
1991 International Monetary Fund



**Annual
Report**

EMBARGO

**NOT FOR RELEASE UNTIL
WEDNESDAY, OCTOBER 2, 1991**

**AT 6:00 P.M.
WASHINGTON TIME**

Purposes of the Fund

- (i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.
- (ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
- (iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
- (iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.
- (v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.
- (vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

The Fund shall be guided in all its policies and decisions by the purposes set forth in this Article.

Article I of the Fund's Articles of Agreement

Annual Report, 1991

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International Monetary Fund

Annual Report

**of the Executive Board
for the Financial Year
Ended April 30, 1991
Washington, D.C.**

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The following symbols have been used in this Report:

- . . . to indicate that data are not available;
- to indicate that the figure is zero or less than half the final digit shown, or that the item does not exist;
- between years or months (e.g., 1988–89 or January–June) to indicate the years or months covered, including the beginning and ending years or months;
- / between years (e.g., 1988/89) to indicate a crop or fiscal (financial) year.

“Billion” means a thousand million.

Minor discrepancies between constituent figures and totals are due to rounding.

All references to dollars are to U.S. dollars unless noted otherwise.

International Monetary Fund

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MICHEL CAMDESSUS

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BAHRAM NOWZAD
Chief Editor

* Alphabetical listing

August 6, 1991

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Letter of Transmittal to the Board of Governors

August 6, 1991

Dear Mr. Chairman:

I have the honor to present to the Board of Governors the Annual Report of the Executive Board for the financial year ended April 30, 1991, in accordance with Article XII, Section 7(a) of the Articles of Agreement of the International Monetary Fund and Section 10 of the Fund's By-Laws. In accordance with Section 20 of the By-Laws, the administrative and capital budgets of the Fund approved by the Executive Board for the financial year ending April 30, 1992 are presented in Appendix VIII. The audited financial statements for the year ended April 30, 1991 of the General Department, the SDR Department, Accounts administered by the Fund, the Staff Retirement Plan, and the Supplemental Retirement Benefit Plan, together with the reports of the External Audit Committee thereon, are presented in Appendix IX.

Yours sincerely,



MICHEL CAMDESSUS
Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

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The World Economy

World economic growth declined to 2 percent in 1990 from 3¼ percent in 1989. Growth slowed in the industrial countries, as well as in Africa, and economic activity declined in the developing countries of Eastern Europe, the Middle East, and the Western Hemisphere (Table 1). The crisis in the Middle East and restructuring in Eastern Europe affected the global economic picture. The rate of growth of world trade also slowed, falling to about 4 percent in 1990 from 7 percent in 1989. Consumer price inflation increased to

5 percent in 1990 from 4½ percent in 1989 in the industrial countries and rose from 80 percent to 90 percent in the developing countries, largely owing both to the temporary rise in oil prices and price developments in a small number of high-inflation countries in Eastern Europe and the Western Hemisphere. Oil prices surged in August and September 1990 and then dropped rapidly in January. Net external borrowing of the net debtor developing countries rose to some \$60 billion in 1990.

1. Global Economic Setting

The global economic setting in 1990 was marked by the crisis in the Middle East and associated developments in world oil prices, and by restructuring in Eastern Europe and unification in Germany, as well as the continuation of the debt crisis. After the invasion of Kuwait by Iraq, crude oil prices rose from an average of about \$16 a barrel in July 1990 to a peak of more than \$38 in October 1990 (Chart 1). As the loss of oil exports from Kuwait and Iraq began to be offset by increased production by other oil producers, the price of petroleum fell, and by December it averaged \$25.70 a barrel. On January 17, 1991, the day after the outbreak of the war,

Table 1

Overview of the World Economy, 1987–90

(Annual changes in percent, unless otherwise noted)

	1987	1988	1989	1990
World output	3.4	4.5	3.3	2.1
Industrial countries	3.3	4.5	3.3	2.5
United States	3.4	4.5	2.5	1.0
Japan	4.3	6.2	4.7	5.6
Germany (west)	1.5	3.7	3.8	4.5
Developing countries	3.7	4.5	3.1	0.6
Africa	1.3	2.9	3.3	1.9
Asia	8.1	9.0	5.5	5.3
Europe	2.8	4.3	1.8	-2.9
Middle East	0.1	4.7	3.2	-1.5
Western Hemisphere	2.4	0.2	1.5	-1.0
Memorandum				
Eastern Europe ¹ and the U.S.S.R.	2.5	4.3	1.9	-3.8
Eastern Europe	1.6	1.2	-0.9	-8.6
NIEs ²	12.1	9.5	6.9	6.8
World trade volume	6.5	9.1	7.1	3.9
Commodity prices				
Oil ³	28.7	-20.5	21.5	28.3
Non-fuel ⁴	8.6	23.5	-0.3	-7.9
Inflation				
Industrial countries	3.0	3.3	4.4	4.9
Developing countries	32.0	52.6	79.5	90.5
Six-month LIBOR ⁵	7.3	8.1	9.3	8.4

¹ Eastern Europe is defined to include Bulgaria, the Czech and Slovak Federal Republic, Hungary, Poland, Romania, and Yugoslavia.

² The newly industrializing Asian economies (NIEs) include Hong Kong, Korea, Singapore, and Taiwan Province of China.

³ Simple average of U.K. Brent, Dubai, and Alaska North Slope spot crude oil prices.

⁴ In U.S. dollars based on world trade weights.

⁵ London interbank offer rate on six-month U.S. dollar deposits.

Chart 1

Average Petroleum Spot Price¹
(U.S. dollars a barrel)



¹The average petroleum spot price is defined as the average of the monthly spot prices of U.K. Brent (light), Dubai (medium), and Alaska North Slope (heavy).

oil prices posted a record one-day drop of approximately \$10 a barrel as market participants concluded that there would be no significant damage to oil fields outside Kuwait and Iraq; by April 1991, oil prices had fallen to \$17.80 a barrel, considerably below the average price of \$22 a barrel in 1990.

The direct economic effects of the surge in oil prices that followed the Middle East crisis appear to have been small for the majority of industrial and developing countries, largely because the increase was short-lived; with the return of oil prices to pre-crisis levels, these adverse effects have already begun to be reversed. The temporary rise in oil prices is es-

timated to have raised the level of consumer prices in the industrial countries by $\frac{1}{2}$ of 1 percent in 1990 and reduced the level of GNP by $\frac{1}{4}$ of 1

percent. As discussed below, indirect effects, including a rise in uncertainty and reductions in business and consumer confidence, may have slowed output growth further, especially in those countries where growth was already weak. Developments in the Middle East are estimated to have reduced real GNP in the oil importing net debtor developing countries by $\frac{1}{2}$ of 1 percent in 1990. The largest losses in developing countries were, of course, in Iraq and Kuwait, where destruction from the war was extensive. A number of countries in the Middle East and other regions suffered losses in workers' remittances and exports of goods and services as a direct result of developments in the Middle East. Oil exporting net debtor developing countries, including Ecuador, Indonesia, Mexico, Nigeria, and Venezuela, benefitted from the temporary rise in oil prices.

In most countries in Eastern Europe—and to a lesser extent in the Union of Soviet Socialist Republics—a broad consensus has emerged on the need to move toward market-based economic systems, and there was a general trend in 1990 to accelerate the reform process. However, the majority of these countries face severe economic difficulties as traditional central planning has largely collapsed and mar-

Box 1

World Economic Outlook

The May 1991 edition of the *World Economic Outlook* provides a comprehensive analysis of developments in the world economy, including a discussion of alternative medium-term economic scenarios. It is the product of a comprehensive interdepartmental review by the Fund's staff, which is conducted twice a year and draws

on the staff's consultations with member countries as well as on its econometric modeling techniques. This publication is available from the Fund's Publication Services (price \$30.00). The next *World Economic Outlook*, comprising revised projections by the staff, will be published in October 1991 (price \$30.00).

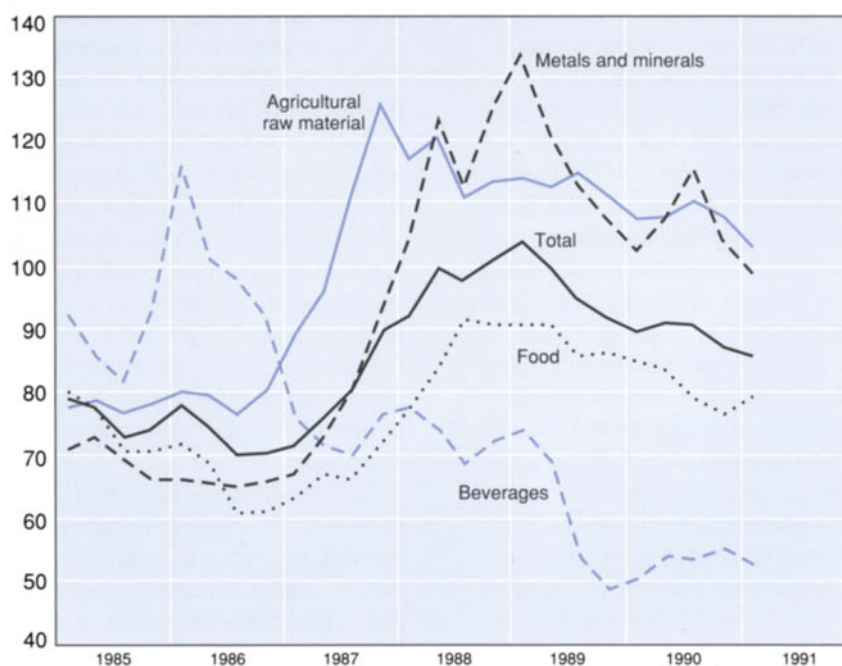
ket-based mechanisms are only beginning to develop. At the same time, regional trade has declined with the deterioration in economic performance, especially in the U.S.S.R., and with the dissolution of the trade arrangements of the Council for Mutual Economic Assistance (CMEA). This development, together with the temporary increase in world oil prices, resulted in a considerable terms of trade shock in 1990 for the Eastern European countries.

Non-fuel commodity prices declined sharply in 1990 (Chart 2). In U.S. dollar terms, the price of non-fuel commodities (based on world trade weights) fell by an estimated 8 percent, reflecting decreases in all major commodity groups, with the largest year-to-year drops recorded in tropical beverages (12½ percent) and minerals and metals (9½ percent). These declines, along with the rise in oil prices, contributed to an estimated 3 percent deterioration in the terms of trade of the oil importing developing countries.

The aggregate current account deficit of the developing countries declined from \$14 billion in 1989 to \$8 billion in 1990, as increased surpluses in the net creditor countries more than offset larger current account deficits in the net debtor developing countries. These deficits were accompanied by a large increase in net external borrowing, including exceptional financing. Total external debt of all developing countries increased in 1990 by 6 percent to \$1,306 billion, which reflected the net effect of new borrowing, valuation adjustments on account of the depreciation of the U.S. dollar against major currencies, and the impact of debt reduction operations and debt forgiveness.

Chart 2

Non-Fuel Commodity Prices¹ (1980 = 100)



¹The total is based on world trade weights.

2. Domestic Economic Activity and Policy

Industrial Countries

In the industrial countries *economic growth* slowed from 3¼ percent in 1989 to 2½ percent in 1990. The slowdown reflected mainly the recession that began during the year in North America and the United Kingdom and slower growth in a number of European countries, which offset considerably stronger growth in Japan and west Germany. The slowdown in 1990 can be attributed to several factors, including the lagged effect of a tightening of monetary policy in North America and the United Kingdom, the temporary rise in oil prices, and in-

creased uncertainty related in large measure to the conflict in the Middle East and to oil market developments. It is noteworthy that following the invasion of Kuwait, consumer confidence dropped sharply in several major industrial countries and then rebounded following the cease-fire in the Middle East.

The slowdown that had started in mid-1989 in the United States became more pronounced in the second half of 1990. Sharp declines in residential construction, business investment, and consumer expenditures on durables and nondurables resulted in a 1½ percent decline (at an annual rate) in GNP in the last quarter of 1990, and a further decline of 2¾ percent in the first quarter of 1991. Net exports con-

tributed to growth in 1990, reflecting a slowing of demand growth in the United States relative to some of its main trading partners and an improvement in competitiveness, including the effects of the real effective depreciation of the dollar from mid-1989 through 1990. Interest rates in the United States had been falling for more than a year prior to the downturn in the fourth quarter. This decline followed a tightening of monetary policy in 1987–88 aimed at dealing with a rise in inflation. While the direct effect of the increase in oil prices on the U.S. economy was negative, it was not large enough to explain the full magnitude of the downturn. Other factors that appear to have played a role include heightened uncertainty regarding developments in the Middle East and the associated drop in consumer and business confidence, and perhaps the “credit crunch” that may have resulted from a tightening in bank lending practices.

In the United Kingdom, output fell in the third and fourth quarters of 1990 as private consumption and investment declined sharply in response to an earlier anti-inflationary tightening of monetary policy. Export growth remained strong until mid-1990, but subsequently weakened owing partly to some loss of competitiveness resulting from sterling’s strength and from increases in unit labor costs above the average of other countries participating in the exchange rate mechanism (ERM) of the European Monetary Systems (EMS). The Canadian economy entered a relatively deep recession in the second quarter of 1990 as private consumption weakened and investment declined sharply.

In Japan and west Germany, output expanded at an unusually rapid pace in 1990. Real GNP increased 4½ percent in west Germany, reflecting the stimulus to domestic demand associated

with unification, and the unemployment rate fell by more than a full percentage point from the end of 1989 to April 1991, despite substantial immigration. There was, however, a sharp decline in output in east Germany reflecting the difficult initial phases of the unification process, and the proportion of the labor force that was officially registered as unemployed reached 9½ percent in April 1991, while the number of short-time workers rose to more than 2 million or approximately 25 percent of the labor force. In Japan, output increased by 5½ percent in 1990; investment was strong, partly reflecting the installation of new technologies to economize on scarce labor.

Growth in France and Italy slowed in 1990 to 2¾ percent and some 2 percent, respectively, reflecting in part weakness in business investment and expenditures on consumer durables. Despite increased exports to Germany, the contribution to growth from the external sector was slightly negative in both countries in 1990, owing to a loss of competitiveness outside the ERM area and to weaker demand from North America and the United Kingdom. Among the smaller industrial countries, Australia, New Zealand, Finland, and Sweden entered recessions last year, reflecting in part the impact of tight policies in the late 1980s, adverse cost developments, and the slowdown in the growth of world trade.

For the industrial countries as a group, the rate of increase in *consumer prices* rose from 4½ percent in 1989 to 5 percent in 1990, reflecting in part the impact of higher oil prices in the last half of 1990 (Chart 3). However, inflation was already rising in some industrial countries before the invasion of Kuwait by Iraq, and the effects of higher oil prices were offset to some extent by a significant decline

in non-fuel commodity prices and, in the case of Japan and many European countries, by currency appreciation against the U.S. dollar during 1990.

In the United States, consumer prices increased by nearly 5½ percent in 1990. Before the rise in oil prices in August, wage and price inflation had declined somewhat owing in part to the slowing of growth; in addition, import prices, which increased by only 1 percent in 1990 in spite of the 6½ percent drop in the effective value of the U.S. dollar and the rise in oil prices, also contributed to lower inflation. In Canada, the rise in consumer prices declined slightly in 1990 to 4¾ percent from 5 percent in 1989, but the introduction of the Goods and Services Tax in January 1991 will increase consumer prices by an estimated 1¼ percent and result in a higher inflation rate this year. In Japan, consumer prices (excluding fresh food and energy, and the impact of the consumption tax introduced in April 1989) increased at an annual rate of about 4 percent in the latter part of 1990, despite the appreciation of the yen, owing in part to higher wages associated with tight labor market conditions; this compared with a rise of 1½ percent during 1989.

The strengthening of the ERM currencies against the U.S. dollar during 1990, together with the decline in non-fuel commodity prices, helped offset the impact on inflation of higher oil prices in Europe. For example, in 1990 the domestic currency price of imports declined by about 2 percent in both France and west Germany. Among the major European economies, the increase in consumer prices in 1990 was largest in the United Kingdom (9½ percent, due in part to the high initial level of community charges and higher mortgage interest rates) and smallest in west Germany (2¾ percent), although German inflation

picked up during the course of the year. Inflation declined slightly in France in 1990, remaining $\frac{3}{4}$ of 1 percentage point higher than in Germany, while in Italy inflation rose to $6\frac{1}{2}$ percent.

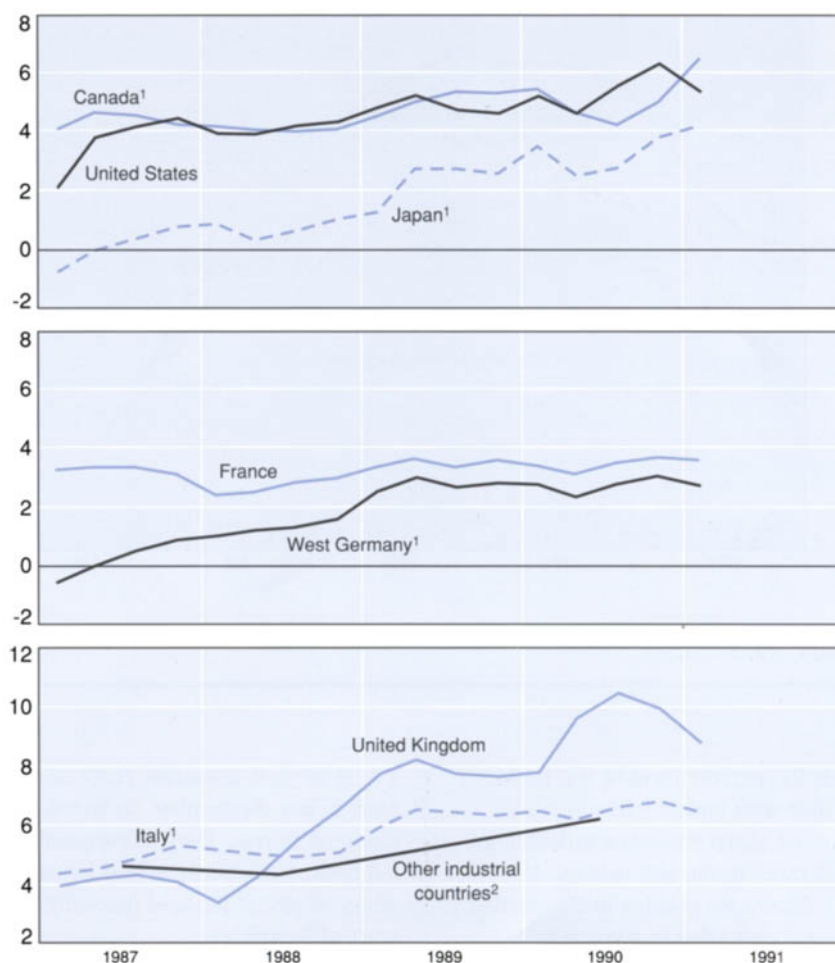
Fiscal policies in the major industrial countries in 1990 were broadly neutral or moderately restrictive, with the notable exception of Germany where higher spending related to unification and the third stage of tax reform pushed the borrowing requirement of the territorial authorities (including the Unity Fund) to $3\frac{1}{2}$ percent of GNP. To avoid a further weakening in the budgetary position, the German Government announced a budgetary package in January and tax increases in February 1991. In the United States, a five-year deficit reduction package was adopted in 1990 in the face of high deficits. In Canada, the Government announced a new program that is intended to reduce significantly the federal deficit over the medium term.

Since mid-1990, differences in *monetary policies* and monetary conditions among the major industrial countries have become more pronounced as the divergences in cyclical positions discussed above became more apparent (Chart 4). In Canada, the United Kingdom, and the United States, short-term interest rates generally declined during 1990, reflecting weakening economic activity and reduced resource pressures in these countries. From April 1990 to April 1991, the federal funds rate in the United States dropped by more than 2 percentage points, with the decline intensifying in the last quarter of 1990 and early 1991 as economic activity, especially in the interest-sensitive sectors, declined. Over the same period, short rates fell markedly in Canada (4 percentage points) and the United Kingdom ($3\frac{1}{4}$ percentage points). Monetary policy in the United King-

Chart 3

Industrial Countries: Consumer Price Indices

(Percent change from four quarters earlier)



¹Increases in indirect taxes raised consumer prices in 1989 in Canada, west Germany, Japan, and Italy, and again in the first quarter of 1991 in Canada.

²Annual observations.

dom also took account of the entry of sterling into the exchange rate mechanism of the EMS in October 1990. In Australia, monetary policy was restrictive in 1989, but short-term interest rates fell considerably in 1990 as the economy moved into recession.

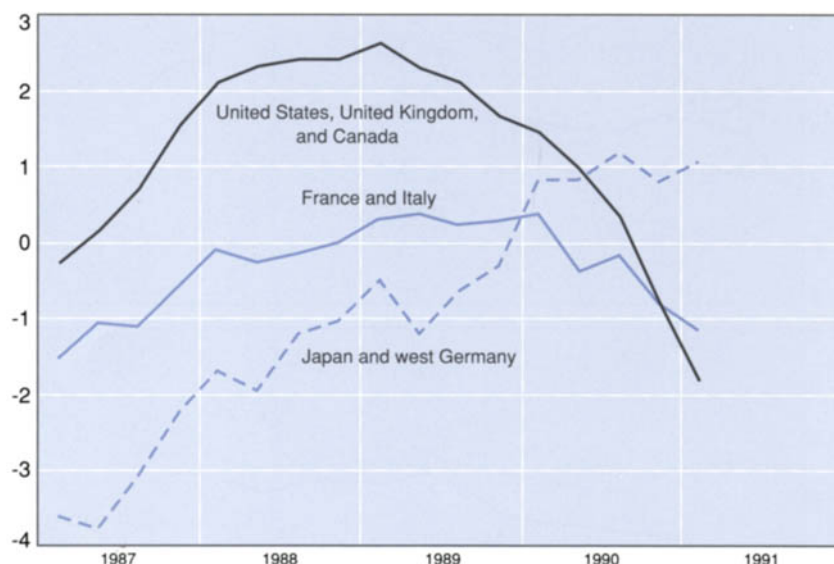
In Japan and west Germany, price

pressures intensified in 1990 as aggregate demand expanded rapidly, prompting a tightening of monetary policy and short-term interest rates rose by $1\frac{1}{2}$ percentage points over this period. In Italy, there were substantial declines in short-term interest rates from late 1989 to October 1990, when the need to defend the lira

Chart 4

Major Industrial Countries: Output Gaps¹

(In percent)



¹ Actual and projected GDP/GNP as a percentage deviation from estimates of potential output; composites are based on 1988–90 GDP/GNP weights.

within the narrow band of the ERM, together with higher inflation, prompted sharp increases in Italian interest rates in the last quarter of 1990. Monetary policies in the smaller industrial countries in Europe have generally followed the tightening in the larger European countries, although in some instances the tightening was more pronounced.

Long-term interest rates (as measured by government bond yields) generally rose during the first quarter of 1990. With the invasion of Kuwait in August, long-term interest rates rose sharply—by roughly $\frac{1}{2}$ of 1 percentage point in most countries—as the surge in oil prices generated expectations of rising inflation, and as the general uncertainties surrounding the crisis encouraged investors to move into relatively more liquid assets.

Yields in most countries reached a peak in late September, in line with rising oil prices. They subsequently fell back, particularly in mid-January when oil prices plunged following the start of hostilities.

While the Middle East crisis clearly affected long-term rates, cyclical developments were also important in determining both the predominantly downward trend since mid-1990 and the differences in the magnitude of the decline among the major industrial countries. The largest declines tended to be in countries where economic activity had weakened the most and where the easing of monetary policy was most pronounced. From April 1990 through April 1991, yields on long-term government bonds fell by 2–2½ percentage points in Canada and the United Kingdom, by $\frac{3}{4}$ –1 per-

centage point in France, Italy, and the United States (where rates had tended to fall since mid-1989), and only slightly in Germany and Japan.

The differing cyclical developments and the policy responses to them led to contrasting movements in short-term interest rates, which in turn contributed to *exchange rate pressures* (Chart 5). In particular, continued shifts in interest differentials favorable to non-dollar assets in 1990 contributed to a further depreciation of the U.S. dollar in relation to most other major currencies. However, the dollar recovered sharply after the conclusion of hostilities in the Middle East and by the end of April it had regained about three fifths of its decline from mid-1989 levels. This appreciation of the U.S. dollar appeared to reflect a change in market expectations about the likely course of economic activity in the United States.

The *current account* imbalances of the three largest industrial countries narrowed in 1990, reflecting previous exchange rate movements, growth differentials, and, in the cases of Germany and Japan, higher oil prices. In Germany, the process of unification contributed to a surge of imports in 1990, particularly from France and Italy. In the United States, the current account deficit narrowed in 1990 because of the effects of the improved competitive position of U.S. producers and continued market growth, although these were partly offset by the rise in oil prices and a slowdown in the growth of exports from the very high rates in the two previous years. In Japan, the real trade balance continued to decline in 1990, albeit at a slower pace, with import volumes expanding in line with domestic demand. In the United Kingdom, where the external position deteriorated sharply from 1987 to 1989, there was a substantial reduction in the current ac-

count deficit in 1990, owing partly to the country's relatively weak cyclical position. In the other industrial countries, the aggregate current account deficit widened in 1990 by \$10 billion to \$32 billion, reflecting mainly larger deficits in Finland, New Zealand, Spain, and Sweden.

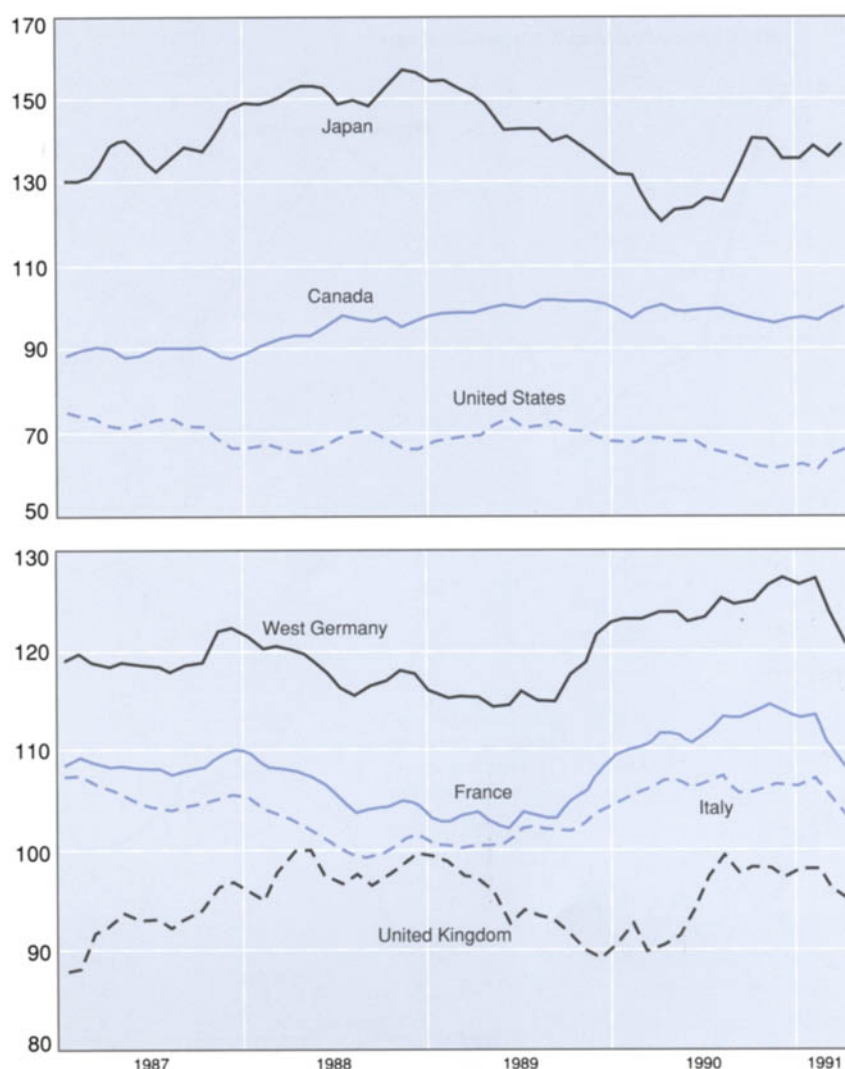
Developing Countries

For the developing countries as a group, the fall in *real GDP growth* was more pronounced than in industrial countries, declining from 3 percent in 1989 to $\frac{1}{2}$ of 1 percent in 1990 (Chart 6). Economic activity continued to increase rapidly in Asia, but growth slowed in Africa and output fell in the other regions. The continued decline in non-fuel commodity prices, as well as the temporary rise in oil prices, resulted in a sharp deterioration in the terms of trade for the majority of developing countries. Moreover, as noted above, many developing countries were adversely affected by the crisis in the Middle East. Inflation in the developing countries picked up sharply in the past two years reflecting developments in a few high inflation countries in Eastern Europe and in the Western Hemisphere (Chart 7).

The pace of economic activity in *Africa* slowed in 1990 owing to the effects of a drop in the prices of non-fuel primary commodities—particularly tropical beverages (coffee, cocoa, and tea), which fell to their lowest level since 1980; in addition, the temporary rise in oil prices contributed to the slowdown. Sluggish growth in Africa was accompanied by average inflation of about 15 to 20 percent. The exchange arrangement of the CFA Franc Zone (see page 35) contributed to the containment of inflation, although in 1990 it also resulted in a real appreciation vis-à-vis the U.S. dollar resulting

Chart 5

Major Industrial Countries: Effective Exchange Rates (1985 = 100)



from the nominal appreciation of the French franc.

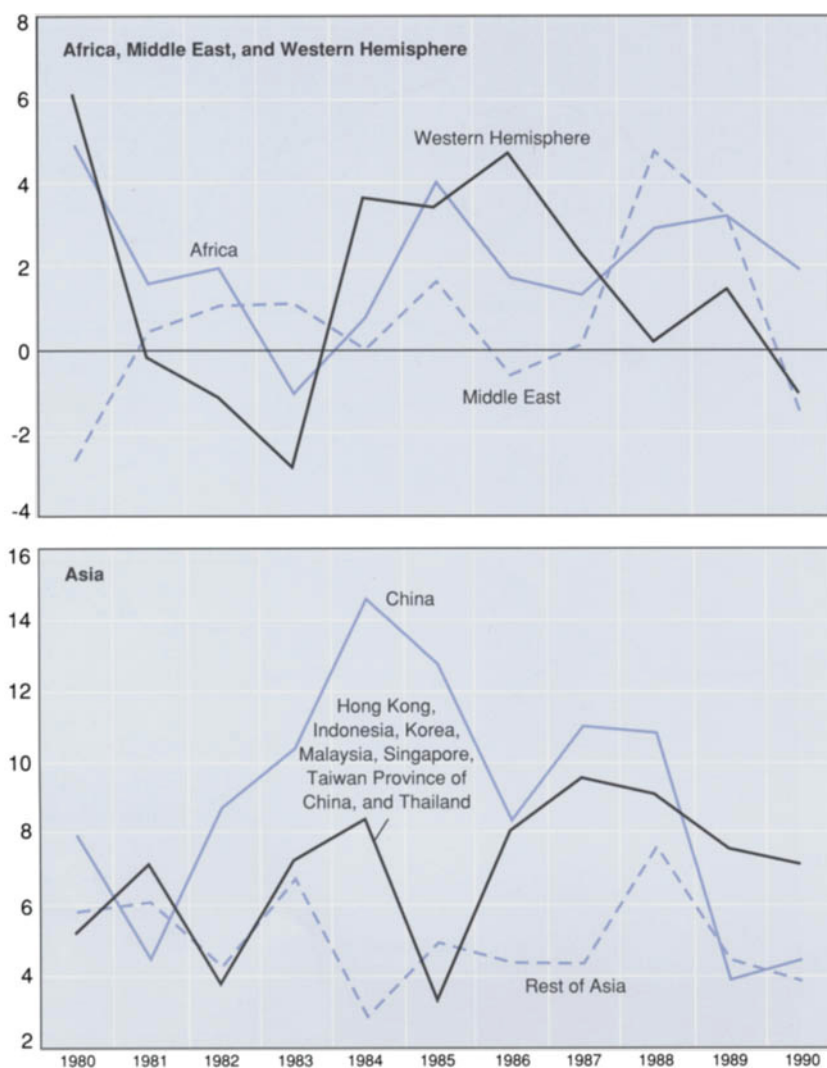
Differences in the stance of policies resulted in considerable variations in economic performance. In Cameroon, Liberia, Somalia, Sudan, and Zaïre, for example, the economic situation deteriorated during 1990 owing in part to

the inability of the authorities to implement needed stabilization policies and structural reforms, and, in some cases, to social and political conflicts. In contrast, policies were tightened in late 1990 to strengthen the stabilization program in Madagascar. In Ghana, Kenya, Nigeria, Togo, and

Chart 6

Developing Countries and Regions: Real GDP Growth¹

(Percent change)



¹ Composites are arithmetic averages of country growth rates weighted by average U.S. dollar value of GDPs over the preceding three years.

Tunisia, structural reforms and stabilization policies have been successfully carried out and real growth increased.

The majority of countries in Africa are oil importers, and they experienced a decline in real income partly resulting from the rise in oil prices. In

addition, Sudan suffered from the disruption of trade with Kuwait and Iraq and from the loss of workers' remittances, although less so than some countries in the Middle East and Asia. Although Africa's major fuel exporters—Algeria, Cameroon, Gabon, and

Nigeria—benefitted from the oil price increase, all but Nigeria experienced negative or sluggish growth, in some cases because of unfavorable weather conditions (Cameroon and Gabon) or because of the short-run costs associated with the removal of structural distortions.

The sustained increase in real per capita output in the developing countries of *Asia* during the 1980s is in sharp contrast to the stagnant or declining trend in other regions. However, the impressive performance of Asia as a whole masks considerable differences among countries and territories within the region. Growth has been stronger and more sustained in China, Hong Kong, Indonesia, Korea, Malaysia, Singapore, Taiwan Province of China, and Thailand than in the rest of Asia. The strength of activity in these economies can be attributed in part to the adherence to market-oriented policies—or, in the case of China, to market-oriented reform—coupled with a relatively stable macroeconomic environment, and to the adoption of an outward orientation that encourages external trade.

Economic activity in Asia weakened slightly in 1990 as growth fell to 5½ percent, owing to higher energy costs as well as to declining export demand in the newly industrializing economies of Asia (NIEs).¹ In these economies and in Indonesia, Malaysia, and Thailand, growth was sustained by strong domestic demand and by large inflows of foreign investment. Growth in China increased from 3½ percent in 1989 to 5 percent in 1990, as industrial activity accelerated in the second half of the year and agricultural production rose. In most of South Asia, favorable weather contributed to a strong recovery of agriculture that

¹ Hong Kong, Korea, Singapore, and Taiwan Province of China.

Chart 7

Developing Countries and Regions: Consumer Prices¹ (Percent change)



¹Composites are geometric averages of consumer price indices measured in local currencies for individual countries weighted by the average U.S. dollar value of their respective GDPs over the preceding three years.

flation mainly reflected adjustment policies and price controls in China that reduced the rate of inflation (annual average) from about 18 percent in 1989 to 2½ percent in 1990. In the most rapidly growing Asian economies, however, inflation was higher in 1990 due to the rise in energy costs and strong growth of domestic demand, particularly in Korea and Singapore. In India, Pakistan, and the Philippines, policy factors contributed to an increase in inflation.

The *Eastern European* countries are in the process of implementing wide-ranging systemic reforms, including in many cases steps toward privatization, and have introduced comprehensive macroeconomic stabilization programs. In response to a sharp acceleration of inflation, Poland and Yugoslavia adopted stabilization programs in 1989–90 that combined tight fiscal and monetary policies with fixed exchange rates and controlled wages as nominal anchors. Hungary tightened its policies in 1990. In late 1990 and early 1991, Bulgaria, the Czech and Slovak Federal Republic, and Romania began to implement stabilization programs to contain the impact of price and external sector liberalizations on inflation and the external balance, as well as of the collapse of CMEA trade, and in the cases of Bulgaria and Romania to achieve fiscal consolidation and reduce excess liquidity.

