Professor John Lewis of Princeton University, held three meetings in the year under review in Venice, Italy, in July 1984, at Princeton University, U.S.A., in February 1985, and in Arusha, Tanzania in May 1985. The discussions focused on issues related to aid effectiveness, aid volume, and the mandate for aid; i.e., the degree of political support for aid in donor countries. These three broad subjects formed the terms of reference of the Task Force. A number of studies on the effectiveness of aid had been undertaken by a team of independent consultants under the direction of Professor Robert Cassen of the Institute of Development Studies at

the University of Sussex. Professor Lewis made an interim report on the work of the Task Force at the September 1984 Development Committee meeting. The final report of the Task Force will be presented to the meeting of the Committee in October 1985 at Seoul.

H. *Changes in the Procedures of the Committee*

22. With the decision of the September 1984 meeting to hold an extended meeting of the Committee in April 1985 on a wide range of international economic issues, steps were taken to modify the procedures of the Committee with a view to improving the effectiveness of the discussions. The structure of the meeting was organized with a plenary session for statements by Members and the major part of the meeting devoted to informal sessions. So as to strengthen the dialogue between Members, participation at the informal session was restricted to the Member for the constituency supported by three Associates, one of whom being an Executive Director. The objective was to create a suitable ambience for a free and open exchange. The format for these discussions proved generally successful. In their communique, Members expressed the view that the deliberations were constructive, informative, and productive and thus agreed to continue the process at future meetings of the Committee.

23. In introducing the new procedures of the Committee, there was close collaboration with the Interim Committee with a view to similar procedures being adopted in both committees for the April meeting. Efforts were also made to coordinate consideration in both the Interim and Development Committees of the issues on their agendas, so as to avoid duplication of discussion. A joint dinner for Members of the Development Committee and the Interim Committee as well as a joint press conference were held.

Members of the Committee

Member	*Countries*
1. His Excellency Sheikh Mohammed Abal-Khail Minister of Finance and National Economy Saudi Arabia	Saudi Arabia
2. The Honorable James A. Baker III Secretary of the Treasury Department of the Treasury United States of America	United States
3. His Excellency Pierre Beregovoy Minister of Economy, Finance and Budget France	France
4. His Excellency Uffe Ellemann-Jensen Minister for Foreign Affairs Denmark	Denmark, Finland, Iceland, Norway, Sweden
5. The Honorable Giovanni Goria Minister of the Treasury Italy	Greece, Italy, Malta, Portugal
6. His Excellency Frans Grootjans Vice-Prime Minister, Minister of Finance, and Minister of Middle Classes Belgium	Austria, Belgium, Hungary, Luxembourg, Turkey
7. His Excellency Ghulam Ishaq Khan[1] Chairman of the Senate Pakistan	Bahrain, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Pakistan, People's Democratic Republic of Yemen, Qatar, Somalia, Syrian Arab Republic, United Arab Emirates, Yemen Arab Republic
8. His Excellency Abdellatif Jouahri Minister of Finance Morocco	Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Morocco, Tunisia
9. The Honourable Paul J. Keating Treasurer Australia	Australia, Korea, New Zealand, Papua New Guinea, Philippines, Seychelles, Solomon Islands, Vanuatu, Western Samoa
10. His Excellency Abdoulaye Kone Minister of Economy and Finance Ivory Coast	Benin, Cameroon, Burkina Faso, Cape Verde, Central African Republic, Chad, Comoros, Congo, Djibouti, Equatorial Guinea, Gabon, Guinea-Bissau, Ivory Coast, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, Sao Tome and Principe, Senegal, Togo, Zaire

11. The Right Honorable Nigel Lawson, M.P. Chancellor of the Exchequer United Kingdom	United Kingdom
12. His Excellency H.O. Ruding Minister of Finance Netherlands	Cyprus, Israel, Netherlands, Romania, Yugoslavia
13. His Excellency Carlos Raphael Silva Minister of State, President Fondo de Inversiones de Venezuela Venezuela	Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, Venezuela
14. The Honourable Vishwanath Pratap Singh Minister of Finance India	Bangladesh, Bhutan, India, Sri Lanka
15. The Honorable Arifin M. Siregar Governor Bank of Indonesia Indonesia	Burma, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Nepal, Singapore, Thailand, Viet Nam
16. The Honorable Onaolapo Soleye Minister of Finance Nigeria	Botswana, Burundi, Ethiopia, The Gambia, Guinea, Kenya, Lesotho, Liberia, Malawi, Nigeria, Sierra Leone, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe
17. His Excellency Francisco X. Swett Minister of Finance Ecuador	Brazil, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, Trinidad and Tobago
18. His Excellency Noboru Takeshita Minister of Finance Japan	Japan
19. His Excellency Wang Bingqian State Counselor and Minister of Finance China	China
20. His Excellency Juergen Warnke Federal Minister for Economic Cooperation Germany	Germany
21. The Honorable Michael H. Wilson Minister of Finance Canada	Antigua and Barbuda, Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Christopher and Nevis, St. Lucia, St. Vincent
22. His Excellency Ricardo Zerbino Minister of Economy and Finance Uruguay	Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay

[1]*His Excellency Ibrahim Abdul Karim, Minister of Finance and National Economy, Bahrain, served as Alternate Member to permit His Excellency Ghulam Ishaq Khan to serve as Chairman.*

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 reelected 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 Elías, 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 for Finance, Commerce, Planning and Coordination of Pakistan, as the new Chairman of the Committee.

