As for the level of lending spreads, the report observes that the market expectation is for a continuation of the recent trend toward greater differentiation among borrowers, with competition among banks in the face of moderate demand preventing any marked rise in spreads. The study observes that a large decline in interest rates would "have major benefits for capital markets, by improving the ability of banks to raise capital and by strengthening the bond markets." It would also ease the debt service burdens of countries with heavy debts and enhance their credit-worthiness.

For the medium term, the paper expects that the rate of growth of international bank assets will remain high but more moderate than in the recent past. Prudential considerations are not likely to be major impediments. Nevertheless, possible threats to the continuity of lending include sharp fluctuations in bank flows to individual countries—aggravating their adjustment problems—and a tendency toward "regionalization," where lending to one country is adversely affected by problems with neighboring countries. The report states that, while serious problems for individual banks remain possible—with repercussions for the entire system—"progress in the international coordination of bank supervision and in the approach of lenders of last resort to the problems of failing banks has strengthened the defense against major disruptions." Nevertheless, the paper notes the danger that political instability and international conflict could disrupt bank lending and even undermine the viability of the capital markets and concludes with the statement that: "The efficiency of the markets in allocating capital internationally is underpinned by basic commercial principles; these should remain the keystone of banks' decisions."

Study by Staff Team

International Capital Markets: Developments and Prospects, 1982, was prepared by a staff team in the Fund's Exchange and Trade Relations Department, headed by Richard C. Williams, Assistant Director, Capital Markets Division, with G.G. Johnson, Assistant Chief. It is available at $5.00 ($3.00 special rate) from Publications, International Monetary Fund, Washington, D.C. 20431.

World Development Report Stresses the Link Between Agricultural and Economic Advance

Although economic growth prospects worldwide have worsened over the past year, many middle-income countries should be able to continue narrowing the income gap between themselves and the industrial nations in the remaining years of the decade, while prospects for many of the low-income countries are generally bleak, according to the *World Development Report, 1982*, released by the World Bank on August 16.

The World Bank report sees the world economy weakened by difficulties in adjustment and by faltering growth in the major industrial countries. In these countries, the report states, continuing recession and high unemployment are accompanied by real interest rates at unprecedented levels—the result, in turn, of large fiscal deficits and of tight monetary policies aimed at reducing inflation. These circumstances have been accompanied by a fall in commodity prices to their lowest level in three decades and to a halt in the growth of international trade volume. These conditions have exacerbated the problems of many developing countries by increasing their interest payments on already large debts, prompting further deterioration in their terms of trade and reduced export volumes.

Part I of the World Bank report reviews worldwide economic adjustment in the period since 1973, as well as development prospects for the 1980s. It notes that, despite the worsening in growth prospects for the 1980s, many middle-income countries should be able to repeat the successful adjustment they made to the adverse conditions of the 1970s and to achieve per capita income growth well in excess of that of the industrial countries. Such prospects, the report observes, would be greatly enhanced if restrictions on trade and capital flows are minimized. Prospects for the low-income countries, however, remain a matter of grave concern, according to the report. While countries such as the People's Republic of China and India are less vulnerable to an unfavorable international economic environment, the smaller low-income countries with large export sectors are highly vulnerable. Progress in these countries, most of which are in Africa, will depend heavily on an ample provision of aid. The report cites, however, two elements offering promise for the low-income countries: the longer-term impact on growth of improvements in education and health that have been achieved in virtually all developing countries and the potential for an improved performance of the agricultural sector.

The discussion of agriculture in Part II of the report stresses the association between agricultural advancement and economic growth. The report notes that virtually all countries that have experienced strong agricultural development have also experienced rapid economic expansion. The report's conclusions about prospects for agricultural advancement are generally optimistic, based on the rapid agricultural growth of the past three decades and given reasonable incentives and productive opportunities. But it identifies three qualifications: the complexity of the task of managing agricultural development, rapid population growth, and the need for significant policy changes in both the developing and industrial countries.

Adjustment in the 1970s. The report discusses the developing economies' successful adjustment to the external shocks of the early 1970s. Most of these countries, in the face of sharply higher costs for fuel and manufactured goods imports, borrowed more, invested more, boosted exports, and stepped up import substitution efforts. Investment in these economies rose to 25 per cent of gross national product (GNP) by 1975 and remained at this level for four years.

The primary difference between the aftermath of events of the early 1970s and those of 1979–80, the report states, lies in the behavior of the industrial economies. Higher real interest rates in these countries have depressed investment, and differences in interest rates among the industrial countries have triggered wide fluctuations in exchange rates and capital flows. This has introduced new uncertainty to the international economy in the early 1980s—with adverse consequences for the developing countries.

Assisting the adjustment of the developing countries in the 1970s, notes the report, was the rapid growth in world trade that exceeded world output throughout the 1970s. Although the volume of exports from oil importing developing countries is still growing faster than that of the industrial countries, terms of trade are worsening. Furthermore, commodity prices are now at their lowest levels in many years.