In most of these countries, the tightening of fiscal and monetary policies was accompanied by a growing reliance on market-based instruments of monetary control affecting the cost and availability of central bank refinancing,² and there have been far-

² These instruments are, however, only at an early stage of development, and most countries continue to use direct credit ceilings or moral suasion to keep monetary conditions appropriately tight.

helped to offset the negative impact of a further decline in the terms of trade. In the Philippines, GDP growth declined from 5½ percent in 1989 to 2½ percent in 1990, as macroeconomic imbalances were compounded by

earthquake damage, drought, and the adverse effects from the crisis in the Middle East.

Inflation in Asia fell from about 12 percent in 1989 to 8 percent in 1990. This decline in the *average* rate of in-

reaching structural changes in government finances, such as sharp cuts in consumer and producer subsidies, that generally have been reflected in substantial declines in government expenditures and revenues as a percentage of GDP. Macroeconomic imbalances remained severe in the U.S.S.R., despite a reduction of the fiscal deficit from 11 percent of GDP in 1988 to around 6–7 percent in 1990.

Following virtual stagnation in 1989, output in Eastern Europe and the U.S.S.R. declined by 3¼ percent in 1990. The decline affected all countries in the region and reflected a combination of domestic and external factors, including the dislocations resulting from the disintegration of the existing economic system, the restructuring necessitated by substantial changes in relative prices and greater exposure to foreign competition, the short-run effects of tight fiscal and monetary policies, falling exports to other CMEA countries, disruptions in oil supplies from the U.S.S.R., and the economic impact of the events in the Middle East. Output losses in 1990 were particularly severe in Bulgaria, Poland, Romania, and Yugoslavia. By contrast, in Hungary strong growth of convertible currency exports partly offset the contraction of ruble exports and domestic demand, while in Czechoslovakia growing domestic demand helped to contain the decline in output in the face of adverse external developments. Based on official estimates, output losses in 1990 were relatively moderate in the U.S.S.R., although a rapid expansion of nominal incomes was accompanied by persistent shortages.

The average rate of inflation in Eastern Europe and the U.S.S.R. rose in 1990 on a year-over-year basis, mainly reflecting large price increases in late 1989 and early 1990 in Poland and Yugoslavia; in both coun-

tries, however, inflation declined considerably during 1990. All countries in the region have adopted some form of incomes policy and measured real wages stagnated or declined in 1990, except in Romania and the U.S.S.R., where nominal wages rose considerably faster than the official retail price index.³ In Poland and Yugoslavia, a sharp compression of real wages in early 1990 was later partially offset by substantial wage increases. Since late 1989, all Eastern European countries and the U.S.S.R. substantially depreciated their nominal exchange rates, in most cases to boost competitiveness and support external sector liberalization. However, in Poland, Yugoslavia, and Hungary, subsequent increases in consumer prices outpaced the magnitude of the nominal devaluations and the real effective exchange rate appreciated significantly. Wages, however, increased less than prices and hence the impact on competitiveness may have been less severe than indicated by real exchange rate indices based on consumer prices.

The economies of the *Middle East* were severely affected by the crisis that began with the invasion of Kuwait by Iraq on August 2, 1990. War damage in Iraq and Kuwait was extensive, and economic activity in large areas of these countries came to a virtual halt during the crisis. Principally affected were Egypt, Jordan, and Turkey (classified among the developing countries of Europe), which suffered substantial losses of workers' remittances, tourism receipts, and other export earnings. Refugee problems imposed a

heavy financial burden on the Islamic Republic of Iran and Turkey. The oil exporting countries (other than Iraq and Kuwait) benefitted from temporarily higher oil prices and an increase in oil production, but some oil exporting countries close to the area of conflict, like Saudi Arabia and the Islamic Republic of Iran, faced increased expenditures associated with the war—including defense outlays and economic aid to other countries—that are expected to exceed the rise in oil revenue.

Output in the Middle East is estimated to have declined by 1½ percent in 1990 reflecting mainly a sharp contraction in Iraq, Kuwait, and Jordan. Economic activity accelerated in some of the other countries of the region as the terms of trade for oil exporting countries improved and oil production increased. Inflation in the Middle East declined from an average of 14½ percent in 1989 to 13¼ percent in 1990. The impact of the increase in oil prices on inflation was minimal because most countries did not raise domestic fuel prices. This has contributed to a worsening of fiscal deficits in some of the oil importing countries in the region.

In a number of Middle Eastern countries, structural reforms that were being implemented with moderate success before the crisis have been put on hold. Moreover, there were significant macroeconomic imbalances in some countries even before the crisis, and fiscal and current account deficits have increased in these countries and elsewhere in the region. In several countries, the pressure on aggregate demand from expansionary fiscal policies was countered by a tightening of monetary policies, which was only partially successful in restraining demand, and therefore the balance of payments tended to weaken.

³ It should be noted that in the presence of widespread price controls and shortages, developments in real wages do not adequately reflect changes in purchasing power. Moreover, measured real wages do not include income from secondary employment in the private sector, which increased rapidly in most Eastern European countries.

Output in the developing countries of the *Western Hemisphere* declined by 1 percent in 1990, following a modest rise in 1989, while inflation continued at a very high level. These developments primarily reflected the combination of severe recession and extraordinarily high inflation in Argentina, Brazil, and Peru. However, economic activity also was sluggish and inflation increased slightly in most other countries of the region, reflecting the deterioration in the terms of trade for producers of non-fuel primary commodities and drought in parts of South America. The main exceptions were Ecuador, Mexico, and Venezuela, where growth in the last quarter of 1990 was boosted by higher oil output. Although average inflation in the Western Hemisphere increased to about 770 percent in 1990—largely because of extraordinarily high inflation in Brazil and Argentina and the large weight of these two countries—the median rate of inflation fell slightly to 9¼ percent. Inflation remained high in some countries (Argentina, Brazil, Nicaragua, and Peru) because of widespread indexation practices, excess liquidity, and delays and slippages in policy implementation.

In some countries the weakness in economic activity in 1990 reflected in part the transitional adjustments associated with stabilization policies and structural reforms, rather than destabilizing macroeconomic policies that had been the primary factor in previous years. Monetary and fiscal policies were tightened to strengthen stabilization efforts in Bolivia, Chile, and Venezuela. New stabilization programs were implemented in Argentina, Brazil, and Peru to halt extraordinarily high inflation, and in El Salvador, Guyana, Honduras, and Jamaica to restore external and internal balance. In many of these countries, as well as in Colombia,

structural reforms have also been introduced, and in some cases—including Argentina, Bolivia, Brazil, Chile, Colombia, Mexico, and Peru—the reforms have been far-reaching. As a result of these policies, Chile has achieved sustained growth since 1984 and Mexico has resumed growth after a long recession, contained inflation, attracted substantial capital inflows, and re-entered the international bond market.

3. External Financing and Debt in Developing Countries

The *current account* deficit of the developing countries fell from \$14 billion in 1989 to \$8 billion in 1990, or less than 1 percent of their exports of goods and services.⁴ However, the current account deficit of the *net debtor* developing countries widened to \$33 billion in 1990 and was accompanied by a large increase in net financial inflows (from \$76 billion in 1989 to over \$110 billion in 1990). This increased financing included a sharp rise in net *external borrowing* to an estimated \$60 billion, largely reflecting increased borrowing by creditworthy countries in Asia and exceptional financing (including the accumulation of arrears) in the Western Hemisphere. The increase in net financial inflows allowed all developing countries to boost *official reserves* by \$35 billion in 1990. The rise in official reserves was concentrated in Asia and in the group of 15 heavily indebted countries that boosted their ratio of reserves to imports of goods and services to 23 percent.

The accumulation of \$8 billion in arrears accounted for about a quarter of

the external financing for countries with recent debt-servicing problems, even though the number of countries experiencing such arrears declined from 59 in 1987 to 53 in 1990, with the bulk of the arrears concentrated in a small subset of countries. In some cases, payments were suspended while negotiations were under way for the full regularization of creditor-debtor relations. In several other countries, the total stock of payments arrears (including principal) declined in 1990 as a result of reschedulings, debt forgiveness by some bilateral official creditors (including a few developing countries), and debt- and debt-service-reduction operations with commercial banks. Several countries that account for a large share of total payments arrears have already made marked progress toward normalizing relations with external creditors. A commitment to the process of privatization as part of public sector reform in many indebted countries, combined with debt-equity transactions, has contributed to improved debt management and has attracted additional foreign direct investment flows.

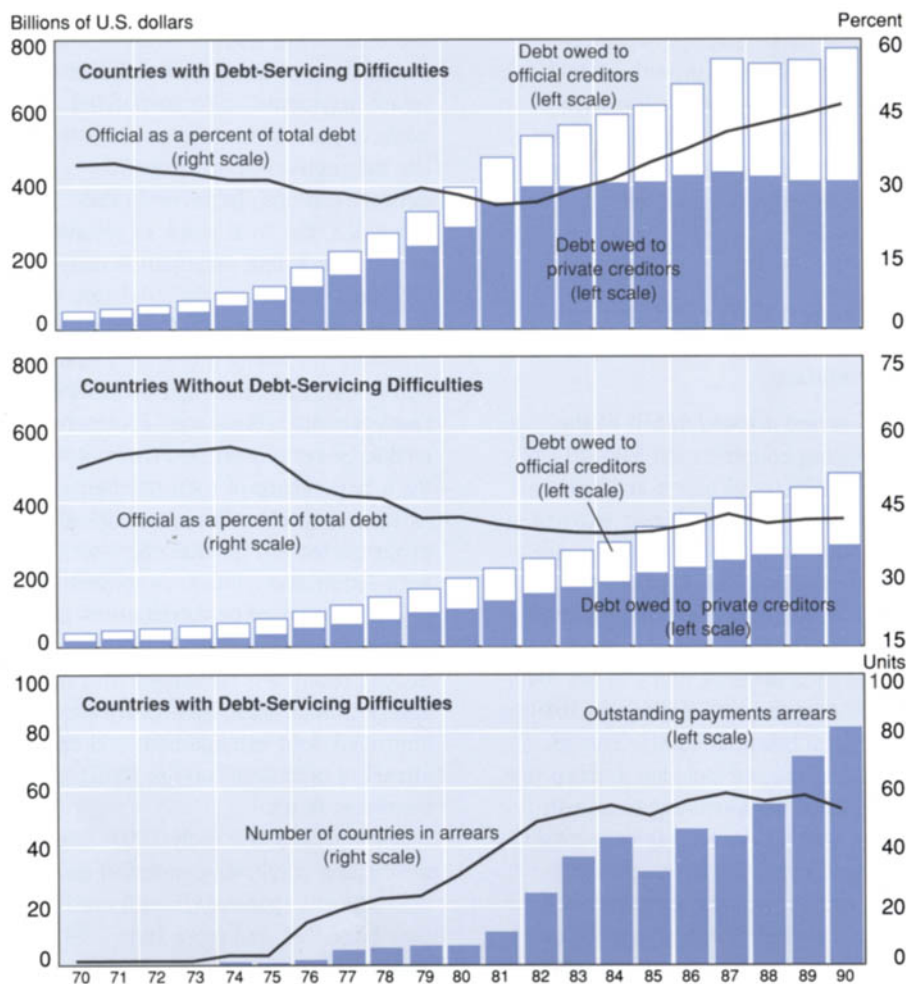
During 1990 and early 1991, several developing countries concluded *debt-restructuring agreements* with creditors (see page 39), and since June 1990 Niger, Uruguay, and Venezuela have completed debt- and debt-service-reduction packages with commercial banks, while Nigeria has reached an agreement in principle. The agreement with Niger, the first package involving a low-income debtor country, will be supported by official funding from the World Bank's International Development Association Debt Reduction Facility. In addition, Chile signed a multiyear rescheduling agreement and Senegal concluded an agreement to reschedule repayment of its debt over ten years. As regards official bilateral debt, several low-income coun-

⁴ The data in this section exclude Bulgaria, the Czech and Slovak Federal Republic, and the U.S.S.R.

Chart 8

External Debt

(In billions of U.S. dollars and percent)



Staff estimates indicate that the *external debt* of all developing countries (excluding Fund credit) increased by nearly 6 percent in 1990 and reached \$1,306 billion by the end of the year (Chart 8). The increase resulted from aggregate net new borrowing (\$50 billion) and from valuation adjustments reflecting the depreciation of the U.S. dollar vis-à-vis other major currencies (\$51 billion), partly offset by the impact of various debt reduction operations and debt forgiveness by official bilateral creditors (\$29 billion).

tries, including Guyana and Niger, benefitted from concessional options in Paris Club reschedulings. Several proposals were made in 1990 to increase the concessionality of Paris Club reschedulings for indebted low-income countries. Steps were also taken to reduce bilateral debt or interest payments for certain middle-income countries. In September 1990, the Paris

Club agreed to provide longer maturities and grace periods in the reschedulings for the lower middle-income countries, as well as limited bilateral debt conversions on a voluntary basis; and in April 1991, Paris Club creditors agreed on a menu of options to reduce the present value of the stock of Poland's official bilateral debt by 50 percent in two stages.

1. Surveillance

The Fund fulfills its surveillance mandate in two key ways: by examining each member's policies and performance and through regular discussions of the world economic outlook. In its latest review, the Executive Board recognized that the scope of surveillance had broadened to include structural and other issues relevant to understanding broad macroeconomic developments and the context in which macroeconomic policies are formulated and implemented.

The Fund's regular consultations with its members have paid increased attention to the need for corrective policies to have a medium-term orientation, the desirability of raising domestic savings, and the role of structural policies in enhancing economic performance.

The Board expects that the recession that began in 1990 in a number of industrial countries will be relatively short-lived. However, concerns persist over the slowing of growth in Europe, continued uncertainties in the Middle East, and the problems associated with reforms in east Germany, Eastern Europe, and the U.S.S.R. The outlook for the developing countries is less favorable than had been expected. While many of these countries have embarked on policy reforms with Fund support, their immediate prospects are uncertain.

The Fund's mandate to exercise firm surveillance over the exchange rate policies of its members forms the basis of its oversight of the international monetary system. This mandate requires the Fund to oversee the full range of each member's macroeconomic and relevant structural policies—as these collectively determine

the setting in which members conduct their exchange rate policy—and to evaluate each member's economic performance for the benefit of all members. Such surveillance by the Fund rests on the principle that sound and consistent economic policies will lead to stable exchange rates and an expanding world economy, together with low inflation and the avoidance of excessive external imbalances.

The Fund fulfills its surveillance responsibility in two key ways: by examining each member's economic policies and performance (bilateral surveillance) and through Board discussions of the world economic outlook (multilateral surveillance). Both of these involve the active participation of member countries. In the first instance, a Fund staff team visits each member country regularly (usually at annual intervals) to gather information and consult with the authorities about their policies and economic performance; the result is a staff report that in most cases is discussed by the Board. In addition, the Board meets regularly—generally twice a year—to assess the interaction of economic policies and to discuss economic prospects for the world economy under various policy assumptions. These discussions permit reviews of members' policies from a multilateral perspective and allow for systematic monitoring of the global economic situation.

Apart from these principal means of surveillance, the Board periodically discusses exchange rate developments in the major industrial countries, as such developments have a large impact on the world economy. In addition, the Fund's Managing Director takes part in the policy coordination discussions of the Group of Seven industrial countries. He not only addresses economic developments and policies within and among the Group of Seven countries, but he also brings

a global perspective to these meetings that calls attention to the interaction of policies internationally. This, in turn, helps support the efforts of the national authorities of the major industrial countries to consider the global consequences of their domestic policies. The Fund also provides technical assistance to member countries in several areas relevant to macroeconomic policy implementation. Such assistance is provided through advisory visits, formal training, and advice given during periodic consultations.

At its April 1991 meeting, the Interim Committee underscored the Fund's key role in assisting the countries seriously hurt by the Middle East crisis. Fund surveillance, policy advice, technical assistance, balance of payments support, and mobilization of other financial and technical assistance are vital in helping several countries in the region formulate the appropriate macroeconomic and structural policies. The Committee also considered essential the roles of national governments and international institutions in providing financial and technical support to those Eastern European countries seeking to introduce market-based systems while addressing internal and external imbalances. Foreign private capital, nevertheless, would be expected to play an increasingly important role in meeting the requirements of these countries. The Interim Committee encouraged the Board to continue evaluating the functioning of the international monetary system, emphasizing the positive contribution of policy coordination to the evolution of the system.

Analytical Framework. Fund surveillance seeks to foster more consistent and disciplined policies on the part of its members. The Fund contributes to policy coordination through its work on key economic indicators and on alternative medium-term scenarios. The

Box 2

The IMF Executive Board, the Interim Committee, and the Development Committee

The Executive Board (the Board) is the Fund's permanent decision-making organ, composed of 22 Directors appointed by member countries or elected by groups of countries. Chaired by the Managing Director, the Board usually meets several days a week to conduct the business of the Fund. Prior to reaching decisions, it discusses papers prepared by Fund management and staff. In 1990, the Board spent about half of its time on country matters (Article IV consultations, the review and approval of arrangements), and most of its remaining time on policy issues (such as quotas, surveillance, the debt strategy, and overdue financial obligations).

The Interim Committee of the Board of Governors on the International Monetary System is an advisory body made up of 22 Fund Governors, ministers, or others of comparable rank, representing the same constituencies as in the Fund's Executive Board. The Interim Committee normally meets twice a year, in April or May, and at the time of

the Annual Meetings in September or October. It advises and reports to the Board of Governors on the latter's functions of supervising the management and adaptation of the international monetary system, considering proposals by the Fund's Executive Board to increase quotas or amend the Articles of Agreement, and dealing with sudden disturbances that might threaten the international monetary system; the Interim Committee also advises the Fund's Executive Board on these matters.

The Development Committee (the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries) has 22 members—Governors of the Fund and the Bank, ministers, or others of comparable rank—and generally meets in conjunction with the Interim Committee. It advises and reports to the Boards of Governors of the Bank and the Fund on all aspects of the transfer of real resources to developing countries.

Fund staff prepares medium-term projections for a range of indicators that are used to help monitor and review the policies and performance of the large industrial countries. These indicators include, among others, real GNP or GDP, real domestic demand, gross private investment, GDP deflators, general government financial balances, and current account balances. The staff develops, for Board consideration, medium-term scenarios to illustrate the economic consequences of

alternative policy paths in member countries and to help identify areas of potential conflict that may require the attention of policymakers. Fund surveillance also extends to the monitoring of structural policies and their consistency with macroeconomic policies and exchange rate developments.

The Board conducted its biennial review of surveillance in the second half of 1990 and early 1991. Directors reaffirmed the Board's role in the implementation of surveillance. They

recognized that the scope of surveillance in recent years had broadened in response to changes in the domestic and external environment of members and to a recognition that structural developments may have a material impact on overall economic performance and policy formulation. This tendency should not, Directors believed, come at the cost of the coverage and quality of treatment of the "core" macroeconomic issues of surveillance that have important implications for achieving reasonable price stability, sustainable external positions, and orderly economic growth. Indeed, focusing on those structural issues having a broad impact should improve the quality of the Fund's analysis and policy advice. It was recognized, however, that the Fund may not have the expertise to address fully some structural issues, and Directors thus encouraged the staff to draw on the expertise of other organizations, as appropriate, when addressing issues outside of core areas.

The world economic outlook exercise, in the Board's view, would continue to evolve as a multilateral framework for surveillance, as well as a basis for integrating the analysis of individual countries—particularly the seven major industrial countries—into a larger multilateral context. The Board welcomed the added emphasis on the systemic implications of country developments in both bilateral and multilateral surveillance. A number of Directors suggested that bilateral consultations be framed more explicitly against this multilateral setting—especially where alternative scenarios could result in substantially different individual country prospects.

The movement toward increased liberalization and integration of capital and goods markets and toward economic integration of member countries within specific regions also poses

greater challenges for Fund surveillance and policy coordination. In general, the Board favored a more regional and cross-country perspective for surveillance, especially when macroeconomic policy is institutionally coordinated or centralized. The circumstances of different countries would have to be taken into account, however, and Directors emphasized the need for consultations with the national authorities of each country within the group. It was suggested that more could be done in the framework of the world economic outlook exercise to integrate analyses of groups of countries in order to address regional or cross-country issues.

Any strengthening of Fund surveillance, in the Board's view, would not come from modifications to the Fund's basic principles of surveillance, which remain valid, but rather from members' willingness to give full consideration to the views expressed by the international community—through the forum of the Fund—in formulating and adopting their own macroeconomic and structural policies.

Article IV Consultations

Fund staff teams meet periodically with the authorities of member countries to collect and analyze a wide range of economic and financial information. The information allows the Fund to appraise the member's overall economic situation and policies, discuss policy options, and make recommendations. Consultations are mandated in Article IV of the Fund's Articles of Agreement, or charter. Through them, the Fund fulfills its obligation to exercise surveillance over the exchange rate policies of its members. In principle, consultations are held annually; they may, however, occur less frequently, depending on the member's circumstances.

Consultations begin with Fund staff reviewing policy, institutional, and statistical information on all aspects of the balance of payments; capital flows; national accounts; government accounts; money and credit; and wages, prices, and interest rates. This is followed by discussions with the authorities to evaluate the effectiveness of economic policies since the last consultation—and whether they contribute to noninflationary growth and sustainable external positions—and advise how these policies might be modified in the coming year. The discussions include an assessment of progress in eliminating any exchange and trade restrictions. The Fund staff team then prepares a detailed report, which in most cases is discussed by the Board. A summary of the discussion, often containing suggestions about how to strengthen areas of policy weakness, is later transmitted to the member's government.

Consultations help draw attention to the international implications of policies and developments in the economies of individual countries—especially the major industrial countries whose policies have a major impact on the global economy. Consultations also keep the Fund informed of economic developments and policies in member countries, which permit it to respond quickly to member requests for Fund financing and to proposed changes in policies or practices that require Fund approval.

The specific nature of consultations is determined by the characteristics of the member country and the prevailing external economic environment. In recent years, greater attention has been devoted to the following:

- The need for corrective policies to have a medium-term orientation.
- The need to raise domestic savings—both public and private—in view of the increasing constraints on the

supply of global savings, and to stimulate more productive investment.

• The role of structural policies in enhancing economic performance. These policies are aimed at improving the functioning of economies by expanding productive capacities through, for example, financial and tax reforms, privatization, and measures to enhance labor market flexibility. They include measures to eliminate the inefficient use of resources and allow more rapid adjustment to technological innovations, changes in relative prices, or trade liberalization; and measures that increase output potential by expanding the supply of productive resources or raising overall productivity.

Most consultations with members are held annually.⁵ The “bicyclic” procedure—introduced in 1987 to help reduce the frequency of Board discussions while maintaining the quality of Fund surveillance—provides for a consultation with a Board discussion every second year; in intervening years, the staff holds interim consultation discussions with the member and submits a report to the Board on these discussions, but this does not normally constitute a consultation with the Fund. In February 1991, as part of its biennial review of the implementation of surveillance, the Board modified the bicyclic procedure to provide for annual consultations, under which the interim staff reports could either be discussed by the Board following a request by either an Executive Director or the Managing Director, or the consultations completed by decision but without discussion. Some support was expressed for expanding the bicyclic procedure to more countries.

In 1990, the Fund completed 92 full consultations, covering 60 percent of the membership. This compared with

⁵ Consultations with some members occur every 18 months or every 24 months.

99 consultations, covering 65 percent of members, in 1989. The decline was more than accounted for by a fall in the number of consultations with developing countries, particularly those with arrangements under discussion; it also reflected the preference of the staff and country authorities to submit the consultation report jointly with other requests or program reviews. Consultations were completed for 72 developing countries last year, representing a 10 percentage point drop in coverage from the preceding year. At the same time, the number of full consultations with industrial countries rose substantially, with the proportion covered rising to 83 percent. The increase was attributable to the fact that 9 of the 22 industrial countries are currently on the biennial schedule and 7 of these countries were discussed by the Board in 1990, compared with 2 in 1989.

Industrial Countries

United States

At its October 1990 Article IV review of the U.S. economy, the Board concluded that slow economic growth in the United States appeared unlikely to lead to recession, although the rise in oil prices increased the downside risks. The Board believed that a strategy that would address near-term problems in a longer-term perspective was required. The risks of recession should be minimized, but an excessive focus on near-term problems could jeopardize long-term economic goals. Budgetary issues were of particular interest to the Board since the U.S. review took place prior to the enactment of the 1990 Budget Act. The main task confronting the U.S. authorities, in the Board's view, was to ensure that their policy actions were consistent with strong growth over

the medium term, together with lower inflation and a smaller current account deficit. The key ingredients of such a strategy included a fiscal policy aimed at boosting national saving, a monetary policy committed to fighting inflation, and structural policies geared to enhancing economic efficiency.

The Board took note of the progress achieved in cutting the fiscal deficit as a percent of GNP and supported the thrust of the authorities' budgetary objectives (including a federal budget surplus roughly equivalent to the social security cash flow surplus by the mid-1990s). Directors were concerned, however, about the worsening in the fiscal outlook since the January 1990 budget and about the outcome of ongoing budget negotiations between the Administration and the Congress. In view of the national savings problem, the Board believed that the authorities should strive for major progress on the fiscal front. Many Directors underlined the importance of setting a path for the fiscal balance consistent with the authorities' medium-term budgetary goals. These Directors were concerned that budget summit participants might limit the deficit cuts for fiscal 1992 (October 1991 to September 1992) to below the amount needed to meet the Gramm-Rudman-Hollings targets for fear that larger cuts would trigger a recession.

In view of the prospects for sluggish growth, the Board considered the possible short-term effects of a substantial budget reduction in 1990/91. Many Directors favoring a fiscal cut that met the Gramm-Rudman-Hollings target felt that a large, front-loaded reduction would stimulate domestic investment and exports. A few others were dubious of a large fiscal cut in light of the already marked slowing of output growth. These Directors preferred a less front-loaded, multiyear package that nonetheless entailed gen-

uine cuts, one that clearly demonstrated the authorities' commitment to deficit reduction. Such a package, in their view, while not fully meeting Gramm-Rudman-Hollings targets, could muster sufficient credibility to yield substantial benefits.

Most Directors saw a need to complement spending cuts with revenue measures. In this connection, many Directors recommended introducing energy taxes; these would also promote energy conservation and environmental objectives. Some Directors also advocated introducing taxes on consumption, including possibly a value-added tax, and removing tax preferences that discourage saving. The Board stressed the importance of budget reforms to ensure full implementation of the agreed cuts in the fiscal deficit—including a Gramm-Rudman-Hollings provision for adjustment over the course of a fiscal year.

On the external front, the Board believed that the large current account deficit was a manifestation of a low national saving rate, rather than of strong investment. The solution was to raise saving; in particular, to bolster the fiscal position and to eliminate distortions affecting private saving decisions. Although market-induced exchange rate changes or partners' policy actions could reduce the current account deficit, such a narrowing without an increase in national saving would take its toll on domestic investment. The Board reaffirmed the importance of policy coordination as an effective means of correcting external imbalances among the major industrial countries in the context of sustained world economic growth and price stability.

On exchange rate policy, the Board noted the decline in the dollar's exchange value in the preceding 6 to 12 months. A number of Directors felt that exchange rate changes could play

a role in external adjustment, provided they were accompanied by appropriate domestic policies. They underscored the importance of U.S. policies that would allow the dollar depreciation to assist external adjustment without thwarting capital formation and price stability.

The Board noted that monetary policy faced a difficult situation of sluggish growth combined with relatively high inflation. Monetary policy had so far succeeded in avoiding a serious rise in inflation without precipitating a recession, albeit with little progress toward the Federal Reserve's long-term goal of price stability—a goal strongly supported by the Board. In the Board's view, the United States, as the main reserve currency center, had a responsibility to preserve the value of the dollar as the main anchor in the international monetary system and thus firmly to contain inflation. In particular, in light of the prevailing oil market instability and depreciation of the dollar, many Directors called for continued prudence in monetary management to assure that these developments would not lead to a lasting rise in inflation. The Board emphasized that a significant tightening of fiscal policy would facilitate the task of monetary policy. At the same time, many Directors called for caution in easing monetary and credit conditions even after a fiscal correction was put in place.

The Board was encouraged by the authorities' commitment to a more open trading system through a successful conclusion of the Uruguay Round. Directors believed that the world trading system was at a critical juncture and urged the U.S. authorities to maintain their traditionally strong stance against protectionism, to continue to play a leadership role in the Uruguay Round, and to take concrete steps toward eliminating long-

standing trade barriers—such as those in the textile area.

In other areas of structural policy, Directors welcomed the proposed measures to encourage private saving, although they questioned the likely size of the effects. A few were concerned about the possible fiscal implications of tax incentives for private saving. Several Directors commented on the apparent fragility of the U.S. financial system; they were interested in the forthcoming review of the deposit insurance system and possible proposals for reform. As to infrastructure investment, the Board welcomed the Administration's proposals for redressing emerging problems in the transport system, but the U.S. authorities still needed to review comprehensively capital requirements of the public sector and the level of government at which they should be funded.

The Board commended the U.S. role in global efforts to deal with the debt problems of developing countries. These initiatives had to be buttressed by efforts to ensure satisfactory and durable economic growth and world trade. In this connection, the Board underscored the need for the major industrial countries to pursue sound economic policies and to keep their markets open. The decline in U.S. official development assistance as a percent of GNP was a cause for concern, and the Board urged the authorities to reverse this trend.

By the spring of 1991, following the Board discussion, two notable events had taken place. The first was that the economy had entered a recession, which appeared likely to be shorter and shallower than the average. The other was the enactment of a budget agreement, intended to reduce the fiscal deficit by a cumulative amount of nearly \$500 billion over the next five years relative to what it would have been.

Japan

Japan had managed to achieve a fifth year of economic expansion, with rapid output growth in 1990/91 led by domestic demand and the current account surplus narrowing further. Although the high level of resource use had contributed to an acceleration of price pressures, such pressures had eased somewhat more recently. Japan's sustained growth with price stability owed much to the authorities' sound financial policies.

At its July 1991 discussion of the Japanese economy, the Board generally considered Japan's economic prospects to be favorable, with economic activity slowing moderately to a sustainable pace. A few Directors urged the authorities to remain vigilant over cost and price pressures and to gear their policies toward achieving a further reduction in price pressures. They considered that the attainment of price stability in Japan would have both domestic and global economic benefits. At the same time, the Board encouraged the authorities to step up implementation of structural reforms, which would expand the economy's supply potential while enhancing welfare; action in the structural area was especially important in light of longer-term considerations associated with the prospective aging of the population.

Directors noted that the July 1 cut in the official discount rate had occurred in an environment of moderating price increases. Since aggregate demand was still rising rapidly and the labor market was strained—while the risk of a sharp slowing of output growth appeared low—most Directors believed that monetary policy should remain tight until underlying price pressures had subsided. It was important, in this connection, that the official discount rate cut not be seen as a

relaxation of the commitment to stabilize prices. Directors noted that a restrained monetary stance would also help support the exchange rate of the yen, which appeared weak relative to fundamentals. On the other hand, the view was expressed that inflation risks should not be exaggerated; neither should the risks of continued monetary tightness for economic growth be underrated.

The Board commended the authorities' conduct of fiscal policy in fiscal year 1990/91. The progress achieved in fiscal consolidation was consistent with the need for a cautious policy stance in view of the sustained strength of private domestic demand in the past year. For 1991/92, most Directors supported the broadly neutral fiscal stance envisaged and agreed that fiscal consolidation should be continued over the medium term in light of likely fiscal pressures associated with the aging population. At the same time, Directors generally thought that these concerns should not compromise the need for greater investment in the social infrastructure. Some other Directors questioned the need for further fiscal consolidation. They also urged the consideration of measures to reduce labor market pressures.

Directors observed that, after a sharp narrowing in recent years, the current account surplus was expanding again. The expected range of the surplus was not, in the view of many Directors, a cause for concern, and any such concerns should not compromise the pursuit of price stability. Other Directors, however, believed that the world economy did not need a larger Japanese external surplus. They and others stressed that an expected increase in the surplus underscored the need for stronger market-opening efforts by Japan, in light of rising trade tensions with Japan's trading partners. Further, on Japan's external position,

the view was expressed that in an environment of free trade and the absence of structural distortions, one should accept the current account position that would result.

The area of trade policy presented Japan with an opportunity for further reform that could yield considerable domestic and international benefits. All Directors urged Japan to take bold steps in opening up its markets further and, in particular, to reduce the protection and domestic support of agriculture. Such actions were especially important at a time when all countries had to help bring the Uruguay Round to a successful conclusion. Directors noted the further progress in financial and tax reform, but saw substantial scope for action remaining in other structural areas.

Japan was commended for having become one of the largest providers of official development assistance and its plans to double such assistance under the current five-year plan were welcomed. The Board also welcomed Japan's intention to strengthen the link between its development assistance and the policies of recipient countries.

Germany

The Board, at its September 1990 discussion of the German economy, commended the German authorities for the historic achievement of economic unification in a climate of stability and confidence. Directors focused their comments on how policy should respond to the domestic pressures unleashed by German economic, monetary, and social union and on the international consequences of this union. The Board was also interested in ensuring a smooth and fast transformation of the command economy of the former German Democratic Republic into a market economy.

Germany was in a favorable position to meet the challenges ahead. Monetary

policy was focused on checking inflation and inflation expectations, and money growth had been on target since the beginning of 1989. Fiscal restraint had led to substantial cuts in direct taxation, improved incentives, and a financial surplus for the general government in 1989. Economic growth was strong in 1990 for the third consecutive year, unemployment had fallen sharply, and inflation remained moderate. The large balance of payments surplus, a concern of recent years from an international perspective, was expected to narrow as resources were diverted to supporting development in east Germany.

There was some concern in the Board that, given the high degree of capacity use in Germany and much of the industrial world, demand pressures could reignite inflation; another view was that German capacity limits were not as rigid as previously thought. The Board believed that prospective changes in the balance of savings and investment in Germany and the rest of the world had put upward pressure on inflation-adjusted interest rates. Higher interest rates had had adverse implications for investment in general, but particularly for the indebted developing countries. It was thus important to direct global efforts to raising the supply of savings and to ensure that savings were allocated to productive ends.

The stance of economic policy was particularly important as Germany would be faced with a sharp increase in demand induced by reunification. Macroeconomic policy therefore needed to be sensitive to resource pressures resulting from increased demand, while structural policies had to help ensure that the higher demand elicited a substantial output response with a minimal effect on prices.

In the area of monetary policy, the Board commended the authorities'

management of the monetary union between east and west Germany. The Board endorsed the authorities' determination to resist inflation. Given the money management problems entailed by monetary union, the Board believed the authorities should pay greater heed to a broad set of economic indicators—including exchange rates and interest rates.

On the exchange rate—and particularly with respect to parities in the exchange rate mechanism (ERM) of the European Monetary System—Directors expressed contrasting views on the impact of German economic and social union and the appropriate policy response. One view held that a revaluation of the deutsche mark within the ERM would help alleviate the negative impact of German union on other ERM participants. Other Directors thought that a realignment was not warranted in light of anticipated developments in current account balances and the markets' relative inflation expectations; also, a realignment might jeopardize progress toward convergence of inflation and inflation expectations, which was a central goal of the ERM.

The Board was concerned about the prospective sharp rise in the fiscal deficit. Government borrowing in 1990–91 was likely to be much greater than initially projected, owing, in significant part, to measures aimed at sustaining consumption and employment in east Germany. The larger deficits would add to demand pressures and increase the burden on monetary policy. Although Germany would remain a net supplier of savings to the rest of the world, some Board members feared that larger government deficits would strain the already scarce supply of global savings. Most Directors felt that attempts to rein in deficits should focus on cutbacks in certain government subsidy programs.

Although the authorities were reluctant to raise taxes, the worsening fiscal situation argued for such action. A number of Directors felt that, if increases in taxes were necessary, they should apply to indirect taxes, in view of the effort to reduce direct taxation and the possible need to boost value-added tax (VAT) rates as part of the harmonization of indirect taxes within the European Community (EC). Some others were concerned, however, that increases in indirect taxes could have undesirable implications for prices; they thought that a temporary rise in direct taxes might be more appropriate. In early 1991, Germany decided to increase taxes in response to additional unexpected budgetary costs, resulting from financial assistance to Eastern European countries and the U.S.S.R., larger output losses in east Germany associated with the breakdown of CMEA trade, and Germany's financial contributions in connection with the Middle East crisis.