5. Following the resignation of Mr. Hans E. Kastoft, Executive Secretary, the Committee at its twenty-third meeting held on April 13, 1984, appointed Mr. Fritz Fischer as its new Executive Secretary. Mr. Fischer assumed charge of his duties with effect from July 1, 1984.

6. 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. It is expected to present its Final Report in October 1985.

7. The organizations listed below were official observers to the Development Committee during 1984-85. 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 23, 1984

1. Development of Sub-Saharan Africa
2. Linkages Between Trade and the Promotion of Development
3. Status Reports:
   (a) Future Role of the World Bank
   (b) IDA Supplementary Fund
   (c) IFC Capital Increase
   (d) Oral Report from the Chairman of the Task Force on Concessional Flows
4. Annual Report of the Committee
5. Other Business

Agenda of Development Committee Meeting, September 26, 1984

1. Adoption of Provisional Agenda
2. Selection of Chairman
3. Press Announcement
4. Other Business

Agenda of Development Committee Meeting, April 18 and 19, 1985

1. Medium- and longer-term setting for developing countries' growth, including, inter alia, global financial conditions and external indebtedness[1]

[1] *In order to avoid duplication in the proceedings, it should be noted that the subject of the world economy in the medium-term will have been discussed in the Interim Committee.*

2. Policy issues related to medium- and long-term capital flows (including private direct investment and equity flows, ODA, export credit flows, and commercial bank flows)
3. Trade policy issues, protectionism and development
4. The Future Role of the World Bank and the nature and scope of its operations
5. Sub-Saharan Africa—progress report on the World Bank's Action Program
6. Other Business

ACCREDITED MEMBERS OF DELEGATIONS AT 1985 ANNUAL MEETINGS

Algeria □

Governor
Mohamed Terbeche

Alternate Governor
Badreddine Nouioua *

Advisers
Habib Djafari
Habib Hakiki
M'hamed Oualitsene
Saad Zerhouni

Antigua and Barbuda □○

Governor
Ludolph Browne

Alternate Governor
Cecil Jacobs

Argentina

Governor
Mario S. Brodersohn

Alternate Governors
Horacio A. Alonso *
Ernesto Feldman *
Eduardo A. Zalduendo *

Advisers
Raul Baglini
Juan Jose Burlet
Felix Alberto Camarasa ††
Alejandro Casiro
Alfredo V. Chiaradia
Santiago Del Puerto
J. Julio Dreizzen
Hector Luis Ferraro
Juan Manuel Figuerero
Pedro Oscar Fiorito
Santiago J. Galindez
Mrs. Beatriz Harretche
Rodolfo Martelli
Rodolfo Martin Saravia
Daniel Merino
Fernando L. Nebbia
Juan Manual Peire
Domingo Romano
Jesus Sabra
Veirgilio Tedin Uriburu
Arturo Valles Bosch
Mario Alejandro Weitz

Australia

Governor
Christopher Hurford

Alternate Governors
Laurence Corkery *
R.A. Johnston *

Advisers
William Bowen
Ronald H. Dean †
Len Early
R.Q. Freney
D.J. Kelleher
Ian Robinson
Jeremy Webb
R.J. Whitelaw

Austria

Governor
Franz Vranitzky

Alternate Governor
Hans Heller

Advisers
Karl Krammer
Heiner Luschin
Peter Moser
Klaus Muendl
Ms. Maria Pilz

Bahamas □○

Governor
Sir Lynden O. Pindling

Alternate Governor
James H. Smith *

Advisers
Edgar N. Hall
Bert Sherman

Bahrain □○

Governor
Ibrahim Abdul Karim

Alternate Governor
Rashid Ismail Al-Meer *

Adviser
Anwar Jassim Lori

* Temporary
□ Not a member of IFC
○ Not a member of IDA
† Executive Director
†† Alternate Executive Director

Bangladesh

Governor
M. Syeduzzaman

Alternate Governors
M.K. Anwar
Gholam Kibria *††

Adviser
Syed Jamaluddin

Barbados○

Governor
Clyde Griffith

Alternate Governor
Erskine Griffith *

Adviser
George L. Reid ††

Belgium

Alternate Governors
Luc E.J.M. Coene *
Jean Godeaux

Advisers
Jean-Pierre Arnoldi
Jacques de Groote †
Robert Gryson
Jan M.G. Vanormelingen