Also assisting the adjustment of developing countries in the 1970s, according to the report, were the availability of increasing amounts of private capital for creditworthy countries in the mid-1970s and the low level of real interest rates through 1980. In 1981, however, the debt burden intensified, and by 1982, interest payments of all the developing countries are estimated to have risen to three times their level of 1978. The report observes that about one third of the total external debt of the developing countries now carries variable interest rates. Net new borrowing has slowed down, notes the report, while debt renegotiations increased sharply in 1980–81. As for aid flows, while these rose markedly during the 1970s, growth in official development assistance since 1980 has remained weak.

Prospects for the 1980s. The report gives alternative scenarios for growth in the 1980s. The high-growth scenario is based on a rapid recovery in the world economy, and projects gross domestic product (GDP) to rise at an average annual rate of 5.7 per cent in the developing countries in 1980–90 (5.4 per cent for oil importing countries and 6.5 per cent for oil exporting countries). Prospects for achieving this scenario, notes the report, now seem dimmer than they did last year.

The low-growth scenario, which assumes continued sluggishness in the growth of the industrial countries in the 1980s and further delay in world economic recovery, would have the middle-income countries continuing to progress —but at a slower and inadequate pace. The low-income countries would also maintain some growth momentum in the 1980s under the low-growth scenario. But even under the high-growth scenario, average income per person in most low-income countries (excluding the People's Republic of China) would probably show negligible growth for the second consecutive decade.

Prospects for the sub-Saharan African countries remain poor, the report notes. These countries will need to invest further in human resources, in development institutions, and in physical infrastructure, as well as improve their agricultural policies. According to the report, these needs will be difficult—and in some cases virtually impossible—to meet without more concessional aid than now appears likely.

The Role of Agriculture. As mentioned earlier, Part II of the report concentrates on programs and policies needed to spur agricultural development. It draws on the rapidly accumulating body of evidence from recent successful development efforts (the "Green Revolution" in Asia) and focuses on the role of agriculture in growth and development; the sources of agricultural growth; agriculture's contribution to alleviating poverty problems; and policy priorities and prospects.

The report stresses that the evidence is now overwhelming that countries that neglect agriculture do so at their peril and that rapidly developing agriculture is necessary for economy-wide structural transformation and industrialization. Although the report acknowledges much progress in the developing world, it cautions that the "Green Revolution" has not yet occurred in many countries. Furthermore, while agricultural output grew at just less than 3 per cent a year in the 1960s and 1970s, it barely exceeded population growth, with world agricultural output per capita increasing by only 0.4 per cent a year in the 1970s. Looking beyond the average, the report reveals sharp differences among regions. Growth ranged from 1.4 per cent a year in Southeast Asia to 0.6 per cent a year in Latin America and to little or nothing in the low-income countries. In South Asia, agricultural output growth just kept pace with population growth; in Africa, output per capita grew at 0.2 per cent a year in the 1960s but declined by 1.4 per cent a year in the 1970s.

For the low-income countries, the report sees as the major challenge the achievement of agricultural growth rates higher than those of population. In this regard it sees incentive policies, which are often biased against farmers in developing countries, as critical to improving agricultural performance. The report notes that research in the developing countries shows that farmers do indeed respond to economic incentives and that they contribute to agricultural investment with the proper incentives and opportunity.

The World Bank study underscores the importance of public sector incentives supplementing private efforts in stimulating agricultural development, citing the need for much greater national agricultural research and public investment in infrastructure. The report draws on the experience of rural development activities in the 1970s to suggest future policies and programs to reduce rural poverty.

The report states that continuing progress in agriculture is vital for the developing world for several reasons: Nearly two thirds of the population in the developing world draws its livelihood from agriculture; the demand for food in these countries is projected to increase by at least one third over the next decade; agricultural products accounted for 30 per cent of developing countries' merchandise export earnings in the late 1970s and are still the primary exports of over two thirds of these countries; and a weak agricultural showing is accompanied by weak overall economic growth.

The report concludes that few of the developing countries can tolerate increases in their ratios of food imports to consumption (now about 8 per cent for the developing world as a whole) without encountering severe balance of payments problems. Consequently, to meet the anticipated growth in food demand, production must increase substantially. Whether the developing countries can meet the challenge will depend on improvements in agricultural technology, the mobilization of additional resources from both the industrial and developing countries, and appropriate policies in the developing countries.

To Obtain the Report

Copies of the *World Development Report, 1982* are available in English from Oxford University Press, 200 Madison Avenue, New York, N.Y. 10016, U.S.A. at $20.00 (cloth) and $8.00 (paper) or in the United Kingdom from OUP Distribution Services, Saxon Way West, Corby, Northants NN18 9ES, United Kingdom. The Report is also published (paper only) in Arabic, French, German, Japanese, and Spanish. In the United States, these editions are available from the World Bank, Publications Unit, 1818 H Street, N.W., Washington, D.C. 20433, U.S.A.