The Board expressed regret at the pace of structural reform. Labor market rigidities were limiting the potential supply of labor in the Federal Republic. Also, trade liberalization in such areas as agriculture, iron and steel, and textiles would help expand domestic supplies and aid the developing countries, which are important exporters of these products. In this connection, the Board urged the authorities to help assure the success of the Uruguay Round; while most trade issues had to be dealt with multilaterally, a number of Directors noted that Germany could also act alone in such areas as coal, shipbuilding, and aerospace. The agenda for structural policies was particularly pressing for the former German Democratic Republic. In the industrial sector, the challenge was to identify viable firms and ensure that they did not grow dependent on official support. The Board questioned

the management of the public Trust Fund, which had assumed management of most of the public assets of the former German Democratic Republic; some of the operations of this Fund, the Board felt, could serve to delay structural adjustment and privatization in east Germany and might have unfavorable fiscal and monetary consequences.

The Board emphasized that private investors would have to play a central role in order to realize the potential of economic and social union. Policymakers should thus establish an economic environment conducive to private initiative and avoid ad hoc policy intervention. Important, in this connection, were the establishment of an economic framework conducive to private initiative—in particular, a quick resolution of issues related to property rights; reconstruction of the public infrastructure and establishment of an efficient public administration; and an evolution of labor costs in line with productivity developments.

In sum, the authorities' management of economic and social union was commendable, but the rapidly deteriorating fiscal situation and the direction of industrial policy were causes for concern. The Board hoped that Germany's attention would not be diverted from the needs of other countries undergoing structural change toward a market system or from the plight of many developing countries. In this context, Directors welcomed the increase in Germany's official development assistance.

France

France's economy improved markedly during the three years leading into 1990. Although growth had since slowed, the underlying economic situation was considerably better than in the first half of the 1980s. The improvement owed largely to the stead-

fast pursuit of policies aimed at reducing inflation and enhancing the supply of productive resources. These policies, which were anchored by a commitment to a fixed exchange rate and supportive monetary and budget policies, had led to a major reduction in inflation. Moreover, wage restraint and fiscal and structural reforms had bolstered the performance of enterprises, leading to a fundamental improvement in the economy's productive capacity. As a result, French output and employment had grown strongly, unemployment had receded somewhat, the current account had remained near balance, and inflation had stayed low and improved relative to the average of France's partners in the EMS. The Board, discussing the French economy in September 1990, commended these achievements, which had enabled France to participate fully in the resurgence of economic activity in Europe.

The Board believed that, in consideration of the still high unemployment rate, it was important for the authorities to continue—and indeed reinforce—their efforts to adjust policies so as to strengthen the responsiveness of the economy further. Continued policy adjustment was especially urgent to enhance external competitiveness in light of prospective European developments; German unification, the single European market, and the market-oriented restructuring of Eastern Europe would present French producers with steadily mounting competition. The Board therefore welcomed the authorities' continuing commitment to corrective policies and their intention—embodied in the 1991 budget—to reinforce the adjustment strategy and not to accommodate the rise in oil prices stemming from the Middle East crisis.

Fiscal policy, in the Board's view,

should continue to aim at restraint. The growth of public spending should be held below that of GDP, to support a gradual reduction of the fiscal deficit and to provide scope for further tax cuts. These tax cuts should seek to strengthen incentives and the position of enterprises. In this connection, the Board welcomed the authorities' decision to cut the corporate tax rate on undistributed profits. Although the cuts in VAT rates would help lower inflation and hasten the harmonization of VAT rates within the EC, they were implicitly at the expense of cuts in direct taxes. Consequently, a number of Directors felt that the French authorities, and perhaps those of other EC countries, should reconsider the degree to which they should reduce reliance on indirect, rather than direct, taxes.

The Board agreed that the overall tax burden in France was too high. The Government needed to redouble its efforts to curb nonpriority spending. Particular concern in this respect was expressed about the social security funds; prospects for spending on pensions and health care were especially worrisome. The Board commended the authorities' plans to broaden the base of social security contributions to include nonwage income, as this would lower the opportunity cost of hiring labor; however, the new funding arrangements should be implemented in a way that did not lead to additional spending.

With respect to monetary policy, the Board noted that the improvements in controlling inflation might provide new room for maneuver on interest rate policy, consistent with France's EMS commitments. Nonetheless, most Directors believed that the authorities should continue giving priority to completing the process of disinflation; this would enhance the credibility of policies, strengthen long-

term external competitiveness, and foster price stability in Europe—which would advance progress toward European economic and monetary union.

Directors emphasized the importance of complementing policies of budget and monetary restraint with market-oriented structural reforms—particularly in the labor markets. In this connection, Directors were concerned about possible actions that would hinder labor market adjustment by raising the relative cost of unskilled labor; they were also concerned that measures to index minimum wages to average wages would undermine efforts to sustain wage moderation and reduce unemployment. They urged the authorities to address labor market imbalances, mainly through manpower training programs, and not to add to rigidities in the labor market.

In the view of a number of Directors, the scope for reductions in protectionism afforded by the Uruguay Round represented the best and most immediate way to improve resource allocation. In this view, the authorities should act more forcefully to maximize the long-run benefits for both France and the world economy of multisectoral reductions in trade barriers, and particular emphasis was placed in this regard on agriculture and textiles. The Board urged the authorities to contribute fully to a successful conclusion of the Uruguay Round and to support a liberal external payments regime as the EC moves toward a single market. Directors commended the authorities for the increase in official development assistance as a share of GDP, for their intention to raise this share gradually, and for their efforts to reduce the debt burden of low-income countries.

United Kingdom

Despite a tightening of monetary policy since mid-1988, the U.K. econ-

omy performed more strongly than expected during the first half of 1990, with clear signs of a sharp slowing of activity emerging only in the third quarter. The unexpected persistence of demand growth contributed to a further rise in underlying inflation. Indeed, as of February 1991—when the Board considered the U.K. economy—inflation was about 3 percentage points above the average of countries participating in the ERM of the EMS, although this partly reflected special factors, and the gap has since narrowed. While deepening recession was a matter of concern, Directors believed that the key policy challenge facing the authorities was to reduce inflation to the level of the United Kingdom's low-inflation partners in the ERM; in this connection, they warmly welcomed the Chancellor of the Exchequer's statement that bearing down on inflation is and will remain the Government's top priority.

Directors noted the United Kingdom's October 1990 entry into the ERM, which would strengthen the framework for the anti-inflation strategy and in time might be expected to mitigate the costs of reducing inflation. They emphasized, however, that ERM membership would not automatically confer enhanced credibility on policymakers; rather, any such gains in credibility would have to be earned by adhering to consistent anti-inflation policies. ERM membership had heightened the urgency of a quick alignment of U.K. inflation with that of its low-inflation partners in the ERM, especially because of the importance assigned to a strong currency in the fight against inflation.

The Board believed that interest rate policy had to be managed in a way that established the United Kingdom's credibility in the ERM; monetary policy should continue to be concerned with achieving a rapid fall in

inflation, and not with short-term domestic economic considerations. The majority welcomed the authorities' intention to conduct interest rate policy with regard to the pound sterling's standing in the ERM. A number of Directors thought that the changed focus of monetary policy following ERM membership also implied that fiscal and wage policy should contribute more to the goal of price stability.

The Board commended the Government's prudent medium-term management of its public finances. In the period ahead, fiscal policy needed to remain tight in order to ensure the success of ERM entry. On this basis, the Board counseled that targets in the 1991/92 budget should signal clearly to the markets that fiscal policy would continue to support a fall in inflation. Some Directors were concerned about a further economic weakening and cautioned against an overly tight fiscal stance. In his 1991 budget, announced after the Board's consideration of the U.K. economy, the Chancellor reasserted the objective of a balanced budget over the medium term.

On the external front, concern was expressed by some Directors that the current account deficit could remain sizable after inflation convergence was achieved. Large deficits could put pressure on interest rates and on the exchange rate, notwithstanding the country's strong external asset position. These Directors suggested that policies should therefore be consistent with improving external competitiveness. In this connection, they called for renewed efforts to enhance the growth of productivity and wage flexibility through further structural reforms, especially in the labor market. More recent data reveal a substantial reduction in the United Kingdom's current account deficit and significant progress toward inflation convergence.

ERM membership implied ambitious goals for reducing wage and price inflation in the United Kingdom. Some Directors felt that policy should focus on making wages more responsive to market conditions, while others considered that the authorities could take greater responsibility in determining wages.

Directors welcomed the U.K. commitment to a liberal system of international trade. Some encouraged the authorities to increase the ratio of official development assistance to GDP.

(In 1990, the Fund established a consultation relationship with Hong Kong. It concluded a consultation with Hong Kong in January 1991 as part of its consultation with the United Kingdom, in view of Hong Kong's status as a U.K. territory.)

Italy

Italy's improved economic performance in recent years permitted the removal of all remaining exchange controls and the entry of the lira (in January 1990) into the narrow band of the ERM of the EMS. Unemployment was still high and progress on reducing inflation to the level of Italy's core partners in the EMS remained elusive, in the wake of near-full-employment pressures in the center and north of the country, as labor costs were elevated by excessive wage increases and continued labor market imperfections.

The Italian authorities see the commitment to a stable exchange rate as a fundamental component of the substantive actions needed to lower inflation, contain labor costs, and restore fiscal discipline. The Board welcomed the authorities' determination to participate fully in the process of European integration.

The Board, in reviewing the Italian economy in February 1991, noted that fiscal retrenchment was more modest

than targeted, despite continued buoyant economic activity. And significant structural measures had yet to be taken to curb the growth of public spending over the medium term, or to reduce the sizable economic imbalances among regions. There were signs of a weakening in Italy's competitive position, and the need to sustain the stable exchange rate policy heightened the urgency of fiscal and wage restraint.

In the first half of 1990, the increased credibility that followed the entry of the lira into the narrow band of the ERM led to lower interest rates, which helped contain the budget deficit; at the same time, reserves continued to expand and the lira stayed strong. The renewed rise in interest rates that followed, together with the relative weakening of the lira within the ERM band, suggested that market sentiment remained sensitive to adverse changes in the domestic economy and in the external environment.

Directors reiterated their support for the authorities' medium-term policies of fiscal adjustment, but saw the policy objectives as minimum requirements. They were concerned about the consequences of a slowing economy for fiscal revenues and cautioned that insufficient fiscal correction in 1991 could derail the adjustment program. The Board thus encouraged the authorities to take additional corrective measures during 1991 to keep the budget on target and to help stabilize the public-debt-to-GDP ratio by 1992. Cuts in spending would be key to fiscal restraint, as tax rates were already at, or above, average EC levels and progress on tax administration was hard to achieve. Prime targets for spending cuts included health, pensions, public sector wages, and public transport. More rapid progress toward privatization

would also reduce the fiscal debt burden and the size of the public sector and enhance overall economic efficiency; privatization could not, however, substitute for fiscal adjustment. Several Board members, while endorsing the goal of decentralized responsibility for public revenue and expenditure decisions, doubted that the local authorities could exercise more discipline than the central government. They were also concerned that such a strategy might worsen regional disparities.

The Board welcomed the increase in employment evident in all regions, but was concerned about high unemployment in the south. It repeated its calls for greater differentiation in labor costs to reflect regional productivity differences, and for the removal of obstacles to labor market flexibility and labor mobility. Finally, the Board commended the authorities on the increase in Italy's official development assistance.

Canada

After seven years of expansion, Canada's economy moved into recession in the spring of 1990. The onset of recession was preceded by the emergence of strong demand pressures, rising inflation, and a tightening of policies to control demand. The Board, meeting in February 1991 to discuss the Canadian economy, concluded that the authorities needed to act to keep the recession from becoming a prolonged downturn while at the same time laying the foundation for a robust and sustained expansion.

Many Directors agreed that the economy may have turned the corner on inflation; others were unconvinced, and Directors generally cautioned that the path to resuming sustained growth might not necessarily be smooth. The economy was characterized by a number of strains. Inflation-adjusted short-

term interest rates and the exchange value of the Canadian dollar remained high, profit margins were squeezed, and wage pressures persisted. These strains appeared to be traceable, in large part, to a sizable fiscal deficit, which placed an undue burden on monetary policy and complicated efforts to lower inflation expectations. It was important to address these problems in order to restore healthy and durable growth. The key ingredient in the Board's view, was a substantial, front-loaded fiscal correction that would assist monetary policy in establishing a noninflationary environment. There were, however, some concerns that a sizable fiscal cut at a time of weak demand might erode business confidence and worsen the economic downturn.

On the monetary front, it was important to avoid any action that might be seen as lessening the commitment to price stability. While acknowledging that some further easing in monetary conditions might be feasible if the recession deepened, the Board believed that any lasting change in monetary conditions would have to await additional corrective steps on the fiscal side, an easing of wage pressures, and a lessening of inflation expectations. In this connection, any meaningful easing of monetary conditions should be related to the size of the fiscal correction.

The persistent upward pressure on wages concerned many Board members, who wondered how institutional and structural aspects of the labor market could be adjusted to yield the required flexibility. The Board encouraged the Canadian authorities to show maximum restraint in public sector wages, both at the federal and provincial level, with some Directors seeing a role for incomes policy.

With respect to the balance of payments, the large current account defi-

cits of recent years concerned some Directors. The Board cited, in this connection, the appreciation of the inflation-adjusted exchange rate in the wake of the authorities' firm monetary stance. Many Directors stressed that strong fiscal policy action could play an important role in adjusting the real exchange rate and in ensuring an improvement in the current account.

In the event, the budget for 1991/92 presented in February 1991, following the Board discussion, included substantial deficit-cutting measures; it projects that the federal deficit on a public accounts basis would decline to 1 percent of GDP by 1995/96. It also establishes guidelines for wage settlements in the Federal Government and sets a target path for inflation intended to promote achievement of price stability over the medium term.

In the area of structural policy, the Board commended the authorities for the major initiatives they had launched—including the introduction of the goods and services tax—and for their efforts to reform financial markets and the pension system. Directors underscored the need for greater market orientation in the agricultural sector; government assistance to agriculture remained large, which had negative consequences for economic efficiency and the budget.

The Board welcomed the authorities' efforts to foster a freer trade environment. It commended Canada's record on development assistance, although it was noted that spending on aid had been reduced in the past two budgets; some Directors hoped that efforts at fiscal correction would not lead to further cuts in development assistance.

Smaller Industrial Countries

Article IV consultations with the smaller industrial countries echoed

many of the issues raised in assessments of the larger developed countries. They generally emphasized the need for the sustained pursuit of sound macroeconomic policies, combined with structural reforms to enhance overall efficiency and flexibility.

Most of the smaller industrial countries experienced continued growth in 1989–90, with generally moderate inflation, although several experienced slowdowns and others overheating of their economies and rising price pressures. The Board commended the efforts of many countries that had sustained comprehensive economic and structural reforms over a period of years; these were generally aimed at greater labor market and price flexibility, and at more liberalized trade policies and financial markets.

For most countries, Directors welcomed a strengthened commitment to exchange rate stability, which had helped enhance price stability; for those countries preparing for the single European market in 1992, a "hard currency" policy (that is, pegging to the currency of a country with an established reputation for price stability) was also helpful in promoting progress toward monetary union in Europe. A policy of exchange rate stability, however, required the appropriate macroeconomic and structural policies. For some European countries preparing for the single market, the Board cited the need to harmonize monetary instruments and policies (and ensure central bank policy independence), as well as to harmonize tax instruments to improve the competitiveness and efficiency of goods and factor markets and the financial system, and to bolster external competitiveness.

A recurring theme of consultations with the smaller industrial countries was the need for added fiscal restraint—to contain inflation and ease the pressure on monetary policy—and

for strengthening fiscal consolidation to increase national savings and stabilize public debt. The recommendation for fiscal restraint was frequently accompanied by a call for structural reform of the fiscal system; such reforms would include, for example, reducing the size of the public sector through selective spending cuts, reforming the tax system and tax administration, and, generally, setting fiscal policy on a medium-term path. In most cases, the Board advised that fiscal consolidation be accomplished through cuts in spending. Another common theme was the need to reduce high levels of unemployment, mainly by easing labor market rigidities (for example, through greater wage differentiation, improved occupational mobility, and elimination of wage indexation). The Board commended many of the smaller industrial countries for their generally liberal trading systems, although it counseled several to reduce trade barriers, particularly with respect to products exported by developing countries. Directors also commended many of these countries for their favorable records on overseas development assistance.

Developing Countries

Difficult external financing conditions and the unfavorable global environment constrained the economic performance of many developing countries in 1990 and underlined the importance of the pursuit of sound macroeconomic policies to reinvigorate growth and control inflation. The Board, in its many Article IV consultations with developing countries in 1990–91, reaffirmed the primacy of sound domestic policies to help dampen excess demand pressures, accompanied by structural reforms to increase the supply of productive resources. Directors commended the

sustained pursuit of cautious monetary and fiscal policies of many developing countries, frequently combined with far-reaching structural and financial-market reforms. Many countries, however, needed to implement reforms with greater determination and consistency. Fiscal restraint was a common theme—to be achieved mainly through selective spending cuts—and some countries needed firmer monetary control. The developing countries' own adjustment efforts, however, needed to be supported by a favorable external economic environment, with improved access to industrial country markets. The impact of open markets on the external viability of developing countries is crucial. These countries also required adequate flows of external financing—whether on commercial or concessional terms—and many needed help with their heavy debt burdens.

A recurring theme of discussions with developing countries in 1990–91 was the need to sustain broadly based macroeconomic stabilization and structural reforms over the medium term, avoiding an on-again off-again approach to adjustment. Perseverance was needed in light of the seriousness of these countries' problems, their limited resources and often rapid population growth rates, and the increasingly competitive global economic and financial environment. At the same time, developing countries were encouraged to protect the poorest and most vulnerable from the impact of corrective policies by targeting assistance to these groups.

Indebted Developing Countries

For the indebted developing countries, the Board reaffirmed the importance of sound domestic policies geared to increasing savings and investment and to using these resources more effectively. These countries had

to create an environment conducive to capital formation and foreign direct investment, and one that would attract the repatriation of flight capital. In some cases, a reduction of debt and debt service, in conjunction with strong economic and structural policies, would contribute to higher economic growth and could help restore access to spontaneous credits from international capital markets. The Board welcomed the successful conclusion of financing packages involving debt and debt-service reduction with commercial banks by a number of countries; some of these countries managed to regain limited access to spontaneous lending.

The specific policies needed to bolster economic growth and price stability in the developing countries vary according to the circumstances of each country. In general, however, Article IV discussions stressed the importance of reducing budget deficits by curbing public sector wages and employment, reducing subsidies, and scaling back transfers to public enterprises. On the revenue side, the Board frequently cited a need for greater efforts to broaden tax bases and strengthen tax administration to improve compliance. Reduced fiscal deficits were considered important goals as they help curb inflation and prevent a crowding out of private investment. Consultations also stressed the need for sustained structural reforms in the public sector, reinforced by other reforms. Such reforms would help encourage private investment; strengthen the external position by, for example, promoting export diversification; and support fiscal consolidation by making tax systems and public enterprises more efficient. With respect to public enterprises, the Board called for close monitoring of financial and economic performance; more frequent price adjustment, in certain

cases; and accelerated privatization or, where appropriate, restructuring.

Exchange rate policies remained a vital aspect of Article IV consultations with developing countries, although exchange rate practices and systems of members are diverse and Fund policy advice is not uniform. In consultation discussions during 1990–91, the Board emphasized repeatedly that exchange rate adjustments and policies had to be supported by the appropriate economic and structural policies; if, for example, a devaluation is not supported by tight fiscal and monetary policies and wage restraint, it could lead to spiraling wage increases and rising inflation by igniting inflation expectations. The Board stressed the need for realistic and consistent exchange rate policies that promoted external adjustment and growth, while facilitating monetary control and stable prices. Many developing countries had taken positive steps—including unification of exchange markets—and had acted to reduce or eliminate exchange and trade restrictions; some continued to maintain overvalued currencies and multiple exchange rates. A number of countries had managed to reduce their external debts, while others needed more prudent debt management. The Board commended a few countries that had eliminated arrears in 1990; those with outstanding arrears were advised to eliminate these quickly and normalize relations with creditors. For many low-income countries engaged in medium-term economic adjustment programs, the Board stressed that the success of these endeavors required external financing on concessional terms and a determined pursuit of reforms.

Other general themes of consultations with developing countries included the need to adopt flexible and realistic pricing and interest rate policies (the latter entailing positive real

interest rates to encourage savings); reduce administrative controls and give greater latitude to private activity; reduce subsidies; diversify economic bases; rebuild international reserves; remove trade restrictions (or substitute tariffs for quantitative restrictions); and make good use of foreign and Fund technical assistance to enhance economic and administrative capacities.

Eastern Europe

Article IV consultations with Eastern European countries welcomed the comprehensive and ambitious stabilization and structural reform programs and generally counseled their quick implementation. This often required immediate steps to liberalize prices and the external trade and payments system and to unify and adjust the exchange rate. The discussions emphasized tight monetary and fiscal policy to prevent inflation and unsustainable external imbalances in the wake of price and external sector liberalization. They recommended privatization or restructuring of public enterprises to enhance efficiency in the context of creating an environment hospitable to entrepreneurship, economic transformation, and growth. They also cited the need for financial and banking reforms to promote financial intermediation. Given the magnitude of the reforms required, consultations with these countries stressed the need for adequate social safety nets to cushion the effects of, for example, large increases in unemployment. They also underscored the critical need for various forms of external financing and, in some cases, debt-reduction assistance.

The reform programs of Eastern European countries share four goals.

First, the wholesale replacement of central planning and management by a market-oriented system characterized

by market-determined prices, flexible capital and labor markets, the legalization of private property, and adoption of open trade and investment policies toward the rest of the world. This last consideration, in turn, virtually mandates creation of convertible currencies.

Second, establishment of a viable financial system founded on market-based interest rates to encourage adequate savings, an efficient allocation of capital, and the development of equity markets. Supervisory institutions for the oversight and regulation of the new financial world will also have to be created. At the same time as they take these steps, the authorities must establish independent financial institutions, including an autonomous central bank; a system of nondiscriminatory VAT-style indirect taxation; a comprehensive personal income and corporate tax system; a network of reliable statistics; and consistent accounting and auditing standards.

Third, measures to liberalize the operation of firms and markets. A necessary task facing Eastern Europe is the transfer of ownership of previous state assets to private hands. Doing so will encourage private investment and improve resource allocation.

Fourth, creation of a viable social safety net. Falling production and rising unemployment are already common throughout Eastern Europe. If the new governments are to be successful in carrying forward systemic reforms, they must have programs in place to cushion the short-term impact, such as funds for unemployment insurance and job retraining.

All Eastern European countries face a difficult economic environment in 1991. The switch of CMEA trade to world prices with settlement in hard currencies, while it will promote long-run efficiency gains, nevertheless imposes large additional costs on

Eastern European countries' balance of payments in the short run. The change in CMEA arrangements has involved major disruptions in regional trade, which are being intensified by economic dislocation in the U.S.S.R.

Several countries in the region were hit by drought in 1990, and this shock continues to have an adverse impact on their balances of payments in 1991. The prevailing unfavorable economic environment provides the background to, and added stimulus for, the major program of reform launched over the past two years.

The Board discussed these developments at a March 1991 seminar. Directors noted that the cost of reform in Eastern Europe, in terms of time, lost income, and lost output—although inevitable given the structural reforms that were necessary—had been much higher than anticipated. Directors were of the view, however, that a more gradual approach would only prolong the difficult transition period. In view of these obstacles, Directors noted the desirability of making progress on all fronts at once, with structural reforms in the areas of trade, price liberalization, banking, and privatization. Far from being discouraged from tackling serious reform programs, Eastern Europe's new governments have faced up to the costs involved and are moving forward boldly.

Bulgaria

At its March 1991 discussion of the Bulgarian economy, the Board strongly commended the authorities for launching an accelerated program of reform within a short period of time after joining the Fund. It was emphasized that, while the program represented a sharp break with the past, there were no viable alternatives to an ambitious and frontal approach. All speakers agreed that Bulgaria's large

inherited disequilibria, combined with the break up of the CMEA system on which Bulgaria had been heavily dependent, left little latitude for phasing in stabilization and structural reforms. The priorities and pace of the program were endorsed, particularly the up-front measures to liberalize prices and the external trade and payments system, eliminate the monetary overhang, and seek an early start to privatization and other structural reforms.

The Board broadly supported the Bulgarian authorities' reliance on floating exchange rates and the newly created interbank market for foreign exchange. It was generally agreed that the tight financing constraints and the lack of reserves, together with uncertainties surrounding the likely equilibrium exchange rate, were persuasive arguments in favor of the authorities' policies.

Comprehensive structural reforms, in the Board's view, were required to support stabilization and attract foreign investment. The Board commended the authorities for the progress already made but noted a long agenda of legislative and institutional changes that demanded further attention. Beside financial institution reform, the most urgent priorities lay in the state enterprise sector. While expecting that small-scale privatization could proceed with relative speed, Board members cautioned that the larger state enterprises posed the biggest threat to the current program. Restructuring and privatization of these enterprises would provide a critical test of Bulgaria's reform process.

The Board underscored the crucial role external assistance was likely to play in 1991. It was recognized that Bulgaria would make substantial demands on Fund resources, and the Board indicated its readiness to consider such requests in view of the

scope of the current adjustment program and Bulgaria's obvious need for external finance. Directors further noted that the 1991 financing gap relied heavily on funds supplied by the Group of Twenty-Four industrial countries and the World Bank, without which the reform process and its speed would be seriously threatened.

The Board recognized that the budgetary targets were ambitious, but saw no alternative if the large macroeconomic disequilibria were to be eliminated in an orderly manner and commended the far-reaching structural reforms on both the revenue and expenditure sides. Given the difficult reform process ahead, the Board attached importance to the provision of a sizable social safety net.

The authorities' monetary and credit expansion limits won support. Given the country's exchange rate objectives, however, the Board underlined the need for flexibility in administering the new interest rate structure, and urged the authorities to resist pressures to reduce interest rates prematurely, before there was sustained evidence that inflationary expectations had been subdued.

The Czech and Slovak Federal Republic

At the Board's January 1991 review of the Czechoslovak economy, the authorities were complimented for their commitment to a comprehensive, well-balanced, and far-reaching reform program to transform the economy by adopting market mechanisms. It was stressed that the key to success lay in actions to liberalize prices and trade and exchange relations, along with quick implementation of the privatization program.

The Board welcomed recent increases in prices of energy products as a means of passing through higher import costs. Concern was, however,

expressed that some of the increases in retail prices of non-oil energy products had been delayed until March, and the Board emphasized the importance of implementing the delayed price increases by that date. More broadly, the Board looked forward to early elimination of the remaining price and export-licensing regulations, while emphasizing that temporary safeguards and transitory arrangements should not become permanent. The Board welcomed the authorities' resolve to curb inflationary pressures by continuing to adhere to restrictive fiscal and monetary policy and to a tax-based incomes policy that should substantially curb excessive wage increases.

Concern was voiced at the prospect that output would continue to decline in 1991, bringing rapid increases in unemployment. The Board expressed the view that a successful transition to a market economy and prompt return to positive growth would depend on the pace of structural reforms. Many on the Board considered that these structural reforms should not be permitted to lag behind tight macroeconomic policies. The Board emphasized, in particular, measures involving privatization, hard budget constraints on enterprises, the introduction of bankruptcy legislation, and the dismantling of monopolies.

The Board recognized that Czechoslovakia's reform program entails major risks. The scope and rapidity of planned institutional changes envisioned by the program are considerable, and the Government could be expected to come under pressure to relax its stance, particularly if output and inflation turn out worse than expected.

The crucial role expected to be played by external financial assistance was underscored. The Board saw the need for the Fund to provide strong

support at the beginning of the program through the stand-by arrangement and access to the newly created oil import element of the compensatory and contingency financing facility (see section on Fund financial support, below). Directors agreed it was necessary to reverse the large decline in international reserves in 1990 and to provide adequate reserves in 1991 to support the exchange rate policy.

Hungary

At its review in February 1991, the Board welcomed Hungary's program of economic reforms, viewing it as a comprehensive response to many weaknesses that had hampered production and contributed to the rise in external debt. By narrowing domestic and external imbalances, a stronger foundation had been established for the Government's medium-term program, and there had been a substantial improvement of the current account in convertible currencies. Continued determination in preventing the re-emergence of an unsustainable external deficit, combined with the authorities' determination not to seek external debt rescheduling, would, in the Board's view, be essential to rebuild the confidence of Hungary's creditors. The Board also welcomed the authorities' goal of reducing the state's economic role by privatizing state assets and curtailing state budget expenditures.

Concern was, nevertheless, expressed in the Board about the acceleration of inflation in 1990. While the current high rates of inflation largely reflected price adjustments, Directors stressed the importance of strengthening the financial discipline of enterprises and of stronger competition in goods and factor markets throughout the economy. Accelerating structural reform would increase price respon-

siveness to tighter monetary and fiscal policies. Another virtue of structural reform, in the Board's view, would be to increase the availability of goods.

The planned convertibility of the forint for current transactions would play an important role in promoting a market-based reallocation of resources toward efficient and profitable production and investment, in the Board's view. A number of Directors, however, encouraged the authorities to commit themselves to more rapid progress toward convertibility, including capital account convertibility.

It was recalled that reaching the fiscal target in 1990 required corrective budget adjustments at midyear. Given the large external and internal uncertainties, the Board called for continued close monitoring of fiscal developments and for not delaying necessary corrective measures.

Poland

The Board's April 1991 review of Polish economic performance and its approval of an extended arrangement for that country reflected strong approval of the authorities' ambitious stabilization and structural reform measures. The Board also expected rapid progress on structural reform to enhance supply responses and to speed the transition to a market economy. Sharply lowering the inflation rate, eliminating shortages, achieving a substantial fiscal surplus, and replenishing foreign exchange reserves were considered by the Board to be major successes. At the same time, while the Polish authorities were credited for the progress they had already made in institution building and in enacting legislation, achieving longer-term systemic changes had proven to be more difficult and time consuming than initially envisaged. The fall in output had likewise been sharper than expected; the subsequent recovery,

moreover, was sluggish, and efforts at midyear (1990) to stimulate output had revealed that earlier stabilization gains had been rather fragile—serving to underline the economy's underlying vulnerability.

The Board therefore endorsed the authorities' renewed commitment to strong stabilization policies and to accelerated structural reforms. With respect to stabilization policy, the Board endorsed the goal of reducing inflation to a single-digit annual rate by 1993. Directors further urged the Polish Government to make rapid progress on structural reform to enhance supply responses and speed the transition to a market economy. Without extensive and rapid privatization, the Board agreed that the successful shift to a market economy would be a difficult task indeed.

It was agreed that Poland's bold program of economic reconstruction deserved the exceptional support of the international community. Directors therefore welcomed the Paris Club's positive response to Poland's request for debt reduction, and looked forward to a speedy agreement being reached on comparable debt-reduction agreements with commercial banks and CMEA creditors. Noting that the precise modalities and implications of debt reduction had yet to be worked out, some members of the Board were uneasy about the implied uncertainty of external financing needs and underscored the importance of relatively long maturities for restructured debt and a graduated debt-servicing schedule. In supporting Poland's request for an extended arrangement, however, most Directors expressed confidence that the modalities of debt-restructuring agreements would contribute adequately to financing assurances over the medium term and, of course, appropriately protect the level of reserves.

The unprecedented reform path on which the Polish authorities are embarked inevitably involves uncertainties. The Board, however, concluded that, in general, a gradual approach to reform entailed greater risks than an accelerated one. This was highlighted by economic developments in other CMEA countries, notably the U.S.S.R., which could undermine Poland's growth objectives and, with it, the social consensus in favor of a sustained adjustment effort.

Romania

In its October 1990 review of Romania's liberalization program, the Board agreed with the authorities' conclusion that comprehensive structural reform in a setting of tight fiscal and monetary policies provided the only viable path to economic renewal. The Board accordingly endorsed the measures already taken, including abolition of central planning along with steps to liberalize economic activity. Directors stressed the importance of financial sector and fiscal reform and expressed concern over the substantial declines in output over the first eight months of 1990; in view of excess liquidity, the recent growth in money incomes was judged by the Board to be excessive and it warned that if this trend were not reversed, the reform process itself could be jeopardized.

At an April 1991 review of Romania's reform program, the Board commended the authorities' commitment to accelerated economic transformation as reflected in the country's 1991 reform program, notably with respect to steps already taken to dismantle the centrally planned system and to establish the institutional and legal framework of a market economy. Directors welcomed approval of the law transforming most state enterprises into commercial companies and the

measures undertaken to significantly liberalize prices and trade.

The Board noted the crucial role of tight fiscal and monetary policy and welcomed the tax reform measures taken in 1990, which were designed to increase the coverage and elasticity of the tax system, and encouraged them to continue their commitment to adjustment measures in this field. Directors recognized that monetary policy would continue to serve as the main nominal anchor preventing price level adjustments from turning into an inflationary spiral. The financial liberalization program, which includes the removal of ceilings on interest rates and the implementation of new laws on banking activities, was welcomed by the Board.

Though the Board recognized the necessity of having a dual exchange rate policy, there was some concern about the possible harmful effects of this policy on employment and prices; all Directors urged early unification of the official and interbank market rates. They also observed that Romania's balance of payments outlook was uncertain and noted that the strategy of paying off the entire external debt in the late 1980s had exacted high costs in the form of impaired living standards, declines in net investment, and stagnation in real GDP. The Board stressed that the country's successful adjustment would depend on external support.

Yugoslavia

Though Yugoslavia is not a member of the former CMEA area, its economic structure and the problems deriving from it make it an integral part of the broader reform process transforming Eastern Europe. In reviewing Yugoslavia's progress in March 1991, the Board drew attention to the authorities' remarkable success in reducing inflation from very high levels at

the end of 1989 to virtually zero monthly inflation in the second quarter of 1990. The Board also indicated that it was encouraged by the development of a liberalized domestic pricing system for most goods and a unified exchange market, which, at least until recently, was maintained relatively free of restrictions on current account transactions. Directors welcomed the private sector's response to economic liberalization, and they urged the authorities to speed the transformation of social enterprises into entities with clearly defined ownership rights and to restructure the banking system.

The Board noted, however, that the authorities' capacity to master inflation had proved short-lived, largely because there had not been the necessary wage restraint at the local and federal level. Political pressures, along with delays in clarifying ownership of social resources and tightening financial discipline, were largely responsible for this reversal.

The Board endorsed the authorities' intention to pursue a tight monetary policy, stressing that such action would require removal of the remaining institutional obstacles to central monetary control and an expansion of the monetary instruments available to the National Bank. Directors placed special emphasis on eliminating the ability of regional national banks and accounting offices to undermine monetary policy. To strengthen monetary control in the short term, temporary limits on bank credit had proved useful, but these should not become a substitute for reserve money management. Directors cautioned against a return to administrative controls on interest rates, emphasizing the importance of keeping interest rates at internationally competitive levels.

Much concern was expressed about the ability of the federal authorities to reestablish effective control over eco-

Box 3

Study of the Economy of the U.S.S.R.

The joint study on the Soviet economy, requested by the Heads of State and Government of the seven principal industrial countries and the President of the Commission of the European Communities at the July 1990 Houston Economic Summit, was completed by the Fund, the World Bank, the Organization for Economic Cooperation and Development (OECD), and the European Bank for Reconstruction and Development (EBRD) in December 1990. Three volumes of background papers were published in March 1991.

Convened by the Fund, the study was to undertake a detailed examination of the Soviet economy, make recommendations for its reform, and establish criteria under which the international community could most effectively support such actions. The joint study's recommendations were submitted to summit participants in December 1990 and published shortly thereafter. It concludes that, notwithstanding present Soviet reform efforts, a total transformation of the U.S.S.R.'s economy promises to be an extraordinarily complex undertaking that will take many years to complete.

The Board discussed the study at a seminar in January 1991. Directors supported the views put forward in the study that restoration of financial

stability, a large-scale up-front liberalization of prices, and ownership reform were the three prongs of a successful reform. The need for a substantial tightening of fiscal and monetary policies was emphasized both in view of the already sizable monetary overhang, as well as the growing risk of fiscal and financial imbalances and inflationary pressures.

Directors emphasized the complications resulting from the unsettled financial and legal relations between the union and the republics, which might hamper the pursuit of all-union fiscal and monetary policies. In this connection, it was suggested that the Soviet economy might benefit from the experience of the members of the European Community in strengthening cooperation in economic and fiscal and monetary policies. However, it was also suggested that the sheer size and diversity of the U.S.S.R. argued in favor of a certain degree of decentralization of economic policy-making. Several speakers saw merit in giving greater consideration to the sequencing of reforms, but in general the view prevailed that it was preferable at this stage to emphasize the need for comprehensiveness—in other words, that there should be substantial progress in a number of areas simultaneously.

economic policies and to carry out structural and institutional reforms. Several Directors observed that the sharp loss in competitiveness in 1990 was only partially compensated for by the recent steep devaluation.

The Board expressed concern that the constitutional division of powers

between the federation and republics would frustrate efforts to obtain binding commitments on spending, and that outlays associated with stabilization and reform would accordingly be sacrificed. In this regard, the Board was also seriously concerned about a shortfall of revenues due the federa-

tion from the republics and about increased federal budget arrears.

World Economic Outlook

The *World Economic Outlook* report analyzes current economic conditions and describes short-term and medium-term prospects for the world economy, the major industrial countries, and other industrial and developing country groups. The report serves as the basis for regular reviews by the Board and the Interim Committee of the interaction of the economic policies of member countries and their effect on the international monetary system. By integrating analyses of the economic policies of individual countries in a multilateral context, the world economic outlook exercise provides a global framework for surveillance conducted through Article IV consultations with individual countries. In doing so, it draws attention to potential conflicts and tensions that may arise between countries if prevailing economic policies continue unchanged. It also constitutes a framework for analyzing key global issues, such as the adequacy of global savings, the debt problem, economic policy coordination, the international monetary system, and regional and cross-country issues.

Global Situation

In its discussion of the world economic outlook in April 1991, the Board expected that the recession that began in 1990 in North America, the United Kingdom, and a few other industrial countries would, on the whole, be relatively shallow and short-lived. The Japanese and German economies were likely to continue to expand, albeit at a slower pace than in 1990. This "cyclical desynchronization" and consequent absence of synchronized policy re-

sponses among the major economies was, in the Board's view, a welcome development because it reduced the risk of a generalized slowdown in the world economy. The fall in oil prices and interest rates was expected to boost economic activity in the oil importing industrial countries, and consumer and business confidence were showing some signs of recovery.

Many Directors cautioned that a quick recovery was by no means assured, owing to the risks of continued fragility in some financial systems—particularly in the United States—the slowing of growth in Europe, continued uncertainty over the situation in the Middle East, and the problems encountered with reform in east Germany, Eastern Europe, and the U.S.S.R. Prospects for the developing countries were also uncertain and less favorable than previously expected, particularly in Africa.

In discussing developments relating to the crisis in the Middle East, the Board noted the effects of the sharp, albeit temporary, rise in oil prices in 1990. Although the direct external and budgetary impact of higher oil prices on the industrial countries was relatively small, the estimated costs to the oil importing developing countries were considerably larger and more prolonged, especially for those countries directly affected by losses of worker remittances, the need to resettle expatriates, and other disruptions stemming from the crisis in the Middle East. In responding to the crisis, the industrial countries—and many of the developing countries—had ensured that changes in oil prices were passed through to consumers. This pass-through was generally endorsed, since it was seen as preferable to subsidies or price controls; it was agreed that the pass-through should be symmetrical. One view was that domestic prices should in some cases be kept

high, despite a drop in world prices, for budgetary or environmental reasons. It was also acknowledged that, while taking account of environmental and budgetary concerns, taxation of energy products should avoid interfering with the efficient use of resources.

The Board stressed the importance of maintaining a cautious and steady monetary policy, focused mainly on reducing inflation, rather than on external developments; in this connection, the recent exchange rate changes (notably, the substantial strengthening of the U.S. dollar) were not seen as a major cause for concern. Although Directors were alert to the difficulties facing certain financial institutions, the solution was not to ease fiscal and monetary policies. A number thought that lower interest rates could be helpful, but this could only occur in many countries in the context of continued efforts toward fiscal consolidation.

During the discussion of the world economic outlook, Board members cited the many developing countries engaged in Fund-supported policy reforms, although they noted that these countries' short-term prospects were uncertain, as they depended upon the degree to which reforms would be implemented. Moreover, the external environment for the developing countries had deteriorated: growth in the industrial countries had weakened, non-oil commodity prices had fallen further, and, for the oil importers, fuel import costs had risen in 1990, although this increase was reversed in the early part of 1991. In addition, the conflict in the Middle East had severely disrupted the economies of some countries in the region and others in Africa and Asia. The worsened external environment had complicated the task of economic policy in several countries that had implemented or strengthened corrective policies. The

Board welcomed the increased flow of external finance to the developing countries in 1990, and noted that some countries with recent debt-servicing problems—which had sustained appropriate policies and restructured their external indebtedness—succeeded in regaining access to international capital markets in 1990.

Most Directors expressed concern about prospects for Eastern Europe, and especially for the U.S.S.R. Strong and comprehensive reform in these countries was desirable, they agreed, despite the adverse global environment and the short-term costs (in terms of output and employment) of adjusting their economies. The transition to a market system with new relative prices would require a far-reaching restructuring of enterprises and industries. The Board had increasingly come to the view that the transition in Eastern Europe was likely to be more prolonged than initially thought and involve substantial losses in output and employment. As a result, many Directors stressed the need, on the one hand, for a social safety net, and, on the other, for access to the markets of industrial countries to ensure a successful transition. Some concern was expressed about the potential need for large external financing for the Eastern European countries over the medium term. Indeed, several Directors feared that financing constraints would slow the transition. The Board agreed that the best way to secure a steady flow of external capital was to sustain or accelerate the pace of reform, particularly structural reform and privatization. Directors noted that the Fund, which had already committed substantial financing for Eastern Europe, asked the staff to monitor closely economic developments and the progress of reform in the region.

The Fund would, however, continue to ensure that its assistance for Eastern European countries would not impinge on that provided for other developing countries engaged in macroeconomic and structural reform.

The Interim Committee, meeting on April 29–30, 1991, just two weeks after the Board review, largely concurred with the Board's expectations about the weakening of economic activity in the industrial countries and the subsequent recovery. The Committee agreed that monetary and fiscal policies should be directed at laying a basis for lower real interest rates and sustained global economic recovery with price stability. It stressed the importance of increasing global savings. To help achieve these objectives, Committee members welcomed budgetary actions in several countries and urged others to step up efforts to strengthen their fiscal positions. They considered that coordinated macroeconomic policies had to be complemented by structural reforms aimed at increasing economic efficiency, particularly those designed to foster greater market competition, and at removing distortions affecting private saving, investment, and the allocation of capital. Such a medium-term strategy was crucial to raising investment and growth in the industrial and developing countries and to addressing the challenges of reform and reconstruction.

Committee members commended the Fund's prompt assistance to those countries seriously affected by the crisis in the Middle East. In some countries in that region, the effects of the crisis had compounded existing imbalances and structural maladjustments. The Committee encouraged the Fund to continue helping the affected countries adopt appropriate macroeconomic and structural adjustment policies.

With respect to Eastern Europe, the Interim Committee welcomed the

comprehensive efforts to introduce market-based systems. Despite the initial output and employment losses, it saw no alternative to strong and all-encompassing reforms if these countries hoped to achieve sustainable growth and full integration into the world economy. The Committee concluded that while financial and technical support by national governments and international institutions were essential at the current stage, foreign private capital flows would be expected to play an increasingly important—and eventually a decisive—role in meeting Eastern European financing and technical assistance needs; this would require, in turn, tangible progress toward a stable economic environment hospitable to private enterprise.

The Interim Committee was encouraged by the perseverance of a number of developing countries in pursuing comprehensive policy and structural reforms. It emphasized the indispensable role of adequate and timely external finance in support of reform policies in developing countries, including those that had avoided debt-servicing problems. It welcomed the progress achieved by several heavily indebted countries pursuing reforms in putting in place bank financing arrangements. At the same time, the Committee noted that difficult cases remained unresolved, and it urged all parties to expedite negotiations. The Interim Committee also underscored the importance of sustained support by official bilateral creditors. With respect to the poorest countries, the Committee welcomed the ongoing review in the Paris Club of proposed adaptations to debt-restructuring and debt-reduction practices to assure appropriate support for members embarked on broadly based reforms.

Both the Board and the Interim Committee expressed concern over

the failure to reach agreement in the Uruguay Round of multilateral trade negotiations. They agreed on the urgency of achieving a successful conclusion to the Round. (See discussion of international trade policy, Section 4, below.)

Industrial Country Policies

In discussing the industrial countries, the Board took note of trends in national saving and investment in the industrial countries and of the global adequacy of saving. Most Directors were concerned about the projected net absorption of world savings by the industrial countries over the medium term. The Board called for efforts to increase national saving and emphasized that, although careful consideration should be given to removing distortions that discourage private saving, the most direct way to boost saving was through more rapid reductions in fiscal deficits. At the same time, Directors stressed that an efficient allocation of savings at the national and global levels was just as important as a higher level of savings.

The Board drew attention to the projected use of savings to fund sizable central and general government fiscal deficits in a number of industrial countries. Although financing requirements remained large in some countries, Directors welcomed the deficit-reduction plans announced in the United States, Germany, and Canada. They commended the November 1990 budget agreement in the United States, although some questioned whether a full implementation of the measures would raise national savings sufficiently to meet domestic and external objectives. In Germany, the Board acknowledged the inevitability of some temporary worsening of the fiscal position, given the historical challenge of unification and the reconstruction of east Germany. The Ger-

man authorities had announced significant measures to limit the fiscal deficit and to ensure that it would decline over the medium term. However, the deficit still appeared to be far higher than previously thought, and several Directors believed that additional deficit-cutting measures might be needed to avoid upward pressure on interest rates and prevent adverse spillovers onto other EMS countries.

The Board, at its September 1990 world economic outlook discussion, welcomed the continued progress toward economic integration among EC members. Directors agreed that the Fund should continue to monitor closely these developments—including tax coordination—since the evolving institutional arrangements and the timing of subsequent stages in the process of integration would play a central role in the economic evolution of the EC and in the relationship between the EC and other countries.

Developing Country Policies

Although the global environment was difficult, the Board believed the developing countries could succeed in restoring sustained growth with sound corrective policies, consistently implemented. Directors cited the stronger economic performance of countries with relatively high saving rates in the 1980s and pointed out that several countries had recently adopted corrective policies that could improve their economic prospects, if they avoided policy slippages. The Board welcomed the Fund staff's alternative policy scenarios in the *World Economic Outlook* report; these illustrated the consequences of policy slippages and highlighted the importance of the external environment, and of adopting and sustaining policies that would promote domestic saving and investment and a more efficient use of resources.

External creditors had an important

role to play in assisting the policy reform efforts of the indebted developing countries. In addition, the Board emphasized the fundamental importance of creditor countries maintaining and

improving access to their markets. Most Directors also felt that debt-restructuring arrangements could help improve debtor countries' cash flow and reduce disincentives associated

Box 4

Currency Convertibility in Eastern Europe

Under Articles I and VIII of the Fund's charter, the attainment of currency convertibility to cover current account transactions by member countries is an objective of the Fund to which all members have subscribed. The Articles distinguish between current account convertibility and capital account convertibility by allowing members to restrict convertibility for capital transactions (Article VI, Section 3). Also, as defined in Article XXX (d), current transactions can include certain transactions of a capital nature—in particular, payments of moderate amount for amortization of loans or for depreciation of direct investments.

For the several member countries in Eastern Europe now transforming from centrally planned to market-based economies, the establishment of current account convertibility is a desirable objective, at least over the medium to long term. To guide member countries undergoing this transformation, the Board met in December 1990 to consider the issue of convertibility and its central position in a market-based economy. The discussion centered on the following issues:

- the point in the transformation process at which convertibility should be introduced;
- the necessary preconditions for convertibility;
- the desirability of introducing current account convertibility before

capital account convertibility; and

- the pros and cons of introducing transitional arrangements for limited convertibility prior to introducing full convertibility.

The economic benefits to be derived from current account convertibility were not in question: it would expose domestic production to the spur of foreign competition and relative prices, which were essential in providing the production and investment guidance that had been lost with the collapse of central planning systems. Directors also agreed that if the benefits of convertibility were not to be short lived, certain preconditions should already be in place: an appropriate exchange rate; adequate international liquidity (that is, reserves and foreign financing); the absorption of any liquidity overhang; and sound macroeconomic policies. The importance of tight budget constraints was also underscored, as well as the need for incentives that would induce enterprises to respond appropriately to market prices.

Directors' views differed over the speed with which countries should move to current account convertibility. Should convertibility be introduced early in the transformation process, even in the absence of some of the preconditions; or, should the preconditions be sufficiently well established to ensure the durability of the effects of convertibility? Adherents of early convertibility argued

with an overhang of debt. The Board concluded that additional flows of external financing would be required, not only for poorer countries caught in a low-saving, low-growth situation, but

also for those close to restoring normal relations with creditors. Directors also attached particular importance in this context to the Trinidad proposals of the U.K. Government (see discus-

sion of debt strategy, Section 2, below). It was also noted that the higher domestic saving, investment, and growth were in the developing countries, the greater was the likelihood of attracting private capital inflows.

that many countries no longer had the luxury of choice; central planning had ceased to function, leaving in its wake confusing and uncertain price signals, plummeting production, and inefficient production processes. Since relative prices were essential in defining trade, the early introduction of current account convertibility was crucial.

Those Directors favoring a slower approach, however, stated that countries with little experience of free markets (and none of the necessary machinery in place to conduct market-based trade) might be swamped by the short-term effects of early convertibility. Emphasis would need to be placed on monitoring external equilibrium; and the necessary depreciation of the currency to keep the production sector competitive could lead to a dramatic decline in real income. For many of the affected economies, convertibility without an appropriate exchange rate regime or sound macroeconomic policy package might not serve the intended purpose.

Those countries that were unable to respond appropriately to external price shocks or changes in the terms of trade might want to adopt transitional arrangements. For example, temporary import tariffs could be introduced to protect domestic production, provided they were packaged with measures to unify the exchange rate, remove quantitative import re-

strictions, and introduce current account convertibility, and provided there was a preannounced and credible system for phasing out the tariffs over time.

At whatever speed an individual country's circumstances dictated the introduction of convertibility, Directors generally agreed on the importance of moving early to unify the exchange rate for current account transactions, remove quantitative restrictions on trade, rationalize tariffs, and introduce a competitive system for allocating foreign exchange.

Although individual country circumstances would have to dictate the speed of transition, most Directors felt that current account convertibility should be established as early as possible, along with a comprehensive set of reforms sufficient to establish the preconditions. Countries concerned about capital outflows and runs out of the domestic currency could postpone introducing full capital account convertibility, although several Directors pointed to the benefits that inflows of foreign capital and managerial skills could provide for the transforming economies and doubted whether in any case capital controls could any longer be truly effective. These Directors emphasized that capital movements could contribute to macroeconomic stability and discipline and could encourage the development of the domestic financial system.

International Monetary and Capital Market Issues

In fulfilling its responsibility to monitor the operation of the world monetary system and identify possible improvements, the Board periodically discusses developments in this area. At an informal session in June 1990, Directors stressed the importance of Fund oversight of the international monetary system in light of its rapid evolution. They noted the range of emerging economic and monetary unions in different regions of the world, including German economic, monetary, and social union, and the broader European economic and monetary union; the issue of currency convertibility and potential payments systems in Eastern Europe (see box on currency convertibility in Eastern Europe); and changes in the provision, measurement, and management of international liquidity.

A major issue addressed at the Board discussion was whether an exchange rate system could help "anchor" monetary policy against inflation. The Board concluded that exchange rates alone could not anchor the monetary system; rather, responsibility for achieving price stability lay mainly with the fiscal and monetary authorities of each country. Directors noted that the growing importance of Japan and Europe made unrealistic any return to a Bretton Woods-type system in which world price stability depended almost entirely on control of inflation in one country. Board members agreed that rigid rules to guide monetary policy could prevent adequate responses to

unforeseen circumstances. They also agreed that monetary policy had too often in the past been overburdened and that well-disciplined fiscal policy had to assist monetary policy in promoting sustained, noninflationary economic growth.

Choice of Exchange Arrangement

In discussing the wide diversity of exchange rate arrangements prevailing in the world economy, the Board focused on three explanatory factors:

- the structural characteristics of an economy;
- the need to reinforce monetary policy credibility; and
- commitments to regional integration.

At an informal session on exchange rate policy issues in November 1990—during which Directors examined the experience with member countries pursuing Fund-supported policy reforms and assessed the Fund's exchange rate advice in the context of Article IV consultations—the Board agreed that no prescription for the choice of exchange rate regime or exchange rate management could be applied uniformly; rather, the particular circumstances of each country and the economic objectives of the authorities must be the main determinants. In particular, reservations were expressed about establishing rules for guiding the nominal exchange rate with reference to a real effective exchange rate target. Rigid adherence to such a target could prove destabilizing, not only because of the problems associated with indexation, but also because of the difficulty of identifying the equilibrium real exchange rate—which changes in response to domestic and external shocks. It was argued by some Board members that the Fund, while avoiding dogmatism,

should seek to give more consistent advice on exchange rate policy. They also believed that more stable exchange rates among the major industrial countries—achieved through better coordination of macroeconomic policy—would be conducive to a more stable international monetary system.

Regardless of the chosen exchange rate regime, the Board firmly believed that domestic financial and structural policies had to be geared to achieving price stability and maintaining or improving external competitiveness. For countries that had earned a reputation for financial discipline, the choice of exchange rate regime is not critical. For those countries with long histories of inflation and financial imbalances, the Board noted that exchange rate policy was secondary to appropriate fiscal and monetary policies in determining the success of economic stabilization efforts. In such cases, the view was expressed by some that a fixed nominal exchange rate could serve as an anchor for price stability, both by providing a benchmark for price level expectations and by clearly signaling the authorities' commitment to financial discipline. Such a strategy would require the authorities' firm resolve to maintain sound policies, and a commitment to significant prior policy actions, supplemented by access to adequate foreign exchange reserves (including foreign lines of credit) to defend the exchange rate. It was also noted that policymakers had historically been unwilling to subordinate fully domestic policies to an external discipline.

Where a country needs to adjust its real exchange rate, the Board agreed that an appropriate balance needs to be struck between restrictive policies and exchange rate adjustment, as the former would be likely to reduce output and the latter to increase inflation in the short run. Where external imbalances are large, for example, pur-

poseful and properly focused exchange rate action may correct underlying cost and price disparities and limit the cost of adjustment in terms of forgone output; such action must, however, be supported by restrictive monetary and fiscal policies and appropriate structural policies. In assessing the mix of exchange rate and other adjustment policies, the Fund needs to take into account the specific economic and institutional environment of the member country—including the exchange regime preferred by the authorities—while safeguarding its wider responsibility to oversee the stability of the global monetary system. Where countries are members of currency unions, which preclude exchange rate action and limit the scope of monetary policy (see box on CFA franc zone), the burden of adjustment in Fund-supported policy reforms must be borne by fiscal policy in conjunction with appropriate structural policies and wage restraint.

Evolution of the Monetary System

Some Directors saw the monetary system evolving in a "tri-polar" direction, based on the U.S. dollar, the yen, and the EMS. If the system were to evolve in such a tri-polar direction, the question would arise of how to limit more effectively serious misalignments or excess volatility among the major currencies. Should the exchange rates of the largest industrial countries—or across the three poles of the system—be subject to "loose and quiet" guidelines, or should they be guided by publicly announced targets or narrow ranges? Although the issue remains open, the Board reaffirmed that policy coordination among the industrial countries plays an important role in promoting greater exchange market stability and sustaining noninflationary expansion in the industrial world.

Box 5

CFA Franc Zone

The CFA zone is a currency union comprising 13 countries divided into two regional groupings—the West African Monetary Union (WAMU) and the Central African Monetary Area (CAMA).¹ Each region has its own central bank—the Banque Centrale des Etats de l'Afrique de l'Ouest, which serves the WAMU, and the Banque des Etats de l'Afrique Centrale, which serves the CAMA.

The CFA monetary arrangement consists of a common currency area with a fixed exchange rate. The two regions share an external monetary standard, the CFA franc, which is pegged to and freely convertible with the French franc at a rate that has remained unchanged since 1948: CFAF 50 = F 1. The French Government stands ready to support the convertibility of the CFA franc with overdraft facilities made available through the two operations accounts maintained with the French Treasury by each of the CFA zone's two central banks.

The fixed exchange rate requires that official reserves be maintained at a level sufficient to finance balance of payments deficits and that the domestic inflation rate be aligned with the external monetary standard—that is, the French franc. Maintaining a

fixed peg to a common external anchor, which requires adhering to a consistent set of macroeconomic policies, enhances the credibility of the zone's policymakers; remaining linked to a currency center, such as France, that has achieved financial stability assures the importation of that center's low inflation rates.

In the WAMU, the central bank is charged with the overall management of monetary and credit policy, within guidelines formulated by the Union's Council of Ministers. In the CAMA, monetary policy is determined by the central bank, while a Ministerial Council deals with monetary cooperation among the member countries. Monetary policy in the individual countries of the two zones is conducted by the national agencies, within the framework established by the two central banks. These countries, most of which are small developing economies, view the cost of giving up this autonomy as outweighed by the benefits of credibility, discipline, and price stability afforded by the attachment to a common external anchor. Monetary policy is conducted according to a set of rules that include specific objectives for the net foreign asset position of the central banks. In particular, the access of governments to monetary financing of their budget deficits is limited. The rules, which have generally been respected, have been successful in safeguarding the external position of the central banks, but less so in regulating internal imbalances, particularly since the limits on bank

borrowing do not extend to foreign borrowing.

At an informal Board discussion reviewing the CFA franc arrangement, held in November 1990, Directors noted that despite the different economic structures of the countries in the CFA zone and their unequal ability to weather external shocks, the CFA monetary arrangement had worked well over a long period in maintaining low rates of inflation, owing partly to political solidarity among the members. The common priority for maintaining low rates of inflation and the discipline displayed in the conduct of common monetary and exchange rate policy had not been emulated, however, in the conduct of other macroeconomic policies. As a result, zone members were experiencing problems, including large fiscal imbalances, a large volume of domestic and external arrears, a weakening of their financial systems, erosion of revenue bases, and structural constraints. These disruptions had coincided with a substantial downturn in the terms of trade and a loss of price competitiveness.

Although some Directors questioned whether it was practical to secure the necessary extent of adjustment using domestic policies alone, the Board recognized the commitment of the zone members to the CFA arrangement. Directors therefore concluded that there was an urgent need for strong fiscal policies, structural reforms, and containment of costs; this need was underscored by the fixity of the exchange rates.

¹ The seven member countries of the WAMU are Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, and Togo; the six member countries of the CAMA are Cameroon, the Central African Republic, Chad, the Congo, Equatorial Guinea, and Gabon.

Current Account Imbalances

Directors, at their June 1990 seminar on the international monetary system, discussed the current account imbalances among the major industrial countries and how to distinguish “good” from “bad” imbalances to guide Fund advice in this area. The view was expressed that such a judgment depended on the appropriateness of the fiscal position; whether the increased investment associated with the imbalance could provide a rate of return that exceeded the cost of borrowing; and whether any increased consumption associated with the imbalance could be seen as temporary or desirable. The Board concluded that in prescribing policy action to correct an undesirable external imbalance, one had to look at the source of the imbalance. Several on the Board thought it irrelevant to distinguish between good and bad imbalances, as the multilateral nature of the external adjustment process would inevitably involve adjustment of both types. A number of Directors stressed that current account imbalances could not be assessed without looking at global saving and investment needs. They pointed to a global shortage of savings and said that policies aimed at reducing external imbalances should take into account the need for higher savings. Others, while not challenging the need for increased global savings, argued that there was no less compelling a need to ensure that the process of adjusting external imbalances did not have a global contractionary bias.

Global Liquidity Management

Several Directors believed that an improved functioning of the monetary system required a better mechanism for creating and distributing international liquidity. Although some saw no need to enhance the role of the SDR

in managing global liquidity, a few felt that the SDR could and should play a larger role in the system. Several thought that this could best be achieved by increasing the attractiveness of the existing stock of SDRs.

Capital Markets

At its February 1991 discussion of international capital markets, the Board reaffirmed the overriding importance of sound macroeconomic policies in promoting financial market stability and confidence. This was especially noteworthy in light of recent shifts in the pattern of international capital flows, political and economic shocks to the markets, and longer-term changes in the structure of major financial systems. Capital market conditions had changed markedly over the course of 1990, the Board noted, from a situation of buoyant activity in a relatively stable macroeconomic setting to unsettled market conditions. Despite these difficult circumstances, the financial markets had once again demonstrated their resilience. Indeed, despite a heightening of risks for the major economies and a sharp rise in uncertainty wrought by the outbreak of the Middle East crisis, the markets experienced no significant disruption.

The economic slowdown in a number of countries raised concerns about the deteriorating quality of some bank loan portfolios and the potential fragility of financial institutions and markets in some important financial systems. A deep and prolonged slowdown would accentuate such concerns and limit maneuvering room for policymakers. In discussing the strains on the U.S. financial system, the Board welcomed the U.S. Treasury's proposals to provide for a safer and sounder banking system. There were concerns about financial fragility in other countries; qualifying these concerns, however,

was the fact that many major banks were better capitalized, were engaging in more careful risk-based pricing, and had often restructured in order to improve management of costs.

The major industrial countries responded appropriately to the market strains, in the Board's view, by enhancing their supervision and regulation; movement toward financial liberalization and deregulation, Directors felt, had to be accompanied by stronger supervision. In this connection, the Board cited the increased integration of capital markets and commended efforts—by the Basle Committee and other forums—to foster international harmonization and cooperation in the supervisory area. A number expressed the view that financial conglomerates should be supervised more effectively. Still, the Board recognized the limitations of regulation and the need to limit the moral hazard risks associated with comprehensive financial safety nets.

The Board discussed the prospect of a global scarcity of capital created by the low level of world savings. Some Board members believed that such concerns were exaggerated, particularly in view of the slowdown in some major economies, but others cited the potential demand for savings by developing countries and the need to finance postwar reconstruction in the Middle East. Directors agreed, however, on the urgent need to raise world savings, both by steps to encourage—or, in some cases, remove disincentives to—greater private saving and through fiscal restraint. A relaxation of capital adequacy standards in response to concerns about a so-called credit crunch would be inappropriate, in the Board's view. At the same time, banks' efforts to curtail the growth of their assets should not be pushed to the point of underfinancing otherwise creditworthy undertakings.

A careful balance had to be struck in pursuing sound lending standards.

Developing countries continued to face limited access to spontaneous bank credit in 1989–90, with few exceptions. At the same time, some countries with debt-servicing problems managed to restore gradually access to spontaneous capital flows, although the amounts were modest and the number of countries limited. Recent developments, Directors noted, confirmed that if developing countries wished to regain access to capital markets, they would have to implement and sustain appropriate macroeconomic and structural policies—including capital market liberalization. The tougher global competition for investment capital together with the “flight to quality” by investors underscored the central importance of sound economic policies in maintaining or restoring creditworthiness. Such policies, the Board emphasized, help reverse negative investor sentiment and foster

capital inflows, including the repatriation of flight capital.

Directors noted that new borrowings by developing countries could be promoted by certain financing techniques, although some of these had limitations of their own. Several Directors cautioned, for example, against widespread use of collateralization beyond a transitional phase during which it could help re-establish access to markets. While clearly less important than the quality of policies in debtor countries themselves, banking regulations in creditor countries might help debtors regain market access. At the same time, Directors stressed the importance of increasing direct investment and other non-debt-creating flows to the developing countries.

Causes and Consequences of Capital Flows

The Board, in July 1990, discussed the causes and consequences of inter-

national capital flows. Two broad themes emerged during the meeting: that the globalization, innovation, and integration of major financial markets was an important structural feature of the evolving world economy, which had to be reflected in Fund surveillance; and that countries should pursue sound and stable macroeconomic policies to maximize the benefits of greater capital market integration. In view of the enhanced role of capital flows in the global economy, Directors agreed, improved data were needed on the scale, direction, and composition of these flows; the Fund would also continue to monitor closely capital market institutional developments, including those of a regulatory nature.

During the 1970s and 1980s, capital flows among the industrial countries expanded sharply, with foreign investors and foreign financial institutions increasing their participation in the major domestic financial markets. This growing integration of major domestic and offshore financial markets has produced significant efficiency gains. Integration of financial markets appeared to be proceeding far more rapidly than that of the goods markets, and, several Directors noted, trade liberalization was also lagging.

With respect to potential global demands on capital, several Directors cited the large increases in financial needs associated with major economic restructuring efforts in a number of countries, including those in Eastern Europe. Others highlighted the importance of private capital flows in financing the large current account and fiscal imbalances of the industrial countries. The predominance of official capital flows in financing the current account deficits of many indebted developing countries during the 1980s was noted by some on the Board. While those developing countries that had consistently pursued prudent macroeconomic

Box 6

Tax Policy Issues

The closer integration of the global economy and of capital markets has increased the potential for the domestic tax systems of individual countries to have global effects, particularly with respect to capital flows. In light of this, the Board discussed, in July 1990, ways of containing potentially harmful cross-border effects of national tax systems.

Directors concluded that some coordination of national tax systems was desirable to promote widely accepted tax principles, so as not to hamper, or unduly influence, international commodity and factor flows. Although many member countries had negotiated bilateral or regional trea-

ties to reduce barriers to commodity and factor flows, these could not be seen as steps toward an eventual multilateral treaty. Tax harmonization or market integration within the European Community did not appear to pose significant risks for non-EC economies. Indeed, several Directors were confident that the trade-creating effects of the EC initiatives would outweigh their trade-diverting effects. With respect to Fund surveillance over tax policies, Directors favored no new institutional arrangements. Rather, they recommended that the Fund strengthen fiscal surveillance through its operations, and especially in Article IV consultations.

and debt management policies had maintained access to international financial markets, other indebted countries continued to encounter problems in accessing private capital flows. Although the restoration of creditworthiness would take time, in the view of some Board members, the sustained implementation of sound macroeconomic policies and structural reforms in borrowing countries was clearly a prerequisite.

Many Directors saw the process of deregulation, globalization, and innovation in major financial markets as a two-edged sword. While these developments had yielded important efficiency gains, they may also have complicated the conduct of monetary and fiscal policy and created new systemic risks associated with volatile asset prices. Most Directors felt that financial innovation and liberalization had generally weakened the predictability of the relationship among the authorities' operating instruments, monetary aggregates, and nominal income. Monetary policy was seen as operating more through changes in interest rates and exchange rates than through liquidity or quantitative credit constraints. At the same time, the industrial countries' experience in the 1980s suggested that monetary policy's ability to promote stability had endured.

The Board discussed whether fiscal discipline had been weakened by the growing integration of financial markets. It agreed that growing financial market integration had increased the transmission of the effects of fiscal policy developments between countries. Consequently, the growing integration of capital markets had raised the incentives and pressures for greater coordination of macroeconomic policies. Indeed, given the speed with which major financial shocks could now spread across global markets, the

Box 7

Working Party on the Measurement of International Capital Flows

In December 1989, the Fund established a senior-level Working Party, under the chairmanship of Baron Jean Godeaux, to study the measurement of international capital flows and the phenomenon of an excess of measured capital inflows over outflows that results in a positive statistical discrepancy for the world as a whole. (An earlier working party, in 1987, studied the discrepancy in global current account statistics.) The Working Party was established in recognition of the growing need—for country, regional, and global analysis—of more accurate and timely data on capital flows and on holdings of foreign assets and liabilities. Its task is to formulate recommendations to reduce asymmetries in the components of the global capital accounts; it is therefore focusing on evaluating the main features of national statistical practices that contribute to these asymmetries. In cooperation with national balance of payments compilers, the Working Party is examining major types of capital flows: direct investment, portfolio investment, banking and other short-term capital movements, holdings of international reserves, and such other topics as illegal capital flows associated with the drug trade.

In January 1991, the Managing Director informed the Board of the work of the Working Party at its half-way point. He noted that:

- considerable progress had already been made in identifying specific discrepancies for direct investment flows;
- gaps in data on portfolio investment were more problematic, espe-

cially since market participants could operate globally using electronic facilities that may not be captured by the usual statistical reporting systems;

- to improve data on international bank capital flows, efforts were being made to reconcile balance of payments data with other sources—including the Fund's international banking statistics;

- work had begun to reconcile data on international debtor and creditor positions with balance of payments figures;

- the Working Party—together with the Fund's Statistics Department—was seeking to improve data on capital transactions of international organizations; and

- it appeared unlikely that capital flows associated with illegal activities could be identified separately from other flows, using the types of data available to compilers of banking and other international financial statistics; nonetheless, better geographic breakdowns could be attained in certain balance of payments figures, which might have limited use.

Three main objectives remain for the study team: to complete work on the main types of capital flows; to organize a comprehensive set of adjusted data for world capital accounts, incorporating as many adjustments as possible; and to recommend measures to be taken by national compilers, and by the Fund, to reduce world data discrepancies and promote greater uniformity in the procedures for producing statistics on world capital flows. The Working Party's final report is expected at the end of 1991.

Board believed that the case for coordinated responses to crises had been strengthened, particularly among central banks. Directors also supported the steps already taken to strengthen the ability of major financial institutions—and of payments, clearance, and settlement systems—to cope with the increased volatility of asset prices and to improve their crisis management. At the same time, many were concerned that such coordinated responses and efforts at crisis management might be used as a substitute for greater policy coordination. They also expressed concern that officially provided financial safety nets might encourage excessive risk taking by the private sector, thereby creating large public sector liabilities. Directors recognized that any strengthening of regulatory standards needed to be adopted broadly; that if any single country attempted to impose stiffer regulatory standards on its own, it risked losing business to countries with more lax standards. Appropriate regulatory standards, the Board concluded, did not constitute a reversal of financial liberalization, but rather a mechanism to ensure the smooth functioning of the markets through minimal regulation.

Private capital flows to developing countries in the 1970s were dominated by commercial bank lending, Directors noted, but securities flows—including the use of market-based hedging instruments and foreign direct investment—would be likely to play a relatively larger role in the 1990s. Foreign direct investment and portfolio investment in equities were regarded as equally, if not more, important potential sources of external financing. The sharp rise in external assets held by residents of many developing countries in the 1970s and 1980s, in the Board's view, reflected a desire to hold internationally diversi-

fied portfolios but was also a response to the perceived risks of holding domestic financial instruments. To repatriate flight capital, Directors reiterated the fundamental importance of sound macroeconomic policies, financial liberalization, and other structural reforms to create incentives for residents of developing countries to hold their savings in domestic financial markets. It was noted, however, that some capital controls might be needed in the early stages of developing domestic financial markets.

2. External Debt Situation and Strategy

In its reviews of the debt strategy during 1990/91, the Board reaffirmed the main elements of the strategy, in particular the value of the case-by-case approach and the importance of debtor countries adopting sound economic policies to promote normal creditor-debtor relations. The Board also stressed the important role official bilateral creditors have played by supporting debtors' policy adjustment efforts through new financing, debt rescheduling, and debt forgiveness.

By the end of the financial year, the Fund had approved support for commercial bank debt- and debt-service-reduction operations in seven countries, four of which had successfully completed such operations with the aid of Fund financing, supplementing other official sources. Another five countries had reduced their stock of debt or had negotiated agreements with commercial banks.

When supported by sustained macroeconomic and structural reform policies, comprehensive bank financing packages have helped to improve economic performance and to ease the restoration of normal access to capital markets. However, important challenges remain. Many developing countries are still heavily burdened with debt. Solving these cases is likely to be difficult; much will depend on debtor countries adopting and carrying out strong economic policies. The Board urged that both debtors and banks intensify their efforts to lay the groundwork for the cooperative solution of debt-servicing problems.

The debt crisis, which broke out in the early 1980s, impaired many developing countries' economic prospects and threatened the financial integrity of the international banking system. Recognizing these problems, the debt strategy sought to strike an appropriate balance between financing and adjustment. It involved a case-by-case approach and emphasized cooperative and voluntary market-based efforts on the part of creditors and debtors.

The strategy produced some positive results. Debtor countries received significant financial support through reschedulings and concerted new money packages, which helped them to implement adjustment programs. But by 1985, the adjustment process had become strained, with stagnant or declining per capita incomes in many heavily indebted countries, and increased difficulties in assembling concerted commercial bank financing packages.

In October 1985, the then U.S. Treasury Secretary, James A. Baker III, responded to these difficulties with a plan that emphasized three mutually supporting elements: the adoption by debtor countries of growth-oriented macroeconomic and structural reforms, increased structural adjustment lending by multilateral institutions, and additional net lending by commercial banks.

It became increasingly apparent, however, that many countries' debt problems were deep-rooted and that their heavy debt-servicing obligations and growing stock of debt could discourage private sector investment and growth. Moreover, the mobilization of concerted new money packages from commercial bank creditors became more difficult, with a growing number of banks preferring to "exit" by selling their claims at a discount.

In March 1989, Mr. Baker's successor as the U.S. Treasury Secretary,

Nicholas Brady, launched an initiative that strengthened the debt strategy by increasing the possibility for voluntary, market-based debt- and debt-service-reduction operations. By reconciling banks' diverse preferences with the need to support strong adjustment policies in debtor countries, such operations were seen as a way to help strengthen debtors' external positions, ease constraints on investment and growth in their economies, and restore their access to private credit markets. The case-by-case approach was again a key element of this initiative. It was the only way to tailor options to individual countries' circumstances, giving due consideration to differences between countries. Moreover, debt and debt-service reduction alone would not be enough. It would need to be supported by sound policies, especially policies to increase domestic savings, attract private capital flows and direct investment, reverse capital flight, and reduce domestic debt.

Role of the Fund

The Fund has played a pivotal role in the debt strategy all along, by providing both policy advice and financial support for policy adjustments. Such policy adjustments help mobilize financial support from other creditors. In May 1989, the Board took two decisive steps to implement the strengthened debt strategy: it approved Fund support for debt-reduction and debt-service-reduction, subject to certain criteria; and it modified the Fund's policy on financing assurances from other creditors to enable the Fund to provide more timely support for strong programs. (The guidelines on Fund support for debt reduction and its policy on financing assurances are detailed in the 1989 *Annual Report*.)

By the end of April 1991, Fund fi-

nancial support for debt- and debt-service-reduction operations had been approved for seven countries: Argentina, Costa Rica, Ecuador, Mexico, the Philippines, Uruguay, and Venezuela. The last four of these have successfully completed debt reduction operations aided by Fund resources. All these operations were cost effective in that the features of the debt exchanges were consistent with conditions in the secondary market at the time preliminary agreement was reached with banks. A number of other countries—including Chile, Jamaica, Morocco, Niger, and Nigeria—have either reduced their stock of debt or have negotiated agreements with commercial banks that provide scope for such reduction. Several others are at various stages of negotiations on bank debt restructuring packages.

The Board reviewed the debt situation and strategy in August 1990 and again in April 1991. Both times, it reaffirmed the main elements of the strategy—in particular, the case-by-case approach and the fundamental importance of sound economic policies in promoting normal creditor-debtor relations.

Directors noted that many heavily indebted countries have made progress in negotiating or implementing bank financing packages—although the negotiations have often been drawn out. When supported by sustained macroeconomic and structural reforms, these packages have helped to improve economic performance and prospects. They have also facilitated some debtors' gradual restoration of access to spontaneous foreign financing, despite tight capital market conditions.

Important and tough challenges remain, however. Many countries' unresolved bank debts pose serious difficulties. Some of these countries

have large and growing arrears to banks. Even if they adopt and sustain strong adjustment policies—a critical requirement—they will need substantial financing to normalize their financial relations through comprehensive debt operations. Phased debt operations—depending on policy track records and the extent of financing available—might help in such cases.

The Board noted that sound economic and fiscal and monetary policies had helped countries that had not restructured their debts to retain spontaneous access to international capital markets.

Directors saw no need to modify substantially the guidelines on Fund support for debt operations, which, implemented in close collaboration with the World Bank, continue to be versatile enough. A number stressed, however, the need for flexible application of the guidelines so as to avoid unnecessary obstacles to future agreements.

During their April 1991 meetings, the Interim and Development Committees welcomed the progress under the strengthened debt strategy. At the same time, they noted that difficult cases remained, and urged all parties to speed up negotiations.

Official Bilateral Creditors

In contrast to commercial banks, official bilateral creditors have maintained their financial support in recent years for countries with debt-servicing difficulties. They have rescheduled such countries' official bilateral debts, provided temporary cash-flow relief to reinforce adjustment efforts for certain categories of debtors, and extended assistance in other—often concessional—forms, including official development assistance (ODA) and support for export credits.

Especially since 1987, Paris Club creditors have taken a series of innovative steps in response to the chronic debt-servicing difficulties of rescheduling countries.

- In mid-1987 they agreed to lengthen maturities of reschedulings for low-income countries' debts from 10 years to 15–20 years.
- In 1988, they introduced a menu of options for reschedulings for the poorest countries that included the cancellation of one third of consolidated debt-service payments, further

extensions of maturities, and interest rate concessions. This menu—known as “Toronto Terms” because it was endorsed by creditor governments at the Toronto Summit of June 1988—has been applied in 27 rescheduling agreements for 20 countries for total debt-service payments of some \$6 billion. About \$0.6 billion in debt-service payments have been canceled.

- In September 1990, they introduced new terms for certain lower-middle-income countries. These terms include the lengthening of maturities

Box 8

Toronto Terms and After

In June 1988, the leaders of the Group of Seven major industrial countries participating in the fourteenth economic summit in Toronto endorsed a debt relief plan for the official bilateral debts of those low-income countries undertaking macroeconomic and structural adjustment programs. The “Toronto menu,” which has become the accepted standard in the Paris Club for dealing with low-income countries' debts, comprises three options: reducing debt service by one third, rescheduling at concessional interest rates, or rescheduling at longer maturities.

The options cover debt service falling due during a specified consolidation period.

In 1990, a number of creditor governments made proposals for debt relief measures involving deeper concessions than the Toronto Terms.

- The United Kingdom proposed three major modifications in what have come to be known as the “Trinidad Terms.” First, the restructuring would apply to the total stock of debt

(contracted before the Paris Club “cutoff” date) rather than to debt service falling due during the specified consolidation period. Second, two thirds of the debt would be forgiven and the remainder repaid over 25 years, including 5 years' grace. Third, for countries with severe cash-flow problems, moratorium interest (interest on the debt rescheduled) could be capitalized for 5 years, and later payments could be graduated and linked to the country's export capacity.

- Belgium proposed creating a Trust Fund to hold all or part of industrial countries' claims on countries eligible for the Toronto Terms. The Trust Fund could reduce these claims or convert them to local currency. Foreign exchange payments received would be made available for development.

- The Netherlands proposed canceling all bilateral official debts of the poorest countries facing severe debt problems, conditional on their implementing sound macroeconomic policies.

Box 9

External Debt and Domestic Debt

Since the outbreak of the external debt crisis in 1982, domestic public debt has risen sharply in many developing countries. In the 15 developing countries with high levels of external debt (Argentina, Bolivia, Brazil, Chile, Colombia, Côte d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela, and Yugoslavia), the average proportion of domestic public debt to GDP rose from 10 percent in 1981–82 to 16 percent by 1987–88. External debt also grew rapidly, relative to GDP, over the same period (from 23 percent to 38 percent). Consequently, there was a sharp increase in total public debt, from 36 percent of GDP in 1981–82 to 52 percent of GDP in 1987–88.

The growth of domestic public debt has been of concern for two main reasons. First, it has led to a sharp increase in debt-service payments, which have, in turn, constrained public sector investment. Second, the growth of the domestic debt burden has been accompanied by a sharp rise in inflation and increasingly negative and volatile real interest rates, which also have impaired investment and growth.

Is there a relationship between the size of domestic debt and an external debt problem? One way of finding out is to look at the relationship between a government's net worth (the difference between the present value of its assets and liabilities, or between its revenues and its obligations) and the secondary market discount on exter-

nal debt. The government's net worth, which is difficult to calculate precisely, provides some indication of a government's ability to service its total debt, while the secondary market discount is a measure of a country's ability—as perceived by the market—to service its external debt. If there is a relationship between domestic and external debt, one would expect that the higher the government's net worth, the higher would be its perceived ability to service external debt, hence the lower would be the secondary market discount. To what extent does this hold in reality?

A staff study on domestic and external debt, which was the basis for a Board discussion on the issue in July 1990,¹ showed that for 9 of the 15 countries for which the required data were available (Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, the Philippines, and Venezuela), there was indeed a highly significant correlation between government net worth and the secondary market discount during 1987–88. Intuitively, this is what one might expect. After all, both domestic and external debt have an equal claim on government resources. Therefore, if an external debt problem exists, it is likely that, side by side, a domestic debt problem also exists.

¹ The study was later published as Occasional Paper No. 80, entitled *Domestic Public Debt of Externally Indebted Countries*, by Pablo E. Guidotti and Manmohan S. Kumar.

It is notable, however, that the current ratio of total public debt to GDP of the 15 highly indebted countries is comparable to that of a number of industrial countries, some of whom have public-debt-to-GDP ratios of close to, or more than, 100 percent. Why are these countries not perceived by international financial markets to be facing the sort of debt crisis that besets the 15 large debtors?

There may be several explanations for this, including differences in the credibility of macroeconomic policies between developing countries and industrial countries and their differential access to capital markets. Another explanation may be that *expected* fiscal developments are more favorable in industrial countries with large domestic debts than in the 15 highly indebted countries. Many studies suggest that the industrial countries may have a substantially greater ability to raise revenues than developing countries, because of more efficient tax collection and certain structural factors. If this is so, it implies the need for developing countries—especially those with heavy external debts—to implement fiscal and structural reforms in the public sector. Such reforms, coupled with policies that make the market more optimistic about future fiscal performance, could significantly improve the creditworthiness of these countries' public sectors and, with it, their external debt-servicing ability.

(from 10 years to 15–20 years) and provisions for voluntary, bilateral debt conversions (swaps), such as debt-for-equity, debt-for-nature, and debt-for-aid. Eligibility for these terms is de-

termined case by case, taking into account countries' per capita income levels, the share of official bilateral debt in their total external debt, and the severity of their indebtedness.

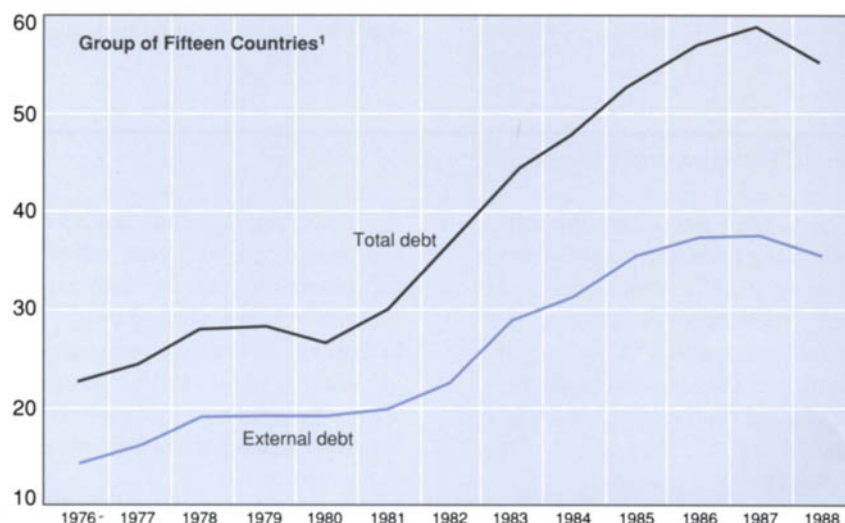
Debt reschedulings—often on concessional terms—have also been provided by non-Paris Club creditors.

In the light of proposals for deeper concessions for low-income countries

Chart 9

Total Public Debt and External Public Debt²

(In percent of GDP)



¹The Group of Fifteen countries comprises Argentina, Bolivia, Brazil, Chile, Colombia, Côte d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela, and Yugoslavia.

by a number of creditor governments, Paris Club creditors are considering other debt relief initiatives. Moreover, the Paris Club adopted agreements with respect to Poland and Egypt in April and May 1991, respectively, in which the stock of debt was restructured on concessional terms.

During the past two years, there has been a significant expansion in the forgiveness of ODA debt by official bilateral creditors. In 1989, Belgium, France, Germany, and the United States forgave about \$6 billion in claims held on some low-income countries of sub-Saharan Africa. In 1990, France reduced interest rates for a number of middle-income African countries; Canada forgave ODA-related claims on many Caribbean countries; and the United States extended partial debt relief to countries in the Western Hemisphere. In addition, the United States canceled \$6.6

billion of Egypt's military debt, and a number of Gulf Cooperation Council members forgave \$6.3 billion in claims on Egypt.

In its April 1991 review of the debt situation, the Board stressed the important role official bilateral creditors have played in the debt strategy by supporting debtors' adjustment efforts through new financing, debt reschedulings, and ODA debt forgiveness. Still, despite the wide diversity in individual situations and financing needs, many countries with heavy official bilateral debts continued to face highly uncertain prospects for medium-term external viability and economic growth (see Chart 9).

The September 1990 adaptations of debt-restructuring terms for lower-middle-income countries were expected to improve the prospects for these countries. In this connection, Directors also noted the agreement on

far-reaching debt relief for Poland, and several remarked on the innovative link to the Government's adjustment program.

Directors welcomed further consideration of the recent proposals by a number of creditors for low-income countries (involving restructuring and debt forgiveness based on the stock of debt) and the continuing review of these issues in the Paris Club.

During its April 1991 meeting, the Interim Committee also welcomed the Paris Club's review of proposals to adapt debt-restructuring and debt-reduction practices for the poorest countries to ensure appropriate support for Fund members adopting comprehensive economic reforms. The Development Committee encouraged Paris Club creditors to complete their review by mid-1991.

3. Fund Financial Support of Member Countries

The Fund moved swiftly to help its members cope with the impact of events in the Middle East. Soon after the crisis developed, the Fund acted to provide greater access to its resources under stand-by and extended arrangements, to augment and extend financing under enhanced structural adjustment facility (ESAF) arrangements, and to introduce a temporary oil import element into the compensatory and contingency financing facility (CCFF).

During 1990/91, the Fund committed SDR 5.6 billion under 20 new arrangements with member countries (stand-by and extended arrangements, and SAF and ESAF arrangements) and approved SDR 2.1 billion for 11 countries in CCFF financing. The level of this support increased sharply toward the end of the financial year. Although total commitments in 1990/91 were less than the SDR 11 billion committed in the previous year, they were still higher than in any other year since 1984/85. In all cases, the Fund's financial support is a part of its broader assistance to its members, which includes both policy support and technical assistance. This financing helps member countries regain a viable balance of payments position combined with economic growth and exchange rate stability.

The Fund collaborates closely with the World Bank. Staff members of the two organizations work closely together in their relations with member countries, in their responses to the debt problems of developing countries, and in helping countries to meet overdue financial obligations. The Fund also

cooperates with the World Bank in improving its assessment of the effects of economic reform on the poor.

In 1990/91, the Fund committed a total of SDR 5.6 billion in support of macroeconomic and structural policies in its member countries—a level below the SDR 11.3 billion committed in 1989/90, but well above that of any of

Box 10

Fund Facilities and Policies

The facilities and policies through which the Fund provides financial support to its member countries differ, depending on the nature of the macroeconomic and structural problems they seek to address and the terms and degree of conditionality attached to them. They consist of the following:

- *Stand-by arrangements*, which typically cover periods of one to two years, focus on appropriate macroeconomic policies—such as exchange rate and interest rate policies—aimed at overcoming balance of payments difficulties. Performance criteria to assess policy implementation—such as budgetary and credit ceilings, appropriate exchange and interest rate policies, and avoidance of restrictions on current payments and transfers—are applied and purchases (or drawings) are made in installments. Repurchases (or repayments) are made in 3 years to 5 years, except for purchases made with resources borrowed by the Fund under the enlarged access policy.

- *Extended arrangements*, under which the Fund supports medium-term programs that generally run for three years (or up to four years in exceptional circumstances) and are aimed at overcoming balance of payments difficulties attributable to structural as well as macroeconomic problems. The program states the general objectives and policies for the

three-year period and the policies and measures for the first year; policies for subsequent years are spelled out in annual reviews. Performance criteria are applied and repurchases are made in 4 years to 10 years, except for purchases made with resources borrowed under the enlarged access policy.

- *Enlarged access policy*, which is used to increase the resources available under stand-by and extended arrangements for programs that need substantial Fund support. Access to the Fund's general resources under the enlarged access policy have been subject to annual limits of 90 percent or 110 percent of quota; three-year limits of 270 percent or 330 percent of quota; and cumulative limits, net of repurchases, of 400 percent or 440 percent of quota, depending on the seriousness of a member's balance of payments need and the strength of its adjustment effort. However, the Fund has temporarily (until the end of 1991) suspended the lower annual, three-year, and cumulative limits. The Fund borrowed to help finance purchases under this policy, and repurchases of purchases financed with borrowed resources are made in 3½ years to 7 years. In September 1990, the Board decided that once borrowed resources had been fully used, ordinary resources would be substituted to meet commitments of borrowed resources in financing

the six earlier years. The Board approved 20 new arrangements during 1990/91, including 13 stand-by arrangements, totaling SDR 2.8 billion; 2 extended arrangements, totaling SDR 2.3 billion; and 2 arrangements

under the structural adjustment facility (SAF) and 3 arrangements under the ESAF, totaling SDR 478.5 million. In addition, 11 countries made drawings under the compensatory and contingency financing facility (9 under the oil

component), totaling SDR 2.1 billion.

By the end of April 1991, 45 arrangements were in effect with 43 countries. Of these, 14 were stand-by arrangements, 5 extended arrangements, 12 SAF arrangements, and 14 ESAF arrangements. Among the countries that entered into arrangements with the Fund in 1990/91, 6 were in Africa (Burkina Faso, the Congo, Morocco, Mozambique, Nigeria, and Rwanda), 5 were in the Western Hemisphere (Costa Rica, El Salvador, Guyana, Honduras, and Uruguay), 5 were in Europe (Bulgaria, Czechoslovakia, Hungary, Poland, and Romania), and 3 were in Asia (Bangladesh, India, and the Philippines). For one country, Guyana, the Fund committed resources under both a standby arrangement and an ESAF arrangement.

A striking feature of Fund financial support during 1990/91 was its sharp increase toward the end of the period. There were two main reasons for this.

- Commitments to five Eastern European countries (Bulgaria, Czechoslovakia, Hungary, Poland, and Romania) were made during the final four months of the financial year, accounting for SDR 3.6 billion—or almost two thirds—of the Fund's total commitments during the year.

- Drawings under the CCFF more than doubled, to SDR 2.1 billion, compared with SDR 0.8 billion in 1989/90. This surge largely reflected the addition of the oil element to the CCFF (see page 52). SDR 1.9 billion of the total purchased under the facility was drawn in the last four months of the financial year under the oil element—by Bulgaria, Costa Rica, Czechoslovakia, Hungary, India, Jamaica, the Philippines, Poland, and Romania. Commitments under the CCFF, which often overlapped with requests for Fund arrangements, significantly in-

purchases made under the enlarged access policy (see page 61).

- *Structural adjustment facility* (SAF) arrangements, where resources are provided on concessional terms to support medium-term macroeconomic and structural adjustments in low-income countries facing protracted balance of payments problems. The member develops and updates, with the assistance of the staffs of the Fund and the World Bank, a medium-term policy framework for a three-year period, which is set out in a policy framework paper (PFP). Within this framework, detailed yearly policy programs are formulated and are supported by SAF arrangements, under which annual loan disbursements are made. The programs include quarterly benchmarks to assess performance. The rate of interest on SAF loans is 0.5 percent, and repayments are made in 5½ years to 10 years.

- *Enhanced structural adjustment facility* (ESAF) arrangements, whose objective, conditions for eligibility, and program features are similar to those of SAF arrangements, but which differ in the scope and strength of structural policies, and in terms of access levels, monitoring procedures, and sources of funding. In November 1990, the Board endorsed the possibility of a fourth annual ESAF arrangement, provided it is approved before the end of November 1992,

and so long as resources are available.

- The *compensatory and contingency financing facility* (CCFF), which serves two purposes. The compensatory element provides resources to members to cover export shortfalls and excesses in cereal import costs and in oil import costs that are temporary and arise from events beyond their control; the contingency element helps members with Fund arrangements to maintain the momentum of adjustment when faced with a broad range of unforeseen, adverse external shocks, such as declines in export prices or increases in import prices and fluctuations in interest rates. Repurchases are made in 3¼ years to 5 years. In November 1990, the Board agreed to introduce an oil import element in the CCFF temporarily (up to the end of 1991) to compensate members for sharp increases in import costs for crude petroleum, petroleum products, and natural gas (see page 52.)

- The *buffer stock financing facility* (BSFF), under which the Fund provides resources to help finance members' contributions to approved buffer stocks. Repayments are made within 3¼ years to 5 years or earlier. Currently, the BSFF may be used to finance eligible members' contributions to the 1987 International Natural Rubber Agreement.

creased the effective rate of access to Fund resources.

Main Developments

A major challenge faced by the Fund in 1990/91 was to help its members cope with the financial impact of the Middle East crisis, which broke out in August 1990. The crisis heightened uncertainty in the world economy and intensified the problems of a number of developing countries that were already experiencing difficulties. Notably, many countries were hit by increases in oil prices, declines in earnings from merchandise exports, tourism, and workers' remittances, and higher expenditures associated with resettling returning workers and integrating them into the domestic economy.

At its September 1990 meeting in Washington, the Interim Committee agreed that the Fund should respond rapidly to such difficulties by using and, as appropriate, adapting, its existing instruments, including access to stand-by and extended arrangements, the CCFF, and the ESAF. The Committee invited the Executive Board to work out these adaptations urgently, and to take account of current circumstances in tailoring members' access to Fund resources, including ways to help members service new debt.

In early November 1990, the Board met to discuss the Fund's response to the developments in the Middle East. It saw no need to create new Fund facilities, stressing that the adaptation of existing instruments would suffice to meet members' adjustment and financing needs. In support of this view, Directors noted that the Fund's liquidity position was projected to remain broadly satisfactory through the end of 1991—although there remained the need to bring into effect, as early as possible, the quota increase under

the Ninth General Review. Moreover, the fact that there were many members with current Fund arrangements—contrary to the situation during previous oil price increases—meant that there already existed a framework into which stronger policies and other changes could be introduced.

The Board focused on adaptations with respect to three types of facilities—stand-by and extended arrangements, structural adjustment and enhanced structural adjustment facilities, and the CCFF.

With regard to *stand-by and extended arrangements*, the Board noted that in most cases in which a member's economy had been hurt by developments in the Middle East, there was a wide margin under present access limits that would enable the Fund to provide additional resources quickly to support suitably strengthened macroeconomic policies; the average annual access under stand-by and extended arrangements then in effect was equivalent to 51 percent of quota, ranging from 15 percent to 101 percent. It would remain essential to address members' changed circumstances case by case, and additional access would depend on the need for Fund resources and the adoption of stronger macroeconomic measures that enhanced the member's capacity to repay the Fund.

Recognizing the importance of signaling to members the Fund's readiness to be flexible and supportive, the Board agreed to suspend, through the end of 1991, the lower annual, triennial, and cumulative access limits under the enlarged access policy.⁶ Under

the enlarged access policy, a member may now have annual access of up to 110 percent of quota under a stand-by or an extended arrangement, and cumulative access of 440 percent of quota, depending, among other things, on the strength of its adjustment program and its balance of payments need. These limits are not entitlements and can be exceeded under exceptional circumstances. Moreover, the rephrasing of drawings under stand-by and extended arrangements was seen as a useful way to speed up the provision of Fund resources. Changed external conditions meant that existing arrangements might need to be augmented and perhaps extended in some cases, with any augmentation being accompanied by stronger macroeconomic policies under Fund-supported programs.

The Board also supported the rephrasing and augmentation of resources under *ESAF arrangements*, although here too decisions on individual access would depend on strengthened policies, the prospects for financing from other sources, and the member's capacity to repay the Fund. The Board agreed that the total amount of an ESAF arrangement could, unlike in the past, be augmented on the occasion of a midyear review, depending on individual country circumstances. Through these provisions, early users of the ESAF—those who have been granted or are about to be granted the third year of arrangements—would have the same contingency protection as other users.

The Board also decided to allow the Fund to add a fourth year of ESAF support for eligible members, provided such support is approved before November 30, 1992 and so long as resources are available. The Board stressed that a fourth year ESAF arrangement—which should not be seen as an entitlement—would be appropri-

⁶ Reviewing the Fund's enlarged access policy in June 1990, the Board agreed to leave access limits under the policy unchanged and to review the policy before the increase in quotas under the Ninth General Review becomes effective and, in any event, not later than the end of 1991.

ate for providing assistance to members whose past policy performance had been satisfactory and that had adopted strong measures in response to external developments.

Projections of potential demand for ESAF resources suggest that overall access could be prudently augmented and fourth-year ESAF arrangements accommodated within available ESAF Trust resources. Additional contributions to the ESAF Subsidy Account would be needed to ensure that the interest rate on all lending from the ESAF Trust remains at 0.5 percent a year for the entire period of the loans.

The Board also decided to make the *compensatory and contingency financing facility* more flexible. Given the importance of oil imports in developing countries' balance of payments, the Board agreed to introduce an oil import element in the CCFF temporarily, up to the end of 1991. Oil imports, like cereal imports, would be an integral part of the compensatory component of the CCFF. (For a description of how the oil import element works, see the discussion of the CCFF, page 52.)

To safeguard Fund resources, the Board agreed that all drawings under the oil import element would require members to follow appropriate domestic energy policies in addition to the measures that typically accompany drawings under the CCFF.

The Board agreed that members should be encouraged to attach contingency mechanisms (mechanisms under the CCFF that guard against unexpected, adverse external shocks) to arrangements approved by the Fund. This could be done not only at the time of approval of the associated arrangement, but also at the time of the mid-term review of the arrangement, provided there were at least six months left before the arrangement expired.

In a further discussion on the Middle East crisis in April 1991, the Board called for an immediate, major reconstruction and recovery effort in the region, noting that the crisis had exacerbated the deep-seated problems that predated it. Directors favored the adoption of an outward-oriented reform strategy led by the private sector.

The Board agreed that the Fund could best serve Middle Eastern countries by continuing its traditional role—that is, by helping these countries formulate and implement comprehensive programs, especially in the macroeconomic area, and by endorsing programs that deserve broad international support. In addition, the Fund should strengthen its regional surveillance and provide technical assistance. As in other regions, its financial role would be largely catalytic.

Directors saw financial coordination as being important for the effective and efficient use of external resources in the reconstruction and development of the Middle East. At the beginning, country consortia could help organize assistance efforts quickly and flexibly, the workings of which could evolve and improve with time. For its part, the Fund could, as experience has shown, work with a variety of arrangements and mechanisms while preserving its independence and its evenhanded treatment of members.

Policies in Member Countries

An important part of the Fund's mandate is to encourage and support comprehensive macroeconomic and structural adjustment programs in its member countries through a combination of policy advice, and technical and

Box 11

The Fund's Response to the Middle East Crisis

In responding to the crisis in the Middle East, the Board decided to adapt the Fund's existing instruments, as follows:

- Modify or rephrase the amount of financing available to members, as appropriate, to take into account the effects of developments in the Middle East;
- Suspend, until the end of 1991, the present lower annual, three-year, and cumulative borrowing limits under the enlarged access policy;
- Allow the Fund to increase total ESAF (enhanced structural adjustment facility) financing for members at the time of mid-term reviews of such arrangements;
- Permit the Fund to add a fourth year of ESAF support for countries

that would complete their current ESAF arrangements before November 1992;

- Introduce, until the end of 1991, an oil import element into the compensatory and contingency financing facility (CCFF) that compensates for the sharp, unexpected increase in oil and natural gas import costs;
- Expand the coverage of compensatory financing under the CCFF to include losses resulting from shortfalls in receipts from pipelines, canals, shipping, transportation, construction, and insurance;
- Attach an external contingency mechanism to Fund arrangements at the time of a review provided at least six months remain before the arrangement expires.

financial assistance. In each case, Fund support is tailored to the country's unique circumstances. In FY 1990/91, the Fund provided financial assistance under new arrangements to 19 countries.

Bangladesh adopted a series of policies under a three-year ESAF arrangement (for SDR 258.8 million, approved on August 10, 1990), which built on a Fund-supported SAF arrangement that covered the period 1986/87–88/89. These policies aim to achieve an annual average growth rate of 4.7 percent, reduce inflation, strengthen the country's external payments position, and fight poverty. The Government plans to cut the budget deficit, expand and rationalize the Annual Development Program, to ensure adequate funding for important projects, and make public enterprises more efficient. Financial and trade reforms and a carefully targeted strategy to alleviate poverty are also envisaged.

To stem the sharp deterioration of the economy that occurred in 1990 and to move toward a market-oriented system, the Government of *Bulgaria* has adopted a front-loaded, radical, and comprehensive economic program. The program, which is supported by the Fund through a stand-by arrangement (for SDR 279.0 million, approved on March 15, 1991) aims to correct the external imbalance; absorb the monetary overhang and cut the budget deficit; reform exchange rate, interest rate, and pricing policies; establish private ownership; and make the foreign trade system more competitive. Measures to protect vulnerable groups during the transition will also be introduced. In February 1991, Bulgaria purchased SDR 60.6 million under the oil element of the CCFF. A second purchase may be made when six months of data become available. Should Bulgaria's balance of payments

position worsen because of higher-than-anticipated oil and gas prices, an additional SDR 77.5 million will be made available under a contingency financing mechanism associated with the stand-by arrangement.

In *Burkina Faso*, the Government has adopted an economic strategy for 1991–93 (supported by the Fund under the SAF for SDR 22.1 million, approved on March 13, 1991) that aims to reduce financial imbalances and promote growth by increasing the role of the private sector while reducing and refocusing that of the state. This strategy relies on policies designed to enhance agricultural production and exports, boost private investment through more liberal trade, price, and labor-market policies, rehabilitate the banking system, strengthen public sector management, and improve the quality of human resources.

The Congo has faced economic and financial difficulties since the mid-1980s, owing mainly to a sharp decline in oil revenues, onerous external debt-service payments, and a limited diversification of the economy away from the oil sector. The country has implemented a number of measures supported by the Fund designed to correct domestic and external imbalances. The latest stand-by arrangement for the Congo (for SDR 28.0 million, approved on August 27, 1990) was in support of a program that focused on reducing the still large fiscal imbalance by increasing non-oil revenue and curbing noninterest current expenditure. In addition, development expenditure will be increased to diversify and strengthen the productive base of the economy and the banking system will be restructured.

The Government of *Costa Rica* has adopted a range of policies for 1991–92, supported by the Fund (under a stand-by arrangement for SDR 33.6

million, approved on April 8, 1991) geared to reducing inflation, strengthening the balance of payments, and setting the stage for sustained growth. The policies include financial tightening, an exchange rate policy designed to maintain international competitiveness, and structural reforms to improve economic efficiency. To help Costa Rica meet higher oil import costs and to cover a shortfall in export receipts in 1990, the Fund also approved a drawing of SDR 33.6 million under the CCFF. A further SDR 21 million may be made available under the contingency window of the same facility in the event of unanticipated negative external developments.

On January 1, 1991, the Government of the *Czech and Slovak Federal Republic* launched the crucial phase of its economic reform program aimed at a rapid transformation to a market economy. The main elements of the program, which the Fund is supporting with a stand-by arrangement (for SDR 619.5 million, approved on January 7, 1991), are the liberalization of the price, trade, and exchange systems; the maintenance of a fixed exchange rate to help anchor domestic prices; tight fiscal and monetary policies; an incomes policy; and rapid and extensive privatization. An additional SDR 147.5 million is available owing to an external contingency mechanism under the CCFF associated with the stand-by arrangement, and a further SDR 483.8 million will be available under the oil import element of the same facility, of which SDR 314.5 million has been purchased.

Economic performance in *El Salvador* during 1985–89 was set back by armed conflict, adverse external developments, and natural catastrophes. The Government's economic strategy for 1990–91, supported by the Fund under a stand-by arrangement (for SDR 35.6 million, approved on

August 27, 1990) aims at lowering inflation and strengthening the balance of payments, thus setting the stage for higher production and employment. The key to this strategy is the narrowing of the overall public sector deficit in line with available external financing, while allowing a reduction in the public sector's net debt to domestic banks and the repayment of internal and external arrears.

The Government of *Guyana* has developed a set of economic policies for 1990–92 that the Fund is supporting through a stand-by arrangement (for SDR 49.5 million) and an ESAF arrangement (for SDR 81.5 million), both approved on July 13, 1990. The policies aim to lay the basis for sustained growth, higher employment, and lower inflation; to strengthen the external position; and to complete the normalization of financial relations with external creditors. The strategy envisions moving toward a more open, market-oriented economy and promoting export-led growth by raising output in the traditional sectors, while developing new lines of activity.

In *Honduras*, the Government is aiming to create the conditions to raise output growth to about 4 percent a year and reduce inflation to about 7–8 percent a year during 1991–95, while substantially strengthening the country's external position. The policies envisaged for 1991 (supported by the Fund through a stand-by arrangement for SDR 30.5 million, approved on July 27, 1990) include a modification of the exchange system, measures to reduce the overall public sector deficit and to increase interest rate flexibility, and a tariff reform geared to reducing the anti-export bias of existing import protection measures. There is also provision for a social safety net.

The Government of *Hungary's* medium-term economic strategy, which the Fund is supporting through

a three-year extended arrangement (for SDR 1,114.0 million, approved on February 20, 1991) is designed to boost the country's productive potential by accelerating the move to a market-based economy. Great emphasis is being placed on privatization, reducing the state's role in the economy, and strengthening the workings of the free market through price, import, and exchange rate liberalization. Other measures include tight budgetary and monetary policies, a comprehensive banking reform, and an overhaul of the social security system. The extended arrangement is associated with a provision for a further SDR 299.5 million under a contingency financing mechanism. The Fund has also approved Hungary's request for the use of resources totaling SDR 226.2 million under the CCFF to cover excessive oil import costs during the period November 1990–October 1991. A second tranche of SDR 121.8 million may become available upon review of six months of data.

The crisis in the Middle East has had severe and widespread effects on *India's* economy. Revenue losses and expenditures related to the crisis have weakened the budgetary position, international reserves have fallen, and higher energy prices have slowed growth. On January 18, 1991, the Fund approved the use of resources totaling SDR 1,268.8 million for India, of which SDR 551.9 million is available under a first credit tranche stand-by arrangement for three months and SDR 716.9 million under the oil import element of the CCFF. The Government has announced it intends to reduce sharply the fiscal deficit and implement a wide range of policies to improve the Indian economy's efficiency and competitiveness, including policies to strengthen the financial position and performance of public enterprises.

Although the economy of *Morocco* strengthened markedly from 1986 to 1988, higher public investment and adverse external developments led to higher-than-expected budget and current account deficits. The Government's economic strategy for 1990, which was supported by the Fund through an eight-month stand-by arrangement (for SDR 100.0 million, approved on July 20, 1990), aims at substantially reducing macroeconomic imbalances, especially in the fiscal area. Other objectives include a new phase of public enterprise reform involving extensive privatization and financial reforms, and a further opening up of Morocco's economy to the rest of the world.

The economic progress achieved during the last three years under a comprehensive economic rehabilitation program (supported by the Fund under a SAF arrangement) has encouraged the Government of *Mozambique* to formulate another program covering the period through 1992, which the Fund is supporting through an ESAF arrangement (for SDR 85.4 million, approved on June 1, 1990). This program aims at accelerating production and export growth through appropriate price incentives, adequate supplies of inputs and consumer goods to rural areas, easier access to imports, and a more flexible business environment. There will be an increased role for the private sector—including foreign investors—as well as greater autonomy for public enterprises.

Nigeria has made substantial economic progress since beginning its SAF arrangement approved by the Fund in 1986. Notably, it has lifted most price controls, abolished marketing boards, liberalized the trade and exchange system, strengthened the public sector, and tightened financial discipline. The Government plans to continue policies aimed at enhancing

Nigeria's medium- and long-term development prospects, and at dealing with its heavy debt-service burden. During 1990–91, the Fund is supporting these policies through a stand-by arrangement for SDR 319.0 million, approved on January 9, 1991.

Despite a strong recovery from the severe economic and financial crises of the mid-1980s, the *Philippines'* economic performance faltered in late 1989 because of a series of adverse economic shocks and policy slippages. In response, the Government launched a new stabilization plan supported by the Fund under a stand-by arrangement (for SDR 264.2 million, approved on February 20, 1991), which aims to restore growth by reducing inflation, cutting back the balance of payments deficit, and increasing the level of international reserves. The Fund also agreed that 25 percent of each drawing under the stand-by arrangement be set aside to support debt-reduction operations. To help the country meet higher oil import costs and to cover an anticipated shortfall in export receipts, the Fund has provided an additional SDR 277.1 million under the CCFF, of which SDR 171.2 million was under the oil component. A further SDR 88.1 million may also be made available under the contingency window of the CCFF if there are unforeseen, adverse movements in certain export and import prices or in interest rates on foreign debt.

Poland's economy has made important progress under the stabilization and reform program launched in 1990. The Government's economic framework for 1991–93, which the Fund is supporting through an extended arrangement (for SDR 1,224.0 million, approved on April 18, 1991) has three aims: to bring down inflation to a single digit annual rate by 1993 (compared with about 250 percent during

1990), to accelerate the transformation to a market economy, and to eliminate the overhang of external debt. The Fund has accepted Poland's request to set aside 25 percent of each disbursement under the arrangement for debt-reduction operations. The Fund has also approved a drawing of SDR 162.6 million under the CCFF to help Poland meet an expected increase in oil and gas import costs in the year to September 1991. An additional SDR 87.6 million would be made available later provided the relevant conditions have been met. A further SDR 442.0 million may be made available under the contingency window of the same facility should Poland's external position come under pressure because of higher-than-expected oil and gas prices during 1991–93. The arrangement also provides for possible augmentation by up to 40 percent of Poland's quota for interest support.

Romania's Government, which is committed to a rapid shift toward a market-based economy, has drawn up an economic program for 1991 that aims to eliminate the substantial monetary overhang in the economy and correct relative price distortions while reducing inflation; to move to a viable balance of payments position and build up international reserves; and to arrest the fall in economic activity after the substantial declines experienced in 1989 and 1990. The Fund is supporting the program through a stand-by arrangement (for SDR 380.5 million, approved on April 11, 1991). Under a contingency financing mechanism associated with the arrangement, SDR 131.0 million may be made available if Romania's balance of payments is affected by higher-than-projected oil and gas import costs. The Fund has also approved drawings under the CCFF totaling SDR 247.7 million to help Romania meet expected increases

in the cost of oil and gas imports in the year ending June 1991.

Rwanda's economy experienced a spate of economic difficulties in the 1980s, and its GDP growth rate declined in both 1989 and 1990. The Government has adopted a three-year economic and financial reform package, which the Fund is supporting through a SAF arrangement (for SDR 30.7 million, approved on April 24, 1991). The Government's objectives are to restore growth, reduce inflation, and accelerate the return to a viable balance of payments position, through a wide range of macroeconomic and structural policies.

The Government of *Uruguay* is seeking to strengthen the balance of payments, lower inflation, and implement structural changes designed to raise investment and growth. Its policies, which are supported by the Fund under a stand-by arrangement (for SDR 94.8 million, approved on December 12, 1990) are focused on improving public finances, tightening credit, linking public sector wage policy to the projected decline in inflation, and achieving market-determined interest rates. A flexible exchange rate policy will help maintain competitiveness. Also envisaged are banking and financial reforms, the reorganization of the social security system, and the deregulation and privatization of some public enterprises, including the elimination of several state monopolies. Provision is made for one quarter of access under the arrangement to be set aside to finance debt reduction.

Review of SAF and ESAF

Since the second half of the 1980s, the Fund has become increasingly active in its support of growth-oriented macroeconomic and structural reforms in low-income countries. It has provided this support mainly through two

highly concessional facilities—the *structural adjustment facility (SAF)*, established in 1986, and the *enhanced structural adjustment facility (ESAF)*, established in 1987.

The Board reviewed the operations of the SAF and the ESAF—as well as the policy orientation and balance of payments assistance of aid agencies—in July 1990, in the light of the experience of 33 countries that had, by that time, used these facilities.

The Board agreed that while encouraging results had been achieved in promoting growth, progress toward balance of payments viability had been rather mixed. The design of structural policies had been particularly challenging; in many cases, the time needed for fundamental reforms was longer than expected because of weak administrative capacity.

The Board focused on four main areas: program design and monitoring; the design and use of policy framework papers, or PFPs (a PFP outlines the design of a structural adjustment program and is prepared in close collaboration with a member's authorities and the staffs of the Fund and the World Bank); aid flows; and operational issues.

With regard to program design and monitoring, the Board found that ESAF-supported programs were generally more effective in strengthening countries' external positions than SAF-supported programs. (Under the ESAF, countries can receive more assistance than under the SAF. Moreover, structural policies are typically stronger, reviews are conducted, and disbursements are semi-annual rather than annual.) Countries should therefore be further encouraged to adopt programs warranting ESAF support as early as possible. Directors agreed that program monitoring would best be provided through ESAF arrangements and with a careful tailoring of

Box 12

Access Under the SAF and the ESAF

Under SAF arrangements, qualified members may borrow up to the equivalent of 70 percent of quota in three annual installments, each disbursed at the beginning of the program year in support of a structural adjustment program for that year. SAF resources are lent at an annual interest rate of 0.5 percent; repayments begin five and a half years, and end ten years, after the loan disbursement date.

Under ESAF arrangements, the equivalent of up to 250 percent of quota over a three-year period can be made available, depending mainly upon the member's adjustment program and its financing needs; under exceptional circumstances, this upper

limit can be increased to 350 percent of quota. Access under ESAF arrangements approved so far has ranged from 90 to 190 percent of quota, and has averaged 145 percent of quota. ESAF loan disbursements are made over a period of three years in six installments, two for each program year, with the first disbursement at the beginning of the program year and the second on approval of a program review. The maturity of ESAF loans is identical to that of SAF loans; the interest rate is also currently the same as that under the SAF (0.5 percent a year) although the rate is subject to review by the Board—in light of the availability of subsidy resources.

access to take account of the track record of policy implementation and the prospects for external viability.

To improve the ability of the SAF and the ESAF to strengthen countries' external positions, there should be more emphasis on macroeconomic policies that raise domestic savings. Especially important are measures to strengthen the fiscal position by tackling structural problems in the public sector at an early stage, positive real interest rates, and financial sector reforms to encourage private savings. Emphasis should also be placed—although with caution—on more rapid progress toward a realistic exchange rate, supported by appropriate domestic fiscal and monetary policies and by trade liberalization.

Structural measures should be concentrated in a few key areas that are critical for the effective functioning of macroeconomic policy instruments. Moreover, key indicators—such as

the financial position of major public enterprises—should be used more systematically to track the progress of structural reforms.

Turning to program monitoring, the Board agreed that structural benchmarks (policy targets) and performance criteria should be kept to a minimum, with policy actions and timing being defined as concretely as possible. Prior policy actions would remain appropriate when they are essential to meet program goals or if there are policy slippages or unsatisfactory track records.

The Board affirmed that PFPs should continue to focus on major policy objectives, the measures needed to attain them, and financing requirements. PFPs' coverage of poverty issues could be strengthened; they should identify measures that can help cushion the possible adverse impact of certain policies on vulnerable groups among the poor in ways consistent

with the program's macroeconomic framework.

Governments should be encouraged to be fully involved in preparing PFPs and to use them in their internal decision making. More should also be done to use PFPs in coordinating technical assistance from aid donors, the World Bank, and the Fund in their respective areas of expertise.

In the area of aid flows, although Directors were generally encouraged by the responsiveness of major aid agencies in providing balance of payments assistance tied to programs supported by the Fund and the World Bank, they were concerned about shortfalls in official balance of payments assistance in a number of cases. They called for efforts to make aid flows more predictable, including more systematic exchanges of information, better policy implementation, and standardized procurement and disbursement procedures.

To promote more exchange of information on country operations with multilateral agencies that are providing financial support for economic reforms, the Board agreed to allow access to a wider range of Fund country documents and for the number of organizations receiving these documents to be enlarged, provided the confidentiality of the documents would be properly safeguarded.

Directors agreed on the following operational modifications:

- To extend the cutoff date for the approval of requests for new ESAF arrangements from November 30, 1990 to November 30, 1992, so that more eligible members with protracted balance of payments problems can qualify for the facility. The interest rate on ESAF Trust loans would remain at 0.5 percent, although it might be necessary to seek additional subsidy contributions.
- To consider, during a midyear re-

view, additional financing under the ESAF in case a member faces unexpected adverse external shocks. Any such financing would be within the total access committed for the three-year period of the arrangement—that is, the financing would involve a rephasing of access over the three-year period, not its increase. Moreover, account would be taken of unexpected favorable external developments.

In November 1990, the Board agreed that the total amount of an ESAF arrangement could be augmented (see page 44).

The Board agreed that it would be prudent to maintain unchanged the list of members eligible for SAF/ESAF assistance, but to keep under review the question of the possible expansion of eligibility. As noted above (page 45), in November 1990, as part of its response to the Middle East crisis, the Board endorsed the possibility of a fourth annual ESAF arrangement, provided this was approved before the end of November 1992 and that sufficient resources were available.

Compensatory and Contingency Financing Facility

The *compensatory and contingency financing facility (CCFF)* continued to evolve during financial year 1991. In response to the Middle East crisis, in December 1990 the Fund adapted many of its policies. The adaptations included technical modifications to enhance the flexibility of the CCFF, as well as the introduction of a temporary oil import element into the CCFF. Thus, the purposes of this facility now are:

- to compensate countries for shortfalls in export earnings and for sharp increases in the costs of cereal imports or (temporarily) oil imports; and
- to protect members pursuing

Fund-supported economic policies from the effects of unexpected external disruptions.

Compensatory financing, first introduced in 1963, helps members experiencing—for reasons largely beyond their control—balance of payments problems owing to temporary declines in commodity export earnings below their medium-term trends. Compensatory financing is subject to members' adequate cooperation with the Fund to find solutions to their payments difficulties. Initially, only merchandise exports were covered by compensatory financing, but the range of exports covered has expanded over the years. In 1979, the facility was broadened to include shortfalls in receipts from two categories of services: tourism and "worker remittances" (earnings of workers stationed overseas that are repatriated to the home country). In 1981, a new window was added to the facility to allow compensation for countries faced with an excessive rise in the cost of imports of cereal products.

On December 5, 1990, as part of its policy adaptations in light of the Middle East crisis, the Fund widened further the range of services eligible for compensatory financing to cover most services, including earnings from pipelines, canal transit fees, shipping, transportation, construction, and insurance. Here too, shortfalls in receipts must be temporary and largely beyond the control of the member country. The December 1990 adaptation also permits quicker access to compensatory credit—by permitting the member to use estimated, rather than actual, data to calculate the earnings' shortfall for the full shortfall year (as opposed to a maximum of six months previously).

The CCFF's new *oil element* compensates members for sharp rises in the cost of their imports of crude petroleum, petroleum products, and nat-

ural gas. The rise in oil import costs must also be temporary and beyond the member country's control. And the member country would need to be pursuing, in addition to macroeconomic policies to deal with its balance of payments difficulties, appropriate domestic energy policies—including, when needed, prior energy policy actions (in particular, passing through to consumers the higher cost of oil imports). Access to drawings under the oil element would fall under the current overall access limits under the CCFF: 122 percent of a member's quota. These include maximum access equivalent to 40 percent of quota under the contingency element; 57 percent of quota under the oil element; 40 percent under the export shortfalls element; 17 percent under the cereal element; plus an "optional" 25 percent of quota, which may be used to supplement any of the four elements of the CCFF. (Thus, access to oil element drawings can be up to 82 percent of quota, including the optional tranche.)

The oil element will remain in force until the end of the 1991 calendar year.

In August 1988, the Fund added a *contingency financing element* to the compensatory financing facility, creating in the process the CCFF. Contingency financing is provided to members pursuing economic policies supported by the Fund under stand-by or other arrangements; the Fund provides an advance assurance to the member of financial protection in the event of an unexpected, and potentially destabilizing, external economic shock. The contingency funds may be provided if certain key elements of the country's balance of payments—such as export prices, import prices, interest rates, tourism receipts, or worker remittances—fall short of a predetermined benchmark level. The contin-

gency money gives members greater confidence to adopt corrective policies, knowing that their reform efforts will be partly protected from external shocks that they cannot predict or control.

In response to the Middle East crisis, the Fund increased further the flexibility for obtaining contingency financing protection. A member with an arrangement from the Fund may apply for contingency protection at the time of a review under the existing arrangement if the arrangement has at least six months remaining; originally, contingency mechanisms could only be attached to an arrangement for a member at the time of its initial approval by the Fund.

Protecting the Poor During Reform

The Fund continued to improve its assessment of the effects of economic reform measures on poor groups. It expanded its advice on program design, including such elements as the mix and sequencing of reform policies, so as to develop ways to strengthen the beneficial effects of policy reforms for the poor, while mitigating any adverse effects.

In September 1990, the Development Committee considered a paper on strategies for effective poverty reduction in the 1990s, which was prepared jointly by the staffs of the Fund and the World Bank. The study stressed the importance of sustained economic growth for poverty reduction and of sound macroeconomic and structural policies to secure such growth. It underscored the twin importance of investment in human capital to enhance the contribution of the poor to economic growth and of social safety nets to protect the poor during reform. In considering these issues prior to the Development Committee meeting, the Board supported the

Fund's efforts to strengthen its information on and analysis of poverty issues, so as to incorporate poverty concerns into the design of policy adjustment programs. The Board also endorsed the staff's effort to disseminate the knowledge of relevant country experiences among member countries, in particular by using technical assistance to provide advice on the design and implementation of cost-effective social safety nets, as well as to catalyze external financial assistance.

The Fund has taken the following steps toward meeting these objectives:

- In cooperation with the staff of the World Bank, the Fund staff discusses with member authorities during missions the implications of economic policies for poor groups, as well as the appropriate policy mix, which could include the use of social safety nets to protect the poor during policy reforms. The staff has also continued to cooperate with the donor community. The PFP process for SAF and ESAF arrangements, involving member governments, the Fund, and the World Bank, was a major instrument for this cooperation.

- An informal seminar was held in October 1990 at the Fund for the representatives of a number of UN agencies on ways to expand cooperation on the social aspects of adjustment. The participants agreed that strengthened informal exchanges of views would enable the Fund staff to improve their understanding of social and other sectoral policy issues in member countries, while its UN counterparts would benefit from the Fund staff's knowledge of the macroeconomic situation in these countries.

- The staff also discussed poverty issues with the representatives of many nongovernmental organizations, including aid agencies, religious

groups, and national and international federations of labor. These discussions enabled the staff to improve its understanding of the social situation in member countries and to explain the Fund's role in the economic reform process.

- In December 1990, an in-house seminar discussed staff experiences in assessing the effects of reform measures on poor groups and the design of social safety nets. The staff focused on the effects of changes in product and factor prices resulting from reform programs and ways to protect the poor.

- In advising governments on program design, the staff explored ways to strengthen the beneficial effects of reform measures on poor groups. For example, increases in domestic producer prices of agricultural exports have helped small farmers. Many programs have included measures to protect or expand existing social services or to target them more effectively.

- In many countries—including Algeria, Bangladesh, the Islamic Republic of Iran, Jordan, Sierra Leone, South Africa, Sri Lanka, Trinidad and Tobago, and most Eastern European countries—the staff had extensive discussions with the authorities on the issue of protecting the poor during economic reform.

A common issue in policy measures designed to help the poor has been the reform of price distortions. Distorted prices, such as an overvalued exchange rate and too low domestic prices, can lead to an inefficient use of resources and to macroeconomic problems, such as fiscal imbalances. A realignment of administered prices or, more fundamentally, the introduction of an efficient pricing system, while they benefit many among the poor, can adversely affect the real income of some poor groups in the short run by, for example, raising the prices of food

and other essential items consumed by the poor. To mitigate such effects, Fund-supported programs often maintain some subsidies on basic necessities. For example, Jamaica, Jordan, and Trinidad and Tobago kept some food subsidies, while El Salvador and Honduras retained subsidies on transportation and basic utilities.

Tax reform programs often incorporate specific measures to reduce their impact on poor groups. For example, Bangladesh increased excise rates on goods and services consumed mainly by more affluent groups, whereas Jordan implemented tariff reform, but exempted several essential commodities from import duties.

Special measures aimed at protect-

ing poor groups have been set up in many countries. For example, Jordan introduced a temporary rationing scheme for sugar, rice, and powdered milk to ensure a subsistence level supply to the poor at subsidized prices, with any extra supply being at market prices. Mozambique introduced an income supplement and food provision scheme for low-income families in a large urban area and food aid to displaced families in rural areas.

Many countries have strengthened nutrition, health, and education programs, and some have established a special fund to this end. For example, Bangladesh, Burkina Faso, El Salvador, Honduras, Pakistan, and Uganda provided the poor with easier access

Box 13

The Fund and the Environment

Economic activities and the natural environment influence each other in diverse and complex ways, many of which have only recently begun to be systematically analyzed. Meanwhile, public concern about the environment and how it is affected by economic policies has mounted.

In early 1991, the Board informally considered the extent to which the Fund should address environmental issues. It concluded that the staff should be mindful of the interplay between economic policies, economic activity, and environmental change. This would help the Fund to avoid policies that could have undesirable environmental consequences, while ensuring that the thrust of its actions promote balance of payments viability and sustainable growth. The Board further agreed that this should be done in ways that are consistent with the Fund's

mandate, size, and structure.

To these ends, the Fund will devote modest additional resources to tapping the expertise of institutions with environmental competence and responsibilities, including the World Bank, the Organization for Economic Cooperation and Development, and the United Nations Environment Program, rather than undertake fundamental research in this area. Such expertise would help Fund missions to member countries to conduct more informed discussions with governments faced with macroeconomic policy choices that have major environmental implications—although there would be no environmental conditionality.

The Board stressed that the Fund's work on environmental issues should be evenhanded and universal in scope, spanning countries in all regions and stages of development.

to public health and education services. Bangladesh's reform program included measures to increase food security, generate rural employment, and enhance farm incomes. El Salvador and Honduras set up a social investment fund to create employment opportunities for the poor and to reduce mortality, malnutrition, and illiteracy among women and children. Burkina Faso and Guyana also introduced targeted public works programs. Uruguay established a school-feeding program in poor areas and is proceeding with social security reform to protect the poor.

All of the reform programs in Eastern European countries have unavoidably resulted in changes in relative prices and higher unemployment. Unlike many other reforming countries, they already had an extensive social security system. An important change was, however, the introduction of unemployment benefits, which did not exist before. To mitigate the effect of price increases on the poor, the Eastern European countries also redesigned the existing direct income transfers, such as family allowances and child benefits, sickness benefits, maternity allowances, and pension systems.

Technical Assistance and Training

With the rise in the volume and extent of Fund operations in recent years, demand for the institution's technical assistance services has increased steadily. Requests for assistance come from a wide spectrum of members, including many from countries in the process of moving toward a market-based economy. These include members in Eastern Europe, as well as other countries transforming previously nonmarket economies, specifically Algeria, Angola, Benin, Cape Verde, Lao People's Democratic Re-

public, Mozambique, and Viet Nam. Such countries require help in setting up a network of banks (including a central bank) and a regulatory framework. In addition, substantial assistance has been provided in the fiscal area—in areas such as the introduction of appropriate tax policies, improvement in tax administration and budgetary practices, and development of cost-efficient social security schemes—and in developing statistical data bases.

Countries call on technical assistance from the Fund to help them reform thoroughly the structure of their economic and financial institutions as the necessary prelude for restoring economic growth. Generally, structural adjustment policies entail more complex adjustments than the more traditional balance of payments financing, and may demand a level of expertise and experience that is often lacking in developing countries. For this reason, the Fund is providing a greater amount of short-term technical assistance to help members carry out such structural and institutional reforms, with fewer experts than in the past being stationed in countries for long periods. The coordination of technical assistance efforts has also increased, both between various departments within the Fund and between the Fund and other agencies, such as the World Bank and the United Nations Development Program (UNDP).

The Fund's technical assistance is given at the request of countries through advisory visits, formal training, and advice extended in the course of other staff contacts with member authorities. In addition, program negotiations, Article IV consultations, and various Board discussions often have an important technical advisory component. Assistance focuses largely on ways to improve macroeconomic man-

agement, in particular through training economic policy officials, improving economic statistical information, helping to reform the tax system and tax administration, and helping to improve the functioning of the central bank and the financial system.

While the Fund's own resources devoted to technical assistance have expanded in recent years, two other developments have permitted the Fund to extend its efforts further by increasing available resources devoted to assistance.

- In 1989 an agreement was reached under which the Fund serves as an executing agency for UNDP assistance. As of April 30, 1991, UNDP-funded projects in 24 countries and 1 region totaling \$14 million had been approved; projects in 5 of these countries and the single regional project had been completed as of the end of the financial year. Projects in a further 7 countries were under negotiation. This agreement enables the Fund to take a more systematic and longer-term approach toward meeting countries' technical assistance needs and to develop skills in member countries through training programs.

- In March 1990 a special administered technical assistance account funded by Japan was established to finance technical assistance designed to help members tackle debt-related issues. Resources of the account are used to help Fund members strengthen their administrative capacity and their capacity to formulate, implement, and maintain macroeconomic and structural programs to resolve or to avoid debt problems. Disbursements can also be made from the account to the Fund's General Resources Account to reimburse the Fund for expenses incurred in technical assistance projects.

Training of officials from Fund member countries is provided by the IMF

Institute, both at headquarters and overseas, and by other departments, including the Central Banking, Fiscal Affairs, Legal, and Statistics Departments, and the Bureau of Computing Services.

In its courses, the *IMF Institute* emphasizes the techniques and policy issues that arise in the formulation and implementation of policy adjustments in member countries. Participants in the courses are the government officials most involved in macroeconomic policy and analysis in a country—generally from central banks or ministries of the economy, finance, and planning. Such officials are usually those who have frequent contacts with Fund missions. During 1990/91, the IMF Institute gave 13 courses and 3 seminars at Fund headquarters; the latter included a seminar on centrally planned economies in transition. In order to address the needs of a growing number of government officials, 18 seminars were conducted overseas by the IMF Institute during 1990/91. For these seminars, the Institute's training material is adapted to make it relevant to the country or region in which the seminar is held. While most of these seminars were held in developing countries outside Europe, 5 took place in Eastern European countries and emphasized techniques of macroeconomic management in market economies.

During the financial year, the *Central Banking Department* expanded its technical assistance to Poland and initiated similar programs with the State Bank of Czechoslovakia, the National Bank of Romania, and the National Bank of Bulgaria. In each of these programs the department, in cooperation with from five to seven central banks, has formed a team of consultants to provide a broad program of technical assistance to modernize central banking. The areas of

focus include banking supervision, economic and monetary research, foreign exchange market developments, domestic money market development, monetary policy operations, central bank accounting and internal audit, the role of the central bank in payments and settlement operations, and the organizational structure of a central bank. Altogether, 14 central banks have collaborated in these programs, making available 38 of their staff who have worked in the modernization efforts in Eastern Europe. The cooperating central banks have contributed through extending bilateral training and providing extensive support for these programs. In addition, a senior policy advisor, generally a recently retired Governor or Deputy Governor from a European central bank, was provided to each country under arrangements enabling monthly visits for consultations with senior central bank authorities. These programs are being continued in 1991/92.

The *Fiscal Affairs Department* has steadily increased its technical assistance work in recent years. An important element in this expansion has been the increased involvement in the structural adjustment area; all the low-income members with SAF and ESAF arrangements with the Fund have received technical assistance in the fiscal area. The department also enlarged its activity in Eastern Europe; at least two missions, dealing with particular issues of tax policy and administration, were extended to each of the member countries in the region. In Poland, for example, the Fund is providing extensive technical assistance to the authorities in introducing a VAT system and a broad-based personal income tax, as well as advice on budgetary controls and tax administration.

The *Statistics Department* (formerly Bureau of Statistics) has also revised its program of technical assistance,

which is designed to help countries develop a current data base of economic statistics to enhance economic analysis, improve policy formulation, and enable a country to conduct international comparisons of data. As the economic problems facing countries have expanded in scale and complexity and new mechanisms have been developed to address these, such as SAF and ESAF arrangements, there has been a greater demand for full and accurate data. The Statistics Department is ideally placed to address this need. It has expanded its response by sending teams to member countries to review a number of problems simultaneously and by offering longer-term statistical assistance, often through stationing a resident statistical advisor in a country. (Further information on the Fund's technical assistance activities during 1990/91 is included in Appendix III.)

Fund-Bank Collaboration

The Fund and the World Bank have complementary roles in promoting sustained economic growth, stability, and development in their member countries. The staffs of the two institutions collaborate closely to help members move most effectively toward these objectives. Guidelines for cooperation between the Fund and the Bank, first formalized in 1986, have been periodically reviewed. In March 1989, the two managements clarified the primary responsibility of each institution and agreed to avoid duplication of work by putting in place additional administrative procedures for collaboration and more efficient use of staff resources. In August 1990, the Executive Boards of the Fund and the Bank each reviewed progress in this collaboration.

At its August review, the Fund Board agreed that the Fund's primary

responsibility is in the area of macro-economic policies and the related policy instruments and institutions, whereas the Bank's primary responsibility lies in structural reforms and policies for effectively allocating resources to both the public and private sectors. The two Boards urged the staff of each institution to focus its efforts on the areas of its primary responsibility and expertise. The procedures formalized in the 1989 agreement had helped to ensure a close working relationship between the two staffs through systematic and frequent meetings of senior staffs and managements. At the operational level, there had been close contact in the field as well as at headquarters through increased use of joint or parallel missions, cross-participation in missions, timely exchange of documents, and cooperation in technical assistance. Collaboration had become more transparent and systematic for the staff, the Board, and member countries. The Board recognized that, despite differences in approach, conflicting policy advice to country authorities had generally been avoided, as had delays in providing financial assistance. Financial support extended to member countries by the Fund and the Bank had been further coordinated and the two institutions had increasingly cooperated in their relations with individual countries.

Recently, the Fund and the Bank have collaborated in providing financial and technical support to Eastern European countries that are making the transition to market economies. They also coordinated their responses to the Middle East crisis and their support to the region in the aftermath of the war. Through their collaboration the Fund and the Bank have helped countries to meet overdue financial obligations. The two staffs have worked together to assist countries to

remain current in their obligations and to eliminate existing arrears. Since the strengthened cooperative strategy was introduced in early 1990, clearance of arrears to the Fund and the Bank has been achieved in two cases, and progress is being made in rights accumulation and Fund-monitored programs (see page 67).

The two staffs have continued to consult on the debt strategy and have coordinated their support of debt- and debt-service-reduction packages implemented under members' policy adjustment efforts. Furthermore, the two institutions are careful to be consistent in introducing procedures to support debt- and debt-service-reduction operations, designing, for example, steps to govern the disposition of augmentation resources released early to member countries (see section on the external debt situation above).

The PFP process for SAF-eligible and ESAF-eligible countries is continuously enhanced by promoting a more central role for the recipient countries and a greater, though informal, involvement of donors, as well as through closer collaboration between the two staffs. This process has become an increasingly effective instrument for designing medium-term policy measures to address the social aspects of SAF- and ESAF-supported programs, in which the Fund staff relies heavily on the advice of its Bank counterpart. At the August 1990 review of progress in Fund-Bank collaboration, a few members of each of the two Boards evidenced some support for developing PFP-like documents for middle-income countries, in particular centrally planned economies in transition or countries undergoing major macroeconomic and structural transformation. Subsequently, PFP-like documents have been prepared for Hungary and Poland.

4. Trade Policy Issues

In 1990/91, discussions in the Uruguay Round of multilateral trade negotiations continued but failed to conclude on schedule in December 1990. There was encouraging progress, however, toward greater trade liberalization in Eastern Europe and in other developed and developing countries and in the decision of a growing number of countries to participate in the multilateral trading system. These developments were a welcome reflection of the increasingly widespread view that a competitive external and internal environment stimulates growth. Such growth must be accompanied by a stable and predictable global trading environment; for this reason, a successful, broad-based conclusion of the Uruguay Round is essential. The Fund cooperates with the General Agreement on Tariffs and Trade (GATT) to promote a strengthened, open trade environment. Also, in its surveillance work and its support for members' policies, it stresses that trade liberalization is an important element of economic reform.

The accelerating trend toward market-oriented policies, which is often furthered by Fund support for members' policy adjustment, needs to be sustained for these policies to succeed. An open and competitive external trading environment under clear and predictable rules is of prime importance in achieving these objectives. The Interim and Development Committees, at their September 1990 meetings, stressed the importance of an open trading system to the success of policy adjustments in developing countries, market-based reforms in Eastern European countries, and bal-

anced growth in the industrial countries. They emphasized the need for a successful conclusion to the Uruguay Round and underscored the importance of a comprehensive agreement for the functioning of the multilateral trading system and the global economy. At its April 1991 meeting, the Interim Committee expressed concern over the delays in reaching agreement in the Uruguay Round, and urged all members to work with determination toward its prompt and successful conclusion.

Successful completion of the Round would provide a solid basis for sustainable higher rates of economic growth worldwide. It involves reaching agreement on a broad range of issues, including greater market access for goods and services, and specifying trading rules that both make such access assured and predictable and provide for effective dispute settlement. With a positive outcome, there would be greater assurance that the recent trend toward regional associations would be complementary to an open and multilateral trading system and that they, consequently, would support balanced growth worldwide. A renewed and strengthened commitment to the principles underlying the GATT and their extension to new areas, including services—which are being negotiated separately—and trade-related measures affecting intellectual property and investment, would support further progress in structural reform, help resolve debt problems in developing countries, and facilitate the transition of the Eastern European and other economies to market-based systems.

Whereas the potential benefits to balanced economic growth of successfully concluding the Round are clear, the costs of failure would be equally significant. Without a strengthened multilateral framework that provides

basically uniform rules for trade between countries with diverse interests and production potentials, the trend toward greater reliance on market forces to guide the allocation of resources would be harder to sustain. Failure to reach a comprehensive agreement could result in defensive trade policies, intensify trade disputes, weaken support for trade liberalization, and erode the nondiscrimination principle of GATT through countries adopting bilateral solutions to trade problems or forming inward-looking trading blocks.

In 1990, growth in the volume of world trade slowed for the second year in a row, although it continued to outpace that of output as the global economy weakened. This slowdown risks intensifying defensive trade actions to preserve markets for domestic producers. Furthermore, in Eastern Europe, the drastic fall in intra-CMEA trade and, in particular, trade with the U.S.S.R., has created production and employment problems. Even so, there were notable positive developments in trade policy, particularly unilateral liberalization in Eastern Europe and in some developed and developing countries. In Eastern Europe, a new arrangement provides that, effective January 1991, all transactions are to be conducted at world market prices and in convertible currencies. Also, some members (most recently, Argentina and Peru) lifted import restrictions, taken for balance of payments reasons, as permitted under relevant GATT provisions. Moreover, a growing number of countries have become participants in the multilateral trading system. Between May 1990 and April 1991 membership in the GATT grew from 96 to 101; applications for membership of a further nine countries were pending as of April 1991; and the U.S.S.R. was granted observer status. It would be

ironic if this progress toward greater competition and guidance by market signals were not supported by the steps needed to strengthen a market-oriented multilateral trading system.

The difficulties in removing market rigidities globally, particularly in agriculture, are reflected in the obstacles faced by the Round and were the reason why negotiators were unable to conclude it as scheduled in December 1990. Negotiations, then suspended, were resumed in February 1991 after an understanding was reached on agriculture to the effect that participants would negotiate specific commitments on domestic support, market access, and export subsidies. Success in the Round depends on commitments to substantial reforms in agriculture by the major trading countries. Furthermore, difficult issues still remain to be resolved in other areas, such as services, market access, and GATT rules on trade restrictions. Other areas of concern are the continued use of “gray area” selective measures outside GATT rules, particularly by the European Community and the United States; persistent bilateral trade tensions among the EC, Japan, and the United States; and recourse to antidumping and countervailing duty actions with protectionist effects. The trend toward regionalism could be a cause for worry. Regional liberalization can be beneficial if it takes into account the interests of nonmembers and runs in parallel with multilateral commitments; however, commitments to regional integration should be seen as a step toward, and not a substitute for, greater global integration.

The Fund has given trade issues greater weight in surveillance and in its support for members' policies, stressing that trade liberalization is a key element of economic reform. Both in the world economic outlook exercise and in Article IV consultations,

the Fund emphasizes the special responsibility of industrial countries to promote open trading; but all countries need to contribute to this environment as a necessary element of durable growth. Trade liberalization has been a critical element in many Fund-supported programs. Measures have included removing quantitative trade and exchange restrictions supported by an exchange rate adjustment, and rationalizing and reducing tariffs and other trade taxes. Also, the Fund's periodic review of issues in the trading system complement the recently initiated GATT trade policy reviews of its signatories, thereby enhancing the transparency of the multilateral trading system and members' policies. The GATT's trade policy reviews provide valuable input into the Fund's efforts in this respect.

The Fund cooperates with the GATT to promote a strengthened, open, multilateral trading environment. This cooperation is most evident in GATT consultations with members using trade measures for balance of payments reasons, where the Fund has a statutory role in assessing whether balance of payments conditions warrant temporary trade-restrictive measures. In addition, there are frequent meetings between Fund and GATT officials, including day-to-day contact through the Fund's Office in Geneva, and a regular exchange of documents. Proposals were made in the Round for increasing cooperation between the GATT and the Fund (and the World Bank) in the context of the interdependence between trade and other elements of the global economic environment. Decisions on the nature of such cooperation have been postponed until the shape of the GATT, in the context of the results of the Round, becomes clearer.

5. The Fund's Financial Operations and Policies

An increase in total Fund quotas from SDR 90.1 billion to SDR 135.2 billion—which would raise the size of the Fund by 50 percent—was authorized by the Board of Governors in June 1990. The increase will not come into effect before the Third Amendment of the Fund's Articles, which would provide for the suspension of voting and related rights of members that do not fulfill their obligations. The rise in the number of countries seeking Fund support and in the demand for Fund resources underlines the need to bring into effect the quota increase under the Ninth General Review as soon as possible.

During 1990/91 use of the Fund's resources increased. Purchases (drawings) from the General Resources Account rose substantially to SDR 6.2 billion, from SDR 4.4 billion in 1989/90; repurchases (repayments) decreased by SDR 0.6 billion to SDR 5.4 billion. Consequently, Fund credit outstanding in the General Resources Account rose for the first time since 1985 and stood at SDR 22.9 billion at the end of the financial year. At the same time, new commitments under stand-by and extended arrangements amounted to SDR 5.1 billion in 1990/91, less than half the exceptionally high level in the previous year. Holdings of adjusted and uncommitted usable resources fell to SDR 23.8 billion, and are projected to decline rapidly in association with increased financing demands, such as for Eastern Europe and because of the effects of the Middle East crisis. The total allocation of SDRs remained at SDR 21.4 billion in 1990/91.

Overdue financial obligations to

the Fund rose modestly during 1990/91 to SDR 3.4 billion, the smallest increase since 1984/85. The number of members in arrears on obligations of six months or longer fell from eleven to nine. Two members cleared their overdue obligations in June 1990, while four others acted to stabilize the level of their arrears and have begun to implement comprehensive policy reforms.

Membership in the Fund increased by four countries to 155 during the financial year, and two other countries—Switzerland and Albania—applied for membership.

Ninth General Review of Quotas

An increase in the total of Fund quotas from SDR 90.1 billion to SDR 135.2 billion was authorized by the Board of Governors on June 28, 1990.⁷ Increases were proposed for all members except Cambodia, which did not participate in the Ninth General Review of Quotas.

The resolution of the Board of Governors specifies that no quota increase shall come into effect before the effective date of the Third Amendment of the Fund's Articles. The proposed amendment would provide for suspension of voting and other related rights of members that do not fulfill their obligations under the Articles. Furthermore, under the Resolution, members have until December 31, 1991 to consent to their increases in quotas; this period may be extended by the Executive Board. Members with overdue obligations to the General Resources Account may not consent to

⁷ See Board of Governors' Resolution No. 45-2, adopted June 28, 1990 (*Annual Report, 1990*, page 103).

the proposed increase until they become current in these obligations. Moreover, during the period up to December 30, 1991, no increase in quota may take effect until the Fund determines that members having not less than 85 percent of total quotas on May 30, 1990 have consented to the increases proposed for them in the Resolution. As of July 31, 1991, 62 members accounting for 47.2 percent of total quotas on that date had consented to their increases in quotas. After December 30, 1991, quota increases may take effect when the Fund determines that members having not less than 70 percent of total quotas on May 30, 1990 have consented to their proposed increases.

The Third Amendment becomes effective when three fifths of the Fund's members, having 85 percent of the total voting power, have accepted the amendment. As of July 31, 1991, 37 members accounting for 30.6 percent of the total voting power had accepted the proposed amendment.

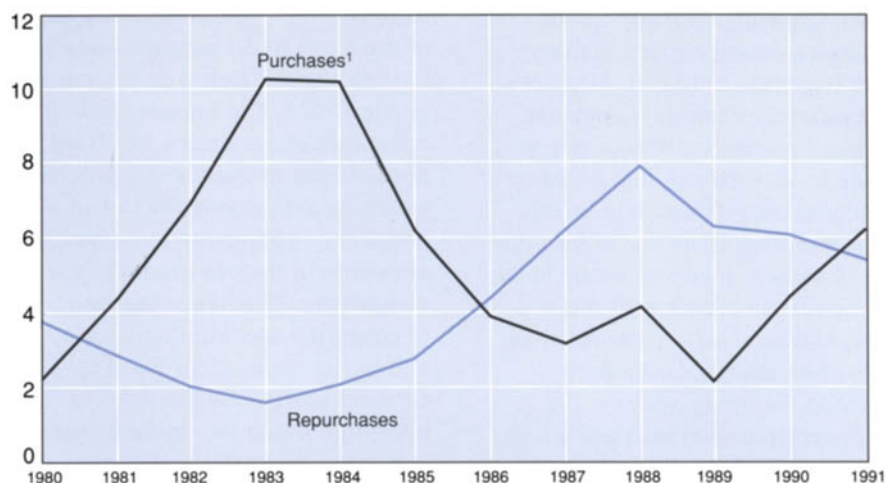
Fund Liquidity and Borrowing

The liquid resources of the Fund consist of usable currencies and SDRs held in the General Resources Account, supplemented, as necessary, by borrowed resources. Usable currencies, the largest component of these resources, are the currencies of members whose balance of payments and gross reserve positions are considered sufficiently strong to warrant their inclusion in the operational budget for use in financing Fund operations and transactions. As of April 30, 1991, the Fund's usable ordinary resources totaled SDR 40.1 billion, compared with SDR 41.2 billion a year earlier. This decline during the financial year was primarily due to an excess of purchases over repurchases (Chart 10), and also to the exclusion

Chart 10

General Resources: Purchases and Repurchases, Financial Years Ended April 30, 1980–91

(In billions of SDRs)



¹ Purchases excluding reserve tranche.

of one currency from the operational budget.

In assessing the adequacy of the Fund's liquidity, the stock of usable currencies is adjusted downward to take into account the staff's assessment of the need to maintain working balances of currencies in the budget and the possibility that currencies of some members in weak external positions could become unusable. Undrawn balances of commitments of resources are also taken into account in assessing the Fund's liquidity. As of April 30, 1991, the Fund's adjusted and uncommitted usable resources totaled SDR 23.8 billion, compared with SDR 26.2 billion a year earlier.

The Fund's liquid liabilities increased to SDR 26.2 billion at April 30, 1991, from SDR 24.8 billion at April 30, 1990. These liabilities comprised reserve tranche positions, which increased by SDR 0.6 billion to SDR 21.9 billion, and loan claims on

the Fund, which rose to SDR 4.3 billion from SDR 3.5 billion a year earlier.

The ratio of the Fund's adjusted and uncommitted resources plus any balances held in the Borrowed Resources Suspense Account to its liquid liabilities—or the liquidity ratio—declined by 11.6 percentage points over the course of 1990/91 to 94 percent. The quota increase will contribute importantly to supporting the Fund's liquidity in the period ahead, particularly if demands on the Fund's resources continue at levels comparable with those experienced during the recent past.

The Fund borrows from official sources to supplement its resources and to finance members' purchases (drawings) under the enlarged access policy established in 1981. As of April 30, 1991, all credit lines available to finance enlarged access had been fully utilized and SDR 0.8 billion of borrowed resources was held in the Borrowed Resources Suspense

Account pending use in purchases. The total of borrowed resources drawn during 1990/91 amounted to SDR 2.0 billion (including the SDR 0.8 billion invested in the Account), compared with SDR 1.0 billion during 1989/90. The Board decided on September 17, 1990 that once borrowed resources had been fully used, ordinary resources would be substituted to meet commitments of borrowed resources in financing purchases made under arrangements under the enlarged access policy. Ordinary resources substituted for borrowed resources will carry the same repayment terms as borrowed resources and the same charges as ordinary resources. The Board's decision applies only to arrangements that have been approved not later than the date on which the increase in quotas under the Ninth General Review of Quotas becomes effective, or December 31, 1991, whichever is earlier. It also provides for a review of this policy at the same time that the Executive Board reviews the decision on the enlarged access policy.

Financial Operations

The Fund's liquidity is affected primarily by the use of its resources through members' purchases (drawings) and by members' servicing of previous purchases. Total purchases from the General Resources Account, excluding reserve tranche purchases,⁸ increased substantially to SDR 6.2 billion in 1990/91 from SDR 4.4 billion the previous financial year. Disbursements under the CCFF accounted for a large portion of this increase.

Repurchases (repayments) in the General Resources Account, including

those made ahead of schedule, amounted to SDR 5.4 billion, representing a decline of SDR 0.6 billion from the previous financial year.⁹

Repurchases, which reached a peak in 1987/88 following a large expansion of Fund credit in the early 1980s, are expected to continue downward in the near future, reflecting a decline in the use of Fund credit during the latter half of the 1980s and the revolving nature and medium-term maturity of the Fund's balance of payments lending. Depending on the sources of the financing, repurchases tend to peak four to five years after the corresponding purchases.

The increase in purchases, accompanied by the decline in repurchases, resulted in an expansion in outstanding Fund credit in the General Resources Account from SDR 22.1 billion at the end of 1989/90 to SDR 22.9 billion at the end of 1990/91 (Table 2 and Chart 11). Details are provided in Appendix Table II.9.

Currencies used in purchases, repurchases, and other Fund transactions and operations are selected through the adoption by the Executive Board of a quarterly operational budget. (See the box on the Operational Budget.) The amounts of currencies of members deemed to be in a strong balance of payments position are selected to promote over time balanced positions in the Fund in relation to gross holdings of gold and foreign exchange reserves. The method of allocating currencies in the operational budget was reviewed during the 1991 financial year, introducing the limitation that the Fund's holdings of a

member's currency in relation to its quota should not be reduced substantially below the average of other members included in the budget. The method of allocating currencies is to be further reviewed before the end of December 1991 or the coming into effect of the Ninth General Quota Review, whichever comes earlier.

Repurchases of purchases made with borrowed resources do not in all cases exactly match the timing of repayments by the Fund of the corresponding borrowings, which in the past have tended to have a shorter maturity than purchases. In 1990/91 such mismatch in maturities resulted in a net inflow of ordinary resources of SDR 0.9 billion (the excess of the inflow to the Fund in repurchases over the outflow from the Fund in repayments to lenders). Nevertheless, at the end of 1990/91, cumulative payments to creditors exceeded cumulative repurchases of purchases made with borrowed resources by SDR 3.2 billion. This accumulated mismatch is expected to continue to decline during 1991/92.

Stand-By and Extended Arrangements

Thirteen new stand-by arrangements, all with developing members, came into effect in 1990/91. Commitments of Fund resources under these arrangements, including a first credit tranche arrangement with India for SDR 0.6 billion, totaled SDR 2.8 billion, as compared with 16 stand-by arrangements for SDR 3.2 billion in the previous year. The largest commitments were to Eastern European countries (Bulgaria for SDR 0.3 billion, Czechoslovakia for SDR 0.6 billion, and Romania for SDR 0.4 billion). All but 2 of the 13 stand-by arrangements were financed exclusively with ordi-

⁸ Reserve tranche purchases were made by three members in 1989/90 (SDR 62 million) and by four members in 1990/91 (SDR 707 million). Since such purchases represent members' use of their own Fund-related assets, they do not constitute use of Fund credit.

⁹ Of this total, SDR 0.1 billion consisted of early repurchases made by Mauritius and Thailand, whose balance of payments and reserve positions continued to improve during 1990/91. Such repurchases were made in accordance with the guidelines for early repurchases, Executive Board Decision No. 6172-(79/101), adopted June 28, 1979.

Table 2

Selected Financial Activities, 1985-91

(In millions of SDRs)

	Financial Year Ended April 30						
	1985	1986	1987	1988	1989	1990	1991
Total Disbursements	6,060	3,941	3,307	<i>During period</i> 4,562	2,682	5,266	6,823
Purchases by facility (General Resources Account) ¹	6,060	3,941	3,168	4,118	2,128	4,440	6,248
Stand-by and first credit tranche	2,768	2,841	2,325	2,313	1,702	1,183	1,975
Buffer stock financing facility	—	—	—	—	—	—	—
Compensatory financing facility	1,248	601	593	1,544	238	808	2,127
Extended Fund facility	2,044	498	250	260	188	2,449	2,146
Loans under SAF/ESAF Arrangements	—	—	139	445	554	826	575
Special Disbursement Account resources	—	—	139	445	380	584	180
ESAF Trust resources	—	—	—	—	174	242	395
By Region							
Industrial countries	—	—	—	—	—	—	—
Developing countries	6,060	3,941	3,307	4,562	2,682	5,267	6,823
Africa	1,018	842	647	955	701	1,289	577
Asia	747	844	1,282	804	469	525	1,714
Europe	838	323	68	—	338	268	1,960
Middle East	57	—	—	116	—	66	—
Western Hemisphere	3,401	1,933	1,311	2,688	1,174	3,119	2,572
Repurchases and repayments	2,943	4,702	6,749	8,463	6,705	6,399	5,608
Repurchases	2,730	4,289	6,169	7,935	6,258	6,042	5,440
Trust Fund loan repayments	212	413	579	528	447	357	168
Total outstanding credit provided by Fund	37,622	36,877	33,443	<i>End of period</i> 29,543	25,520	24,388	25,603
Of which:							
General Resources Account	34,973	34,640	31,646	27,829	23,700	22,098	22,906
Special Disbursement Account	—	—	139	584	965	1,549	1,728
Administered Accounts							
Trust Fund	2,650	2,237	1,658	1,129	682	326	158
ESAF Trust	—	—	—	—	174	416	811
Percentage change in total outstanding credit	8.7	-2.0	-9.3	-11.7	-13.6	-4.4	5.0
Number of indebted countries	91	87	88	86	83	87	81

¹ Excluding reserve tranche purchases.

nary resources.¹⁰ As of April 30, 1991, 14 stand-by arrangements were in effect, with total commitments of SDR 2.7 billion, and undrawn balances amounting to SDR 2.0 billion.

Two extended arrangements were approved during 1990/91, one for Hungary (SDR 1.1 billion) and another for Poland (SDR 1.2 billion). With these new commitments, total commitments at April 30, 1991 under the five extended arrangements in effect at that

time reached SDR 9.6 billion, of which SDR 5.3 billion remained undrawn. Drawings under extended arrangements are financed up to 140 percent of quota with ordinary resources, and the balance with borrowed resources.

In connection with the Fund's strategy for dealing with the problems of heavily indebted countries, a total of SDR 396 million was earmarked from new commitments of stand-by and extended arrangements in 1990/91 for possible debt-reduction operations. Disbursements of these "set asides," including amounts "set aside" under arrangements in preceding years,

amounted to SDR 463 million during the financial year. In the case of five arrangements in effect during this financial year, the Board also indicated its willingness to consider a possible augmentation to provide collateral to support debt-service reduction; in December 1990 the Board agreed to one such augmentation for Venezuela in the amount of SDR 154 million.

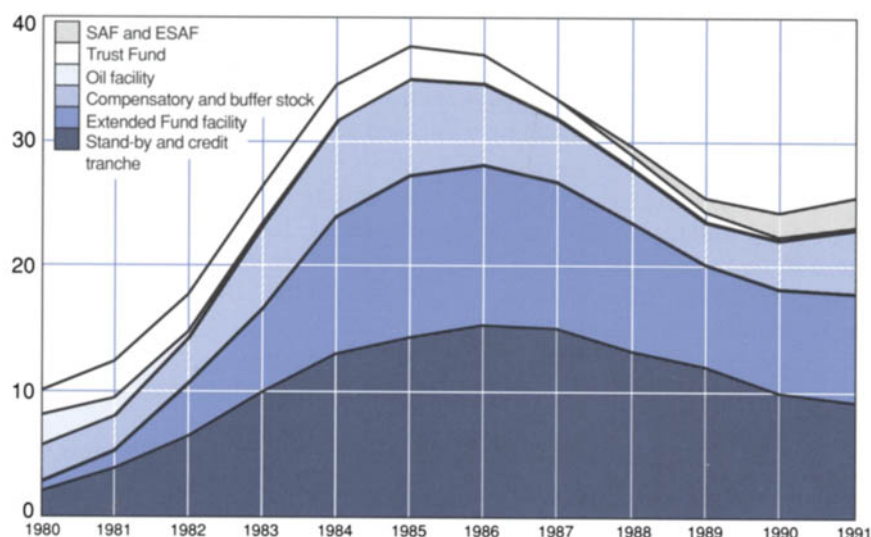
Total new commitments of Fund resources under stand-by and extended arrangements in 1990/91 amounted to SDR 5.1 billion, or less than half the SDR 10.9 billion recorded in the previous year. Annual access, which av-

¹⁰ Access in most arrangements in 1990/91 did not raise the Fund's holdings of currency above 200 percent of quota and therefore the policy on enlarged access did not apply.

Chart 11

Total Fund Credit Outstanding to Members (Including Trust Fund, SAF, and ESAF), Financial Years Ended April 30, 1980–91

(In billions of SDRs)



eraged 60 percent of quota under new stand-by arrangements and 65 percent of quota under new extended arrangements, ranged from 30 percent of quota (Nigeria) to 101 percent of quota (Guyana).

SAF and ESAF

The Fund continued in 1990/91 to provide financial support under three-year arrangements to low-income members through the SAF and the ESAF.

As of April 30, 1991, there were 12 SAF arrangements and 14 ESAF arrangements in effect. Two new SAF arrangements were concluded in 1990/91 with Burkina Faso (SDR 22.1 million) and Rwanda (SDR 30.7 million). Three new ESAF arrangements totaling SDR 425.7 million were also concluded with Bangladesh (SDR 258.8 million), Guyana (SDR 81.5 million),

and Mozambique (SDR 85.4 million). Cumulative commitments under SAF and ESAF arrangements totaled SDR 3.4 billion as of April 30, 1991 while cumulative disbursements under the two facilities amounted to SDR 2.5 billion, compared with SDR 2.0 billion as of April 30, 1990. Following amend-

ments of the ESAF Instrument in September and November 1990, requests were approved by the Board to augment the three-year ESAF commitment for Ghana and to increase the amount of the midyear disbursement under the second annual arrangements for Kenya and Uganda.

Resources totaling about SDR 8.7 billion are expected to become available to finance SAF and ESAF arrangements. Loans under SAF arrangements are funded with resources projected to total about SDR 2.7 billion, derived from repayments on loans from the Trust Fund (established in 1976). ESAF arrangements are financed with Special Disbursement Account resources not utilized under SAF arrangements and with ESAF Trust resources expected to total SDR 6.0 billion. At the end of April 30, 1991, the resources available for lending in the ESAF Trust amounted to SDR 5.3 billion, unchanged from the preceding year. Of this amount, agreements with lenders amounting to SDR 5.1 billion have been approved by the Executive Board and have entered into effect. Some of the borrowing agreements call for market-related interest rates, while others bear concessional interest rates.

Box 14
The Operational Budget

Because of the cooperative character of the Fund and the revolving nature of its resources, Fund credit is financed through the use of currencies of a wide range of members, large and small, industrial and developing. Members that are in a strong reserve and balance of payments position make resources available to members experiencing balance of payments dif-

ficulties. The guidelines that govern the allocation of currencies in which the Fund could make its resources available or receive repayments from members, are laid down by the Board and are implemented through an operational budget that is approved on a quarterly basis. The Board reviews the guidelines underlying the operational budget from time to time.

As already mentioned, on September 24, 1990 the Board approved a two-year extension of the commitment period for ESAF Trust loans, from November 30, 1990 to November 30, 1992. The extension of the commitment period for Trust Loans required a corresponding extension on the disbursement period under the agreements with lenders to the ESAF Trust Loan Account from June 30, 1993 to November 30, 1995. Most lenders to the ESAF Trust Loan Account have agreed to the requested extension of the commitment and disbursement periods and the respective agreements have been amended accordingly.

To enable all ESAF financing to be available at low concessional interest rates (currently 0.5 percent a year), subsidy contributions are received by the ESAF Trust Subsidy Account. Contributions to the Account take a variety of forms, including direct grants and deposits made at varying concessional interest rates. Resources available for subsidy payments in the Account as of April 30, 1991 amounted to SDR 384.5 million, up from SDR 226.9 million as of April 30, 1990.

The ESAF Trust made interest payments to lenders in 1990/91 amounting to SDR 27.1 million, of which SDR 2.3 million was financed by payments of interest made by borrowers and the balance of SDR 24.8 million was drawn from the resources of the Subsidy Account.

Details on SAF and ESAF arrangements, and borrowing agreements and subsidy contributions for the ESAF Trust, are provided in Appendix Tables II.4, II.5, and II.11.

Special Facilities

Reflecting in part the addition of the oil import element to the CCFF, purchases under the CCFF more than

doubled to SDR 2.1 billion in 1990/91, compared with SDR 0.8 billion during the previous year, and accounted for almost one third of total purchases from the General Resources Account. The total for 1990/91 comprised purchases amounting to SDR 1.9 billion under the oil element of the CCFF, and SDR 0.2 billion under the export shortfall provision (or SDR 0.6 billion less than purchased under the export shortfall element during the previous financial year). Purchases under the oil element of the CCFF were made by Bulgaria, Costa Rica, Czechoslovakia, Hungary, India, Jamaica, the Philippines, Poland, and Romania. No purchases under the contingency element of the CCFF were made in 1990/91. There were no purchases under the buffer stock financing facility and no amounts were outstanding under this facility as of April 30, 1991. (See box on Fund Facilities and Policies.)

SDR Department

SDRs, the international reserve asset created by the Fund, may be held by Fund members (all of which are currently participants in the SDR Department), by the Fund's General Resources Account, and by official entities prescribed by the Fund to hold SDRs. Prescribed holders do not receive allocations, but can acquire and use SDRs in transactions and operations with participants in the SDR Department and other prescribed holders under the same terms and conditions as participants. The number of institutions prescribed by the Fund to accept, hold, and use SDRs remained unchanged at 16 during 1990/91.¹¹

¹¹ These prescribed holders of SDRs are the African Development Bank, African Development Fund, Andean Reserve Fund, Arab Monetary Fund, Asian Development Bank, Bank of Central African States, Bank for International Settlements, Central Bank of West African States,

The SDR, which is the unit of account for Fund transactions and operations and for its administered accounts, is also used as a unit of account (or as the basis for a unit of account) by a number of Review of international and regional organizations and a number of international conventions. In addition, the SDR has been used to denominate financial instruments created outside the Fund by the private sector (private SDRs). At the end of the financial year, the currencies of six member countries were pegged to the SDR.

SDR Valuation and Interest Rate Basket

The SDR valuation basket was revised effective January 1, 1991 in accordance with the 1980 decision and the review of the SDR valuation by the Executive Board in 1990.¹² The five currencies used in the previous basket were retained, as the issuers of these currencies were those whose exports of goods and services during the period 1985–89 had the largest value. The initial weights for these currencies were revised to reflect changes from 1980–84 to 1985–89 in

East African Development Bank, Eastern Caribbean Central Bank, International Bank for Reconstruction and Development, International Development Association, International Fund for Agricultural Development, Islamic Development Bank, Nordic Investment Bank, and Swiss National Bank.

¹² Executive Board Decision No. 9549-(90/146) G/S, adopted October 5, 1990 (see Appendix IV, pages 115), and Executive Board Decision No. 6631-(80/145) G/S, adopted September 17, 1980 (*Selected Decisions*, Sixteenth Issue, pp. 376–77). The 1980 decision states that, unless the Fund decides otherwise, the SDR valuation basket be revised with effect on January 1, 1986 and on the first day of each subsequent five-year period. This decision provided that the SDR basket is to include the currencies of the five countries with the largest exports of goods and services during the five-year period ending one year prior to the date of the revision, which in the present revision is the period 1985–89.

Table 3

Effective Change of SDR Valuation

(Initial percentage weights; amounts of currency unit in parentheses)

Currency	January 1, 1986	January 1, 1991
U.S. dollar	42 (0.452)	40 (0.572)
Deutsche mark	19 (0.527)	21 (0.453)
Japanese yen	15 (33.4)	17 (31.8)
French franc	12 (1.020)	11 (0.800)
Pound sterling	12 (0.0893)	11 (0.0812)

their relative importance in international trade and finance. The currency weights were translated into currency amounts on the basis of the average daily exchange rates for the three months preceding the introduction of the respective baskets, ensuring that the value of the SDR was the same on December 31, 1990 under both the revised and the previous baskets. The revised basket will be in effect until December 31, 1995. The initial weights and the corresponding amounts of each of the five currencies in the new valuation basket are shown in Table 3.

The financial instruments included in the SDR interest rate basket were also reviewed. With effect from January 1, 1991 the rate on the two-month private bill used for the Japanese yen component was replaced by the rate on three-month certificates of deposit, and the rate on three-month interbank deposits used for the French franc component was replaced by the interest rate on three-month treasury bills. The instruments for the United States dollar (market yield for three-month U.S. Treasury bills), the pound sterling (market yield for three-month U.K. Treasury bills), and deutsche mark (three-month interbank deposit rate in Germany) remained unchanged. The changes in the instruments reflected changed circumstances in financial markets in light of innovations and deregulations.

Pattern of Holdings

The total allocation of SDRs remained unchanged at SDR 21.4 billion in 1990/91. Holdings of SDRs by participants decreased by less than SDR 0.1 billion during the year to just below SDR 20.8 billion, with a corresponding increase in the Fund's holdings of SDRs in the General Resources Account to SDR 0.7 billion.¹³ Those of prescribed holders remained basically unchanged at less than SDR 20 million. During the year, SDR holdings of developing countries, as a proportion of their net cumulative allocations, increased from 44.4 percent to 45.9 percent, while those of industrial countries declined marginally from 122 percent to 121 percent. (See Appendix Tables II.12 and II.13.)

Total Transfers

Total transfers of SDRs during 1990/91 declined substantially to SDR 14.8 billion from SDR 16.8 billion, reflecting the effect of a signifi-

¹³ In accordance with the guidelines in the Executive Board's Decision No. 8574-(87/64) of April 24, 1987 (*Selected Decisions*, Sixteenth Issue, page 207), the level of the Fund's SDR holdings in the General Resources Account are to be maintained within the approximate range of SDR 0.75–1.25 billion. Following the quota increases under the Ninth General Review, it is expected that the SDR holdings of the Fund in the General Resources Account will increase substantially and that the Executive Board will review its policy on the appropriate level of its SDR holdings.

cant decrease in transfers among participants and prescribed holders and a moderate decline in transfers between the General Resources Account and participants and prescribed holders. Summary data on transfers of SDRs by participants, the General Resources Account and prescribed holders are presented in Table 4.

Transfers Among Participants and Prescribed Holders

Transfers of SDRs among participants and prescribed holders declined in 1990/91 to SDR 6.3 billion (see Table 4), mainly because of a significant decrease in transactions by agreement to SDR 5.3 billion (of which SDR 166 million involved prescribed holders). The other SDR 1.0 billion of transfers was accounted for mainly by SDR interest payments, and Fund-related and prescribed operations, the latter consisting of loans, forward operations and settlements of financial obligations. For the third consecutive year, there were no transactions with designation, as all prospective uses of SDRs through the designation process were arranged through transactions by agreement with other participants.

Participants acquired SDRs in transactions by agreement mainly to discharge obligations to the Fund, such as charges, which must be paid in SDRs, and repurchases, which may be made in SDRs. Charges and repurchases paid in SDRs remained fairly stable at SDR 4 billion, even though total repurchase obligations discharged by members during the year declined by SDR 0.6 billion. As in the past, a large proportion of the SDRs received in purchases and operational payments by participants were sold in transactions by agreement.

As in the previous three years, in 1990/91 buying and selling (two-way)

Table 4

Transfers of SDRs, January 1, 1970–April 30, 1991

(In millions of SDRs)

	Annual Averages ¹				Financial Year Ended April 30				Total Jan. 1, 1970– Apr. 30, 1991
	01/01/70– 04/30/78	05/01/78– 04/30/81	05/01/81– 04/30/83	05/01/83– 04/30/87	1988	1989	1990	1991	
Transfers among participants and prescribed holders									
Transactions with designation									
From own holdings	222	271	743	166	—	—	—	—	5,016
From purchase of SDRs from Fund	41	1,174	1,553	1,744	986	—	—	—	14,727
Transactions by agreement	439	771	1,262	3,121	7,335	6,686	6,777	5,266	47,040
Prescribed operations	—	—	277	520	540	1,689	291	349	5,504
Fund-related operations	—	—	—	43	296	334	211	132	1,146
Net interest on SDRs	42	161	259	283	305	344	480	535	4,132
Total	743	2,377	4,092	5,877	9,459	9,053	7,759	6,283	77,565
Transfers from participants to General Resources Account									
Repurchases	306	809	702	991	2,518	2,466	2,339	1,991	19,657
Charges	259	620	1,233	2,573	2,002	1,734	1,897	2,006	24,417
Quota payments	24	1,704	175	1,591	—	—	33	220	12,279
Interest received on General Resources Account holdings	16	135	551	307	81	56	86	79	3,170
Assessments	1	2	2	6	4	4	4	4	48
Total	606	3,269	2,663	5,466	4,605	4,260	4,360	4,301	59,571
Transfers from General Resources Account to participants and prescribed holders									
Purchases	172	1,474	2,227	2,554	1,848	624	945	1,334	25,569
Repayments of Fund borrowings	—	88	86	614	1,999	1,782	1,845	1,090	9,608
Interest on Fund borrowings	4	27	184	443	585	490	334	195	3,859
In exchange for other members' currencies									
Acquisitions to pay charges	—	3	95	896	402	244	368	364	5,155
Acquisitions to make quota payments	—	114	—	—	—	—	—	—	341
Reconstitution	210	33	—	—	—	—	—	—	1,555
Remuneration	26	165	605	1,536	932	894	1,196	1,172	12,262
Other	29	7	22	17	31	20	24	80	530
Total	442	1,911	3,218	6,060	5,798	4,054	4,712	4,235	58,880
Total transfers	1,792	7,556	9,971	17,402	19,862	17,367	16,831	14,818	196,015
General Resources Account holdings at end of period	1,371	5,445	4,335	1,960	770	976	628	694	694

¹ The first column covers the period from the creation of the SDR until the Second Amendment to the Articles of Agreement; the second column shows the period covering the SDR allocations in the third basic period, as well as the Seventh General Quota increases; and the fourth column covers the period during which the Eighth General Quota increases came into effect and before the SDR two-way arrangements imported significant increases to the SDR transactions by agreement.

arrangements for voluntary SDR transactions continued to facilitate SDR use in transactions by agreement. While maintaining the SDR holdings of participating members within the desired ranges, these arrangements have contributed to the smooth functioning of the SDR system

by accommodating temporary mismatches between the desired purchases and sales of SDRs by other participants. Of the total transactions by agreement of SDR 5.3 billion in 1990/91, SDR 2.9 billion was effected by directly matching purchasers and sellers (including SDR 1.4 billion from

members with standing arrangements to sell) and SDR 2.4 billion represented temporary excess supply or demand and was effected through the sales of SDR 1.1 billion to—and purchases of SDR 1.3 billion from—members with regular two-way arrangements in exchange for U.S. dol-

lars, deutsche mark, French francs, pounds sterling, or Japanese yen. However, members wishing to acquire SDRs (generally for discharging their obligations to the Fund in SDRs) demanded more than other members were prepared to sell (excluding net sales by members with two-way arrangements). The use of the two-way arrangements to meet this excess demand lowered the SDR holdings of the members with these arrangements to the lower end of the permissible range, and the Fund was unable to arrange for all of the acquisitions desired. To help satisfy acquisitions of SDRs by members indebted to the Fund, the Fund staff requested additional sales by a number of members with substantial holdings who sold another SDR 1.5 billion.

Transfers Involving the Fund

SDR transfers between participants and the Fund amounted to about SDR 8.5 billion in 1990/91, compared with SDR 9.1 billion in 1989/90. Receipts of SDRs by the General Resources Account declined marginally from SDR 4.4 billion to SDR 4.3 billion. Receipts consisted mainly of payments of charges on members' use of Fund resources, which amounted to SDR 2 billion and repurchases of 2 billion made in SDRs (at participants' option). SDRs accounted for about 37 percent of total repurchases. The remainder of receipts, about SDR 0.3 billion, consisted mainly of quota payments by new members totaling SDR 220 million and interest of SDR 79 million on the SDR holdings of the General Resources Account.

Transfers from the General Resources Account to participants decreased by about 10 percent to SDR 4.2 billion in 1990/91. The total of SDRs used for interest payments

and in repayments of Fund borrowings during the year declined by about SDR 0.9 billion to SDR 1.3 billion. SDRs used to finance purchases increased to SDR 1.3 billion, while remuneration payments made in SDRs on members' creditor positions and SDRs acquired by members against foreign exchange remained about the same at SDR 1.2 billion and SDR 0.4 billion, respectively.

SDRs were used in other operations involving SAF, ESAF, Trust Fund loans, and the SFF Subsidy Account, including disbursements of subsidy or loans to members, repayments by members of principal, and payments by members of interest and special charges. In 1990/91, these Fund-related operations in SDRs totaled SDR 132 million.

Overdue Financial Obligations

The reduction and elimination of overdue financial obligations to the Fund are essential to maintain the cooperative nature of the institution and to preserve its monetary character. Overdue obligations remained a serious problem in 1990/91, although the absolute increase and the rate of growth of overdue obligations over the financial year were the lowest since 1983. The total amount of overdue obligations rose from SDR 3.3 billion at the end of 1989/90 to SDR 3.4 billion at the end of 1990/91, of which almost all were accounted for by members in arrears to the Fund by six months or more. Between the end of 1989/90 and the end of 1990/91, the number of members in arrears on obligations to the Fund by six months or more fell from 11 to 9. All these members were in arrears to the General Resources Account; six had arrears in the SDR Department; six had arrears to the Trust Fund; and two were in arrears on interest payments on SAF loans.

Unpaid charges due from these members (deferred charges), which are excluded from the Fund's current income, amounted to SDR 1,081.4 million at the end of 1990/91, compared with SDR 834.4 million at the end of 1989/90.

In 1990/91, no members were declared ineligible to use the general resources of the Fund pursuant to Article XXVI, Section 2(a), and declarations of ineligibility previously in effect with respect to Guyana and Honduras were lifted following full settlement of those members' arrears on June 20 and June 28, 1990, respectively. As of the end of the financial year, declarations of ineligibility with respect to Viet Nam (January 15, 1985), Liberia (January 24, 1986), Sudan (February 3, 1986), Peru (August 15, 1986), Zambia (September 30, 1987), Sierra Leone (April 25, 1988), Somalia (May 6, 1988), and Panama (June 30, 1989) remained in effect. These eight ineligible members accounted for 97.8 percent of total overdue obligations to the Fund as of April 30, 1991.¹⁴

Selected data on arrears to the Fund for financial years 1986–91 are shown in Table 5; additional data on members' overdue obligations by type and duration are shown in Table 6.

During the year the Fund continued to implement the strengthened cooperative strategy for resolving members' arrears problems. This strategy has led to some encouraging progress. Two members—Guyana and Honduras—cleared their overdue obligations in June 1990, adopted Fund-supported programs, and have remained current with the Fund despite the difficult international environment, including the adverse impact of the Middle East cri-

¹⁴ One other member (Cambodia) has had overdue obligations to the Fund since 1975, but has not been declared ineligible.

Table 5

Arrears to the Fund of Members with Obligations Overdue by Six Months or More, 1987-91

(Amounts in millions of SDRs)

	Financial Year Ended April 30				
	1987	1988	1989	1990	1991
Amount of overdue obligations	1,186.3	1,945.2	2,801.5	3,251.1	3,377.7
Number of members	8	9	11	11	9
Of which:					
General Department	1,088.4	1,787.7	2,594.2	3,018.6	3,171.7
Number of members	8	9	11	11	9
SDR Department	15.6	25.1	35.0	44.7	27.3
Number of members	4	6	6	9	6
Trust Fund	82.3	132.4	172.3	187.8	178.7
Number of members	6	7	7	8	6
Number of ineligible members	5	7	8	10	8

sis. Furthermore, four members—Panama, Peru, Viet Nam, and Zambia—have undertaken to stabilize the level of their arrears by, at a minimum, making payments equivalent to newly maturing obligations to the Fund.

These members have also formulated and begun to implement comprehensive adjustment programs, in one

case—Zambia—under a rights accumulation program, and in another—Panama—under a Fund-monitored program. In the case of Peru, the authorities are pursuing a macroeconomic and structural adjustment program designed in consultation with the staffs of the Fund, the World Bank, and the Inter-American Development Bank, and an effort is under

way to mobilize the requisite financing in support of this program. The Vietnamese authorities elaborated, with the assistance of Fund staff, a broad program of macroeconomic and structural reforms designed to move toward a market-based economic system. In Sierra Leone, there has been progress in key structural areas and the country is making efforts to improve its payments performance to the Fund and to establish a track record that could support a request for endorsement of a rights accumulation program. Thus, by April 30, 1991, more than half of the 11 members with protracted arrears a year earlier had either become current with the Fund or could be considered to be collaborating with the Fund in varying degrees to resolve their arrears problems.

As regards the three other members that have been declared ineligible to use the general resources of the Fund, cooperation with the Fund has been inadequate and remedial measures have been applied in accordance with the established strategy.

Table 6

Arrears to the Fund of Members with Obligations Overdue by Six Months or More, by Type and Duration, as of April 30, 1991

(In millions of SDRs)

Member	Total	By Type			By Duration			
		General Department	SDR Department	Trust Fund	Less than one year	One-two years	Two-three years	Three years or more
Cambodia	39.1	30.2	8.9	—	2.8	2.5	2.0	31.7
Liberia	350.9	316.6	5.4	29.0	43.5	51.5	53.2	202.8
Panama	181.2	181.2	—	—	4.5	62.2	75.2	39.2
Peru	624.6	624.6	—	—	—	53.6	151.5	419.4
Sierra Leone	85.6	72.4	2.9	10.3	17.2	8.8	20.3	39.4
Somalia	125.8	118.4	0.3 ¹	7.1	24.8	44.9	34.4	21.8
Sudan	1,008.0	926.4	3.3	78.3	121.3	134.4	148.6	603.7
Viet Nam	100.6	47.5	6.4	46.6	4.3	3.5	12.5	80.3
Zambia	861.9	854.5	—	7.4	77.4	177.6	187.6	419.3
Total	3,377.7	3,171.8	27.2	178.7	295.8	539.0	685.3	1,857.6

Note: Totals may not add due to rounding.

¹ Somalia's unpaid charges of SDR 0.3 million in the SDR Department are overdue by less than six months.

The Cooperative Strategy on Overdue Obligations

The cooperative strategy on overdue financial obligations to the Fund was formulated in early 1990 and endorsed by the Interim Committee at its meeting in May 1990. Subsequently, the Board took appropriate action to implement the operational modalities of the strategy, which has three main elements: prevention, deterrence, and intensified collaboration.

Preventive Measures

Prevention is a key element of the cooperative strategy. In this regard, increased efforts have been undertaken to help ensure that all members using Fund resources will be in a position to meet their obligations to the Fund as they fall due. The process of assessing members' capacities to repay the Fund has been substantially strengthened, both in discussions with the authorities and in staff papers supporting members' requests for use of Fund resources. Since mid-1990, all staff papers prepared in support of the use of Fund resources, including use under the SAF, ESAF, and CCFF, have included a section explicitly assessing the member's capacity to repay. The assessment of capacity to repay is intended in part to highlight potential risks and dangers, arising, for example, from future financing gaps, a bunching of maturities or an excessive debt burden, possible adverse external shocks, or slippages in policy implementation. Every effort is made to ensure that these risks are addressed in program design and implementation and in financing arrangements in order to safeguard the revolving character of Fund resources. Where significant financing gaps or excessive debt burdens are foreseen for the period in which Fund credit would remain outstanding, indications are

given of the efforts that will be required of the member and the international community.

The staff has continued to assist members in making specific arrangements with respect to their international reserve management practices to facilitate payments to the Fund. Such arrangements have included targeting a higher level of international reserves and building up budgetary resources in local currency. In addition, a number of countries have arranged for the voluntary advance acquisition of SDRs, in amounts sufficient to settle obligations falling due to the Fund in a subsequent period, combined with a standing authorization for the Fund to debit the member's SDR account for amounts as they fall due. These latter arrangements are administratively simple and reduce risks of delays in payment, while offering members an international reserve asset that is liquid, provides a market-related rate of return and currency diversification, and is unrestricted in its use.

Remedial and Deterrent Measures

As a complement to preventive measures, the deterrent element of the cooperative strategy was strengthened in 1990/91 through, among other things, a tightening of the timing of procedures for dealing with members with overdue financial obligations. As compared with the procedures endorsed by the Executive Board in August 1989, the revised timetable sets maximum time limits between the date of emergence of arrears to the Fund and a declaration of ineligibility, and makes explicit the timing of a declaration of noncooperation and the initiation of the procedures for compulsory withdrawal. It also includes the possible use of the suspension of voting and related rights as a measure of de-

terrence, once the Third Amendment of the Articles of Agreement, which would make such a suspension possible, becomes effective. The Third Amendment must become effective in order for the quota increase to come into effect.

The timetable of remedial and deterrent measures has been applied to ineligible members that have been judged not to be cooperating with the Fund. In particular, declarations of noncooperation were issued with respect to Liberia on March 30, 1990 and Sudan on September 14, 1990. In the cases of Liberia and Somalia, internal conflicts have recently brought about changes of government and have led to widespread disruption of economic activity. In these circumstances, the Board has agreed to delay the consideration of the further application of remedial measures until a policy dialogue with the member is once again possible.

The timetable has also been applied in new cases of arrears. After the issuance of complaints under Rule K-1 (which involves unfulfilled obligations other than in the SDR Department) in two new cases, communications were dispatched from Fund management to selected Fund Governors regarding the members concerned. These were the first occasions on which such early communications were dispatched since this element of the procedures was introduced in August 1989. The emergence of overdue obligations in these cases—one of which was settled before April 30, 1991 and the complaint under Rule K-1 withdrawn—serves as a reminder that, if authorities fail to adopt appropriate policies, arrears problems can emerge quickly, and continued vigilance and prompt corrective measures are required. In this regard, the Board has emphasized that the strong support of the membership will be vital in making deter-

rent/remedial measures effective and in eliminating new arrears before they become protracted.

Collaboration and the Rights Approach

Under the collaborative approach, the Fund has developed the techniques of Fund-monitored programs and rights accumulation programs, which permit a member with protracted arrears to the Fund to establish a track record of performance related to policy implementation and payments. With the assistance of support groups, consultative groups, and other arrangements as appropriate, the member is expected to generate the financing needed for its economic program including, at a minimum, amounts to settle financial obligations falling due to the Fund and the World Bank during the program period.

During the past financial year, the Fund staff has been actively engaged in assisting members to mobilize resources under the collaborative approach in the context of their adoption and implementation of programs that would be monitored by the Fund. In the four cases in which most experience has been gained thus far—Guyana, Honduras, Panama, and Zambia—the modalities for mobilizing resources have been adapted to the particular circumstances of the member. In Guyana, a support group (chaired by Canada) and in Honduras a consultative group (chaired by the World Bank) were instrumental in mobilizing finance for the respective programs, including clearance of arrears to the multilateral financial institutions. The Fund-monitored program for Panama is to be financed through a support group chaired by the United States and through contributions from several governments. In Zambia, substantial resources have been committed through the Consultative Group/Spe-

cial Program of Assistance for Africa to help finance Zambia's 1990 Fund-monitored program and the rights accumulation program for 1991. In all four cases, official bilateral reschedulings have been arranged within the Paris Club.

The rights approach, which was endorsed by the Interim Committee in May 1990, provides that members can earn rights toward future financing from the Fund through the implementation of a comprehensive economic program with macroeconomic and structural policy standards associated with programs supported by extended and ESAF arrangements. It was envisaged that the rights approach would be available only to those of the 11 members with protracted arrears to the Fund at the end of 1989 that adopted such a program that could be endorsed by the Board by the time of the spring 1991 Interim Committee meeting.

The process of implementing comprehensive economic reforms and mobilizing the requisite external financing so that these reforms could be submitted for endorsement by the Board as rights accumulation programs has, however, required more time than was envisaged a year ago. As of April 30, 1991, only one country—Zambia—had formally submitted a rights accumulation program, which was endorsed by the Board on April 17, 1991. In view of the progress that had been made with respect to policies and payments to the Fund in some countries with protracted arrears, and the difficult circumstances of some others, the Board agreed to extend the deadline for Fund endorsement of rights accumulation programs from the spring 1991 meeting of the Interim Committee to the spring 1992 meeting. This extension will permit programs currently being formulated to be finalized and brought to the

Board, and will allow other members in protracted arrears a further opportunity to demonstrate cooperation with the Fund and formulate and implement rights accumulation programs.

Under the rights approach, the encashment of accumulated rights would take place after the clearance of arrears to the Fund as the first disbursement under a successor financial arrangement (for example, under the EFF or ESAF) approved by the Fund, once all requirements for such a successor arrangement have been met. The new arrangement would generally be expected to involve some Fund financing beyond that provided for the encashment of rights. The appropriate mix of resources (SAF, ESAF, and General Resources Account) would be decided at the time of approval of the successor arrangements.

In the context of the collaborative approach, in April 1991 the Executive Board decided to suspend the application of special charges¹⁵ in the General Resources Account for members in protracted arrears to the Fund that were judged to be actively cooperating with the Fund toward the resolution of their arrears problems. For those members that had already undertaken to make payments to the Fund equivalent to their obligations falling due, the Executive Board's decision provided that the suspension would become effective on May 1, 1991 or when the level of their arrears was reduced to or below a specified level, whichever was later. It was also provided that such suspension would be extended to other members in protracted arrears, if the Fund endorsed a Fund-monitored or rights accumulation program

¹⁵ The system of special charges on overdue financial obligations to the Fund entered into effect on February 1, 1986 with the purpose of recovering from late-paying members the direct financial costs to the Fund of overdue obligations.

for the member or if the Fund determined that the member was actively cooperating toward the clearance of its overdue obligations to the Fund, and the member had undertaken not to increase its arrears to the Fund above a specified ceiling.

Cooperation with the World Bank and Regional Development Banks

Cooperation with the World Bank and regional development banks to resolve overdue financial obligations has intensified during the past few years. As regards cooperation with the World Bank, simultaneous clearance of arrears to the World Bank and Fund is the preferred approach of both institutions in cases in which a member has arrears to both. However, in certain circumstances, sequential clearance may be considered necessary and be the approach most likely to result in an eventual satisfactory resolution of the arrears to both institutions. Simultaneous clearance, including with the relevant regional development banks, was the approach followed in the cases of Guyana and Honduras, and is envisaged in a number of other cases. In Zambia, on the other hand, sequential clearance (with clearance of arrears to the World Bank preceding the Fund) was regarded as a necessary component of the financing strategy in support of the rights accumulation program, because of the magnitude of the financing requirement and the difficulties in mobilizing financing under a parallel clearance approach.

Cooperation has also been close in cases in which members with protracted arrears to the Fund have also been in arrears to regional development banks. Contact and exchange of information at the staff level have been extensive, and in a number of cases parallel missions to formulate structural policies and investment plans have taken place. The concerned

regional development bank has also participated in formal or informal meetings of donors and creditors.

Fund Income, Charges, and Burden Sharing

Since 1989/90, the basic rate of charge on the use of ordinary resources has been set as a proportion of the weekly SDR interest rate in order to avoid sharp step-like increases in the rate of charge that in the past had been necessary to achieve the target amount of net income. The Board set the proportion at 91.3 percent at the beginning of 1990/91 and, upon review at midyear, reduced the proportion to 87.8 percent for the remainder of the year in view of the favorable developments in the Fund's income position. On June 7, 1991, this proportion was further reduced retroactively for the year as a whole to 87.0 percent, resulting in an average rate of charge of 7.65 percent before adjustments under the burden sharing mechanism. The Board decided to continue in 1991/92 the proportional relationship between the basic rate of charge and the SDR interest rate and set the proportion, which will be reviewed at midyear, at 96.6 percent so as to achieve a target amount of net income of 5 percent of reserves.

Net income for 1990/91, after taking into account a retroactive reduction of charges on the use of ordinary resources of SDR 31 million—which was agreed to on June 7, 1991—was equal to the net income target of SDR 70 million and was added to reserves. Reserves increased to SDR 1.5 billion on April 30, 1991 from SDR 1.4 billion on April 30, 1990, and total precautionary balances, which include amounts in the two Special Contingent Accounts, amounted to SDR 1.9 billion at the end of 1990/91.

The Board maintained and extended the various measures taken in recent years to strengthen the Fund's financial position against the financial consequences of overdue obligations. It also continued its practice of adding a target amount of net income (5 percent of reserves at the beginning of the year) to the Fund's reserves. The Board agreed that the financial burden stemming from the existence of overdue obligations should continue to be shared in a simultaneous and symmetrical fashion between debtor and creditor members. Under these principles of burden sharing, one half each of the cost of deferred charges and the allocation to the Special Contingent Account (SCA-1) of 5 percent of reserves at the beginning of the year is borne by members paying charges on the use of the Fund's ordinary resources and by members receiving remuneration, except that adjustments to the rate of remuneration cannot reduce that rate to less than 85 percent of the SDR interest rate. When deferred charges are settled, an equivalent amount is paid to members that paid higher charges or received lower remuneration. Balances in the SCA-1 will be returned to the contributors when there are no more overdue obligations, or at such earlier time as the Fund may decide.

As a part of the cooperative strategy to resolve the problem of large and protracted overdue obligations, and in view of the potentially large disbursements of Fund resources following rights accumulation programs, the Board, effective July 1, 1990, decided to accumulate an additional SDR 1 billion over a period of about five years through a further adjustment to the rate of charge on the use of ordinary resources and, subject to the floor to the rate of remuneration of 80 percent of the SDR interest rate, a further adjustment to the rate

of remuneration. The resources so generated are collected in a second Special Contingent Account (SCA-2) and are intended to protect the Fund against risks associated with credit extended by the General Resources Account for the encashment of rights earned in the context of a Fund-monitored program and to provide additional liquidity to contribute to the financing of these encashments. Balances held in the SCA-2 will be distributed to members that paid additional charges or received reduced remuneration when all outstanding purchases related to the encashment of rights have been repurchased, or at such earlier time as the Fund may decide.

For 1990/91 the amount to be added to the SCA-1 and the target amount of net income, which is to be added to reserves, were set each at SDR 69.8 million. Unpaid charges due by members in protracted arrears and contributions to the SCA-1 resulted in average adjustments to the basic rate of charge of 98 basis points, and in average adjustments to the rate of remuneration of 94 basis points. Adjustments for extended burden sharing (SCA-2) further increased the basic rate of charge by an average of 29 basis points and further reduced the rate of remuneration, on average, by

67 basis points to 81.7 percent of the average SDR interest rate. For the financial year, the adjusted rate of charge on the use of ordinary resources averaged 8.92 percent and the adjusted rate of remuneration averaged 7.18 percent.

At the end of April 1991, the Fund's precautionary balances available to protect it against overdue repayments (repurchases) of credit outstanding from the General Resources Account (that is, reserves plus SCA-1) were equivalent to 80 percent of such obligations (which amounted to SDR 2,196 million). Since 1986, the impact of the Fund's additional exposure to the risk of loss from unpaid charges (which amounted to SDR 808 million) has been compensated through the burden-sharing mechanism described above, with the exposure assumed by the Fund's creditors and debtors. In addition, precautionary balances in SCA-2, which are expected to be SDR 1 billion within about five years, are available to protect the Fund against risks associated with the encashment of rights by countries currently with protracted arrears to the Fund.

Membership

Fund membership increased by four countries during 1990/91, raising the

total number of members to 155.

Three of the new members joined by the time of the 1990 Annual Meetings: the Czech and Slovak Federal Republic, on September 20, 1990, with a quota of SDR 590 million; the People's Republic of Bulgaria, on September 25, 1990, with a quota of SDR 310 million; and the Republic of Namibia, on September 25, 1990, with a quota of SDR 70 million. The Mongolian People's Republic became a member of the Fund on February 14, 1991, with a quota of SDR 25 million. All four members are availing themselves of the transitional arrangements under Article XIV.

Switzerland applied for Fund membership on May 31, 1990. The Board submitted a draft Resolution on its membership to the Board of Governors on March 26, 1991, recommending a quota of SDR 1,700 million. The Resolution was adopted on April 23, 1991; Switzerland's membership will become effective when it has completed the legislative steps necessary to enable it to sign the original copy of the Articles of Agreement. Albania applied for membership on January 12, 1991, and staff missions visited Albania in March and in May.

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International Reserves

This appendix reviews recent developments in international reserves and liquidity as represented by (1) the evolution of holdings of official assets; (2) the currency composition and distribution of foreign exchange reserves; and (3) the placement of official holdings of foreign exchange reserves.

Recent Evolution of Official Reserve Assets

In 1990, total international reserves measured in SDR terms increased by 2 percent, to SDR 892 billion, reflecting an increase in the holdings of non-gold reserves partially offset by a significant fall in the market value of official holdings of gold (Table I.1). The growth of non-gold reserves reflected larger holdings of foreign exchange reserves by both industrial and developing countries. At the same time, holdings of Fund-related assets by developing countries declined slightly.

Non-Gold Reserves

Non-gold reserves increased by 8 percent in 1990 to SDR 638 billion at the end of the year. This increase represented a continuation in the expansion of non-gold reserves that has been evident since 1986. The growth of non-gold reserves in 1990 mainly reflected an expansion of such holdings in the industrial countries, which increased at an annual rate of 8 percent. As in 1989, all groups of developing countries also increased their non-gold reserves during 1990. The non-gold reserve holdings of those developing countries that have experienced recent debt-servicing problems rose by 29 percent, a distinctly faster rate of increase than that of previous years. Capital importing developing countries without debt-servicing problems increased their non-gold reserve holdings by 15 percent.

Foreign Exchange Reserves

Foreign exchange reserves increased by 9 percent in 1990 to reach SDR 594 billion by the end of the year. This rise in foreign exchange reserves in 1990 continued the strong growth of the previous three years. While total holdings of foreign exchange reserves grew by SDR 49 billion, the expansion of the holdings of the industrial countries accounted for a substantial part of this increase as their holdings rose by SDR 32 billion, which represented an annual rate of growth of 9 percent. Developing countries also increased their holdings of foreign exchange reserves by 9 percent. This increase continued the process of accumulation of foreign exchange reserves by developing countries initiated in 1987 after successive declines in 1985 and 1986.

Of capital importing developing countries, those without debt problems increased their foreign exchange reserve holdings by 16 percent, while the foreign exchange reserves of those countries with recent debt-servicing problems grew by 29 percent. Indeed, the foreign exchange reserves of the latter group of countries exceeded their 1985 level for the first time in 1990.

Holdings of Fund-Related Reserve Assets

Holdings of Fund-related assets decreased by 4 percent in 1990 to reach SDR 44 billion at the end of the year, reflecting an SDR 2 billion decline in holdings of reserve positions in the Fund. Reserve positions in the Fund, which comprise the reserve tranche position and the creditor position, increased by SDR 16 billion between the

end of 1982 and the end of 1984 but then declined by SDR 18 billion in the period 1984–90. Members' holdings of SDRs remained unchanged in 1990.

Gold

The market value of the global stock of gold reserves declined sharply by 12 percent in 1990, to SDR 255 billion. This decrease reflected almost entirely changes in gold prices although a small decline in the physical stock of official gold reserves also occurred. The physical stock has remained fairly constant since 1972, except for a 9 percent decline in 1979, which occurred mainly because members of the European Monetary System swapped 20 percent of their gold holdings with the European Monetary Cooperation Fund (EMCF) for European currency units (ECUs). Both the physical holdings of gold and its distribution between industrial and developing countries changed very little during the 1980s. Industrial countries held 85 percent and developing countries 15 percent of the total physical stock of gold reserves of 940 million ounces at the end of 1990.

Developments in the First Quarter of 1991

Total international reserves fell by SDR 11 billion in the first quarter of 1991 as an increase in non-gold reserves was more than offset by a decrease in the market value of gold. The larger holdings of non-gold reserves reflected a rise of SDR 3 billion in the foreign exchange reserves of developing countries, while the foreign exchange reserves of industrial countries fell by SDR 1 billion.

The market value of official holdings of gold decreased from SDR 255 billion at the end of 1990 to SDR 240 billion at the end of the first quarter of 1991. Since the total physical holdings of gold changed only slightly, the reduction in the market value of gold was largely due to the fall in the market price of gold from SDR 271 to SDR 255 an ounce over the quarter.

Currency Composition of Reserves

Since the mid-1970s, there has been a continuing diversification of the currency composition of foreign exchange reserves. Whereas that composition had remained relatively stable during 1975–77, the sharp depreciation of the dollar between 1977 and 1980 was accompanied by a decline in the share of the dollar in total foreign exchange reserves from 79 percent at the end of 1977 to 69 percent at the end of 1980. This diversification away from the dollar was partly reversed in the early 1980s, when the dollar appreciated strongly relative to the other major currencies. As a result, the share of the dollar in reserves rose to 71 percent by the end of 1983 (Table I.2). But by 1985, the share had declined by 6 percentage points, as monetary authorities again diversified the currency composition of their foreign exchange reserves and the proportion of foreign exchange reserves denominated in the deutsche mark, the Japanese yen, and, to a lesser extent, sterling increased. The extensive foreign exchange market intervention by some major industrial countries that occurred during 1986 and 1987 was accompanied by a rise in the proportion of reserves held as dollar-denominated assets (to 68 percent in 1987) and, as a counterpart, the shares of the deutsche mark, the Japanese yen, and sterling declined slightly. However, the share of reserves held as dollar-denominated assets fell to 56 percent at the end of 1990. The

Table I.1

Official Holdings of Reserve Assets, End of Year 1985–March 1991¹

(In billions of SDRs)

	1985	1986	1987	1988	1989	1990	March 1991
All countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	38.7	35.3	31.5	28.3	25.5	23.7	25.0
SDRs	18.2	19.5	20.2	20.2	20.5	20.4	20.8
Subtotal, Fund-related assets	56.9	54.8	51.7	48.4	46.0	44.1	45.8
Foreign exchange	348.3	364.1	456.1	494.5	545.0	593.7	595.5
Total reserves excluding gold	405.2	419.0	507.8	542.9	591.0	637.8	641.3
Gold ²							
Quantity (millions of ounces)	953.2	952.9	947.2	947.8	942.5	940.3	939.3
Value at London market price	283.8	304.5	323.2	288.9	287.6	254.5	239.8
Industrial countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	25.3	23.1	20.5	19.6	19.6	20.0	21.4
SDRs	14.9	16.1	16.5	17.6	17.7	17.6	17.9
Subtotal, Fund-related assets	40.2	39.2	36.9	37.1	37.2	37.6	39.2
Foreign exchange	189.2	212.1	287.4	315.9	345.0	376.5	375.5
Total reserves excluding gold	229.4	251.3	324.3	353.1	382.2	414.1	414.7
Gold ²							
Quantity (millions of ounces)	810.8	809.1	804.8	801.1	797.9	795.9	795.5
Value at London market price	241.4	258.6	274.6	244.2	243.5	215.4	203.1
Developing countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	13.4	12.3	11.0	8.7	5.9	3.8	3.6
SDRs	3.3	3.4	3.7	2.6	2.8	2.7	2.9
Subtotal, Fund-related assets	16.7	15.6	14.7	11.3	8.7	6.5	6.5
Foreign exchange	159.0	152.0	168.7	178.5	200.0	217.2	220.0
Total reserves excluding gold	175.8	167.7	183.5	189.9	208.8	223.7	226.6
Gold ²							
Quantity (millions of ounces)	142.3	143.8	142.4	146.6	144.6	144.4	143.8
Value at London market price	42.4	45.9	48.6	44.7	44.1	39.1	36.7
Net debtors							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	2.5	2.3	2.1	1.5	1.6	1.1	1.2
SDRs	2.1	2.3	2.6	1.6	1.6	1.8	1.8
Subtotal, Fund-related assets	4.6	4.6	4.6	3.1	3.2	3.0	3.0
Foreign exchange	106.8	90.4	90.6	101.4	120.3	144.8	147.9
Total reserves excluding gold	111.4	95.1	95.2	104.5	123.5	147.7	150.9
Gold ²							
Quantity (millions of ounces)	118.5	119.5	116.1	114.5	112.4	112.3	111.7
Value at London market price	35.3	38.2	39.6	34.9	34.3	30.4	28.5
Countries with debt-servicing problems							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	0.8	0.8	0.6	0.1	0.1	0.1	0.1
SDRs	0.7	0.7	1.3	0.5	0.6	0.7	0.7
Subtotal, Fund-related assets	1.5	1.5	1.8	0.6	0.7	0.8	0.8
Foreign exchange	45.7	35.9	35.4	33.7	39.9	51.4	51.9
Total reserves excluding gold	47.3	37.3	37.2	34.4	40.5	52.1	52.7
Gold ²							
Quantity (millions of ounces)	54.1	54.1	53.1	51.3	50.0	52.6	52.1
Value at London market price	16.1	17.3	18.1	15.6	15.3	14.2	13.3

Table I.1 (concluded)

Official Holdings of Reserve Assets, End of Year 1985–March 1991¹
(In billions of SDRs)

	1985	1986	1987	1988	1989	1990	March 1991
Countries without debt-servicing problems							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	1.7	1.6	1.5	1.4	1.5	1.0	1.1
SDRs	1.4	1.6	1.3	1.1	1.0	1.2	1.1
Subtotal, Fund-related assets	3.1	3.1	2.8	2.4	2.6	2.2	2.2
Foreign exchange	61.1	54.6	55.2	67.7	80.5	93.4	96.0
Total reserves excluding gold	64.2	57.7	58.0	70.1	83.0	95.6	98.2
Gold ²							
Quantity (millions of ounces)	64.3	65.3	63.0	63.2	62.4	59.7	59.6
Value at London market price	19.2	20.9	21.5	19.3	19.0	16.1	15.2

Source: International Monetary Fund, *International Financial Statistics*.

¹ "Fund-related assets" comprise reserve positions in the Fund and SDR holdings of all Fund members and Switzerland. Claims by Switzerland on the Fund are included in the line showing reserve positions in the Fund. The entries under "Foreign Exchange" and "Gold" comprise official holdings of those Fund members for which data are available and certain other countries or areas, including Switzerland.

² One troy ounce equals 31.103 grams. The market price is the afternoon price fixed in London on the last business day of each period.

counterpart of the fall in the share of the dollar was a sharp increase in the share of the deutsche mark (which increased from 15 percent at the end of 1987 to 20 percent at the end of 1990).

In the calculation of these shares, the SDR value of ECUs issued against gold is not counted as part of foreign exchange reserves, but the SDR value of ECUs issued against dollars is counted as part of the holdings of dollars. The overall picture of changes in the trend in the currency composition of foreign exchange reserves is similar if ECUs, which were introduced in 1979 and accounted for 8 percent of total identified official holdings of foreign exchange at the end of 1990, are treated separately. In particular, the share of the dollar (excluding holdings of ECUs) in total identified reserve holdings fell from 56 percent at the end of 1987 to 50 percent at the end of 1990 (Table I.2).

Changes in the SDR value of foreign exchange reserves can also be decomposed into valuation (or price) and quantity changes for each of the major currencies (including the ECU) and for the total of the identified foreign exchange reserves (Table I.3). In 1990, total identified foreign exchange reserves increased by SDR 46 billion as a result of a sharp positive quantity change of SDR 57 billion and a valuation loss of SDR 11 billion.

ECUs are issued by the EMCF to the central banks of the members in exchange for the deposit of 20 percent of the gold holdings and 20 percent of the gross dollar holdings of these institutions. These swaps are renewed every three months, and changes in the member's holdings of dollars and gold, as well as changes in the market price of gold and the foreign exchange value of the dollar, affect the amount of ECUs outstanding.¹ Quantity changes in

ECU holdings depend, therefore, partly on the evolution of the two components of the EMCF swap.² The SDR 2 billion fall in holdings of ECUs that occurred in 1989 resulted from a negative quantity change (SDR 4 billion) and a positive valuation effect (SDR 2 billion).

There are significant differences in the pattern of currency diversification between industrial and developing countries (see Table I.2). During the period 1981–86, the industrial countries experienced greater diversification of reserve holdings than the developing countries. The industrial countries' share of dollar-denominated reserves decreased by 9 percent during this period, whereas the developing countries' share fell by 1 percentage point. Since 1986, moreover, the share of the dollar in the total reserve holdings by developing countries has fallen by 1 percentage point, compared with a decrease of 15 points for industrial countries. In addition, while industrial countries increased the share of the deutsche mark and the Japanese yen in their reserve portfolios by 11 and 6 percentage points, respectively, since 1981, developing countries decreased the share of reserves denominated in deutsche mark by 1 percentage point and increased the share of the Japanese yen by 3 percentage points.

Placement of Official Holdings of Foreign Exchange

Total official holdings of foreign exchange reserves increased during 1990 by SDR 47 billion (Table I.4). The increase was largely due to a sharp rise in the residual which could reflect either higher

¹ In calculating the value of the gold holdings of the EMCF in terms of ECUs, the ECU swap price is set equal to the lower of two values: the average of the prices recorded daily at the two London fixings during the previous six calendar months, and the average price at the two price fixings on the penultimate working day of the period.

² The quarterly swaps are arranged at the end of the first weeks of January, April, July, and October. Changes in the number of ECUs outstanding thus depend on the exchange rate and the gold price on these dates, whereas changes in the SDR value of ECU holdings are calculated at the SDR/ECU exchange rate at the end of each quarter.

Table I.2

Share of National Currencies in Total Identified Official Holdings of Foreign Exchange, End of Year 1981–90¹
(In percent)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	Memorandum: ECUs Treated Separately ² 1990
All countries											
U.S. dollar	71.4	70.5	71.4	70.1	65.0	67.1	67.9	64.7	60.3	56.4	49.6
Pound sterling	2.1	2.3	2.5	2.9	3.0	2.6	2.4	2.8	2.7	3.2	3.1
Deutsche mark	12.7	12.3	11.8	12.6	15.2	14.6	14.5	15.7	19.1	19.7	18.7
French franc	1.3	1.0	0.8	0.8	0.9	0.8	0.8	1.0	1.4	2.1	2.0
Swiss franc	2.7	2.7	2.4	2.0	2.3	2.0	2.0	1.9	1.5	1.5	1.5
Netherlands guilder	1.1	1.1	0.8	0.7	1.0	1.1	1.2	1.1	1.2	1.2	1.1
Japanese yen	4.2	4.7	5.0	5.8	8.0	7.9	7.5	7.7	7.8	9.1	8.6
Unspecified currencies ³	4.4	5.4	5.3	5.1	4.6	3.9	3.8	5.1	6.0	6.8	15.4
Industrial countries											
U.S. dollar	78.5	76.8	77.3	73.5	65.2	69.5	71.4	67.8	59.7	54.1	44.5
Pound sterling	0.7	0.7	0.7	1.4	1.9	1.3	1.1	1.6	1.4	1.8	1.7
Deutsche mark	13.0	12.5	13.0	15.2	19.5	16.8	15.9	17.4	22.7	23.6	21.9
French franc	0.5	0.1	0.1	0.1	0.1	0.1	0.4	0.7	1.2	2.2	2.1
Swiss franc	1.7	1.7	1.5	1.5	2.1	1.7	1.6	1.7	1.1	1.2	1.1
Netherlands guilder	0.8	0.7	0.5	0.6	1.0	1.1	1.3	1.1	1.3	1.3	1.2
Japanese yen	3.6	4.5	5.1	6.3	8.9	8.3	7.1	7.0	8.1	9.9	9.2
Unspecified currencies ³	1.2	3.0	1.9	1.3	1.3	1.2	1.2	2.7	4.5	5.9	18.4
Developing countries⁴											
U.S. dollar	64.1	64.0	65.2	66.3	64.8	63.3	60.0	57.7	61.6	61.3	61.3
Pound sterling	3.4	4.0	4.4	4.4	4.3	4.6	5.2	5.6	5.6	6.2	6.2
Deutsche mark	12.5	12.1	10.5	10.0	10.1	11.1	11.1	11.7	11.4	11.5	11.5
French franc	2.1	2.0	1.7	1.5	1.9	2.0	1.8	1.7	1.9	1.9	1.9
Swiss franc	3.7	3.7	3.4	2.6	2.7	2.6	2.7	2.6	2.3	2.3	2.3
Netherlands guilder	1.4	1.5	1.1	0.8	0.9	1.1	1.1	0.9	0.8	0.8	0.8
Japanese yen	4.9	4.9	4.8	5.2	7.0	7.1	8.5	9.3	7.0	7.4	7.4
Unspecified currencies ³	7.9	7.8	9.0	9.2	8.4	8.2	9.5	10.5	9.4	8.7	8.7

¹ The SDR value of ECUs issued against dollars is added to the SDR value of dollars, but the SDR value of ECUs issued against gold is excluded from the total distributed here. Only selected countries that provide information about the currency composition of their official holdings of foreign exchange are included in this table.

² This column is for comparison and indicates the currency composition of reserves when holdings of ECUs are treated as a separate reserve asset, unlike the earlier columns as is explained in the preceding footnote. The share of ECUs in total foreign exchange holdings was 12.9 percent for industrial countries and 8.2 percent for all countries.

³ The residual is equal to the difference between total identified reserves and the sum of the reserves held in the seven currencies listed in the table.

⁴ The calculations here rely to a greater extent on Fund staff estimates than do those provided for the group of industrial countries.

reserves on the part of nonreporting countries or an increase in the reserves of reporting countries held in currencies not listed in the table.

Identified official Eurocurrency holdings apart from Eurodollar reserves showed an increase of SDR 8 billion between 1989 and

1990, representing a 13 percent rise. In addition, official claims on residents of countries other than the United States, denominated in the debtor's currency, grew by SDR 13 billion from 1989 to 1990, an increase of 12 percent.

Table I.3

Currency Composition of Official Holdings of Foreign Exchange, End of Year 1985-90¹
(In millions of SDRs)

	1985	1986	1987	1988	1989	1990
U.S. dollar						
Change in holdings	-19,241	2,853	38,638	17,613	10,856	14,762
Quantity change	2,876	21,957	70,939	5,084	5,152	35,239
Price change	-22,118	-19,105	-32,301	12,530	5,704	-20,477
Year-end value	184,606	187,459	226,097	243,710	254,566	269,328
Pound sterling						
Change in holdings	190	-1,372	1,213	2,562	1,048	4,263
Quantity change	-737	-660	476	2,371	2,218	2,769
Price change	927	-712	736	191	-1,170	1,494
Year-end value	8,999	7,627	8,840	11,401	12,450	16,713
Deutsche mark						
Change in holdings	6,935	-1,983	9,804	10,987	23,875	13,267
Quantity change	1,337	-7,851	6,925	14,691	17,401	8,444
Price change	5,598	5,868	2,879	-3,704	6,474	4,823
Year-end value	45,551	43,568	53,372	64,359	88,235	101,502
French franc						
Change in holdings	408	-321	584	1,214	2,442	4,185
Quantity change	62	-452	476	1,480	2,000	3,839
Price change	346	131	108	-266	442	347
Year-end value	2,749	2,428	3,012	4,225	6,667	10,853
Swiss franc						
Change in holdings	826	-942	1,118	751	-1,017	951
Quantity change	114	-1,918	470	1,506	-968	273
Price change	713	976	648	-755	-49	678
Year-end value	7,036	6,094	7,213	7,964	6,948	7,898
Netherlands guilder						
Change in holdings	729	407	1,268	-124	879	640
Quantity change	406	11	1,014	178	525	390
Price change	323	396	254	-302	354	250
Year-end value	2,892	3,299	4,566	4,442	5,321	5,960
Japanese yen						
Change in holdings	6,489	-668	4,360	3,564	4,382	11,166
Quantity change	4,232	-3,788	1,738	2,532	8,068	11,344
Price change	2,257	3,120	2,623	1,032	-3,686	-178
Year-end value	24,126	23,458	27,819	31,383	35,764	46,930
European currency unit						
Change in holdings	-145	2,677	16,521	-5,985	364	-3,076
Quantity change	-4,425	-372	14,049	-3,296	-1,878	-5,638
Price change	4,280	3,049	2,472	-2,689	2,242	2,562
Year-end value	38,043	40,720	57,241	51,257	51,621	48,544
Sum of the above²						
Change in holdings	-3,808	651	73,506	30,583	42,829	46,157
Quantity change	3,865	6,929	96,088	24,546	32,519	56,660
Price change	-7,673	-6,278	-22,582	6,037	10,311	-10,503
Year-end value	314,002	314,653	388,159	418,742	461,571	507,728
Total official holdings³						
Change in holdings	-1,171	15,855	91,996	38,351	50,555	48,648
Year-end value	348,273	364,128	456,124	494,475	545,030	593,678

¹ The currency composition of foreign exchange is based on the Fund's currency survey and on estimates derived mainly, but not solely, from official national reports. The numbers in this table should be regarded as estimates that are subject to adjustment as more information is received. Quantity changes are derived by multiplying the changes in official holdings of each currency from the end of one quarter to the next by the average of the two SDR prices of that currency prevailing at the corresponding dates. This procedure converts the change in the quantity of national currency from own units to SDR units of account. Subtracting the SDR value of the quantity change so derived from the quarterly change in the SDR value of foreign exchange held at the end of two successive quarters and cumulating these differences yields the effect of price changes over the years shown.

² Each item represents the sum of the eight currencies above.

³ Include a residual whose currency composition could not be ascertained, as well as holdings of currencies other than those shown.

Table I.4

Placement of Official Holdings of Foreign Exchange Reserves, End of Year 1983-90¹
(In billions of SDRs)

	1983	1984	1985	1986	1987	1988	1989	1990 ²
Liabilities of residents of the United States to foreign official institutions	163	178	159	172	183	222	237	238
Items not included in reported official