Belize

Alternate Governor
Henry E.C. Cain

Benin □

Governor
Zul Kifl Salami

Alternate Governor
Didier Dassi

Bhutan □

Governor
Dawa Tsering

Alternate Governor
Karma Dorjee

Bolivia

Governor
Luis Bustos Bretel

Advisers
Jose Arias
David Blanco
Edward Derksen
Gustavo Luna

Botswana

Governor
P.S. Mmusi

Alternate Governor
Baledzi Gaolathe

Advisers
M. Bhuiyan
Mrs. N. Gaetsewe
E. Machobane
I.D. Mosienyane
S.G. Tumelo

Brazil

Governor
Dilson Domingos Funaro

Alternate Governors
Alvaro Gurgel de Alencar *
Fernao C.B. Bracher
Andrea Sandro Calabi *
Frederico Carlos Carnauba *
Carlos Eduardo de Freitas *
Alexandre Kafka *
Jose Luiz Silveira Miranda *
Francisco Thompson-Flores Netto *

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Carlos Alberto Amorim, Jr.
Eimar A. Avillez
Paulo Nogueiro Batista, Jr.
Luiz G.M. Belluzzo
Luiz Fernando Monteiro Faria
Luiz F.P. Lampreia
Roberto Muller
Gilberto de Almeida Nobre
Ruy Nunes Pinto Nogueira
Olavo Cesar da Rocha e Silva
Mrs. Maria Celina Arraes Vinhosa

Burkina Faso

Governor
Justin Damo Baro

Adviser
Moussa Kone

Burma

Governor
Tun Tin

* Temporary
□ Not a member of IFC
○ Not a member of IDA
† Executive Director
†† Alternate Executive Director

Alternate Governor
U Nyunt Lwin *

Advisers
U Min Aung
Aung Pe

Burundi

Governor
Pierre Ngenzi

Alternate Governor
Anselme Habonimana

Adviser
Bonus Kamwenubusa

Cameroon

Governor
Sadou Hayatou

Alternate Governor
Simon Ngann Yonn

Advisers
Moise Beke Bihege
Maurice Moutsinga
Martin A.L. Okouda
Auguste Tene-Koyzoa
Idriss Vessah Njoya

Canada

Governor
Michael H. Wilson

Alternate Governors
John C. Coleman *
Miss Anne Marie Doyle *
Peter Fiori *
George W.K. Pickering *

Advisers
Martin Bakker
Pieter Brakel
B.E. Burton
Roy E.J. Culpeper
Bernard Giroux
Gerry Grant
Don McCutchan
Jean-Marc Metivier
N. Frank Potter †
David S. Wright
Ian Wright

Cape Verde □

Governor
Osvaldo Lopes Da Silva

Alternate Governor
Antonio Hilario Da Cruz

Adviser
Victor Fidalgo

Central African Republic □

Governor
Guy Darlan

Alternate Governor
Cyriaque Samba-Panza

Chad □

Governor
Joseph Yodoyman

Alternate Governor
Clabe Guile *

Chile

Governor
Hernan Buchi

Alternate Governor
Andres Gabriel Passicot Callier *

Advisers
Cecil Chellew Caceres
Leon Dobry
Gonzalo Menendez Duque
Gonzalo Ruiz Undurraga
Jorge Schneider

China

Governor
Li Peng

Alternate Governors
Wang Liansheng *
Xu Naijiong *†
Yang Guanghui *††

Advisers
Jin Liqun
Ms. Li Shurong
Mrs. Sun Hsiao-Yun Elaine
Yang Jiusheng
Zhao Xiaoyu

Colombia

Governor
Hugo Palacios Mejia

Alternate Governors
Rodrigo Escobar Navia *
Roberto Junguito Bonnet *
Jorge Felipe Ospina Sardi *

Advisers
Gustavo Arango Bernal
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Tanzania

Governor
G. Rutihinda

Alternate Governor
N.N. Kitomari

Advisers
M.T. Kibwana
J.P. Kipokola
Richard E. Mariki
R.N. Mlolwa
J.M. Mugasha
M.B. Ngatunga
Idris M. Rashidi

Thailand

Governor
Sommai Hoontrakool

Alternate Governors
Vibul Aunsnunta *
Manas Leeviraphan *
Panas Simasathien
Snoh Unakul *

Advisers
Seri Chintanaseri
Tamchai Kambhato
Sukri Kaocharern
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Mrs. Somthavil Sangkhasap
Sujetana Seksarn
Mrs. Noppa Sitsuvarnapong
Chote Sophonpanich
Bhasu Bhanich Supapol
Vichit Suraphongchai
Mrs. Pranee Vanavisudh
Amnuay Viravan

Togo

Governor
Yaovi Adodo

Alternate Governor
Tamata Comlanvi Addra

Adviser
Kossi R. Paass

Tonga □○

Governor
Prince Tupouto'a

Alternate Governor
S.T. 'Utoikamanu

Trinidad and Tobago

Governor
Anthony Jacelon

Advisers
Winston Connell
Terrence Farrell
Jerry Hospedales

Tunisia

Governor
Ismail Khelil

Alternate Governor
Zein Mestiri

Advisers
Ridha Azaiez
Abdeslem Ben Younes

* Temporary
□ Not a member of IFC
○ Not a member of IDA
†† Alternate Executive Director

Habib Bourguiba, Jr.
Moncef Jaafar
Chekib Nouira

Turkey

Governor
I. Kaya Erdem

Alternate Governor
Yener Dincmen

Advisers
Oral Akman ††
Gazi Ercel
Akin Kinikli
Ms. Esen Mutluay
Ms. Bahar Sahin
Rusdu Saracoglu
Cuneyt Sel

Uganda

Governor
Abraham Waligo

Alternate Governor
Robert E. Ekinu

Advisers
Per Aasmundrud
S. Mwa Baker
Mrs. Elizabeth Kaijabwango
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A. Mawanda
I.K. Mulindwa
Miss A. Nyakaana
A. Ocaya
G.S. Odong
F. Okoboi
J.W. Okune
E. Tumusiime-Mutebile

United Arab Emirates

Governor
Ahmed Humaid Al-Tayer

Alternate Governor
Fawzi H. Al-Sultan *†

Advisers
Abdul Gaffar Al Hashmi
Suroor bin Sultan Al-Dhaheri
Ahmed Lutfi Ali
Ismail El-Zabri
Mohamed Khalfan Kherbash
Abdulla Mohn Saleh

United Kingdom

Governor
R. Leigh-Pemberton

Alternate Governors
T.P. Lankester *†
Sir Geoffrey Littler
Richard G.M. Manning *††
Sir Crispin Tickell *

Advisers
Sir John Bremridge
W.P. Cooke
P.H. Kent
M. Neilson
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United States

Governor
James A. Baker, III

Alternate Governors
James Conrow *
Ms. Elinor G. Constable *
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Hugh W. Foster *††
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William H. Draper, III
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Jerry Lewis
Donor M. Lion
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William B. Milam
Russell L. Munk
Edwin M. Truman
Richard L. Walker
David G. Wigg

Uruguay ○

Governor
Ricardo Zerbino Cavajani

Alternate Governor
Diego Cardoso Cuenca *

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Advisers
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Vanuatu

Governor
Kalpokor Kalsakau

Alternate Governor
Edward E. Fillingham *

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Martin Tamata

Venezuela ○

Governor
Carlos Rafael Silva

Alternate Governor
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Viet Nam

Governor
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Alternate Governor
Cao Dac Cuong *

Western Somoa

Governor
Tofilau Eti Alesana

Alternate Governors
Maiava Iulai Toma *
Kolone Va'ai

Advisers
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W.E. Davies
William Keil
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Sir Peter Tapsell
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Yemen Arab Republic

Governor
Mohammed Saeed Al-Attar

Alternate Governor
Qaid Al-Herwi

Advisers
Khalid A.J. Afif
Ahmed Hussein Al-Basha
Anwar Rizq Al-Harazi
Ahmed Abdul Rahman Al-Samawi
Omar Salim Bazara

People's Democratic Republic of Yemen □

Governor
Farag Bin Ghanem

Alternate Governor
Hassan Mahmood Hubaishi *

Yugoslavia

Governor
Vlado Klemencic

Alternate Governor
Cvitan Dujmovic

Advisers
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Zaire

Governor
Djamboleka Loma Okitongono

Alternate Governor
Bazundama Luzumbulu

Advisers
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Elongo Ongona
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Yuma Morisho Lusambia

Zambia

Governor
L.J. Mwananshiku

Alternate Governor
E.S.S. Nebwe

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Wila D. Mung'omba
L. Nkhata
Martin G. Sakala

Zimbabwe

Governor
E.N. Mushayakarara

Alternate Governor
R.V. Wilde

* Temporary
□ Not a member of IFC
○ Not a member of IDA
† Executive Director
†† Alternate Executive Director

Advisers

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D.C. Danha
V.S. Kumalo
Edward Mashiringwani
Mrs. V. McNicol
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Ms. Dinah Zuademoyo Mutungwazi

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October 11, 1985

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	Saudi Arabia
	Somalia
	Trinidad and Tobago
	United Kingdom
	United States
	Western Samoa

REFERENCE LIST OF PRINCIPAL TOPICS DISCUSSED[1]

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[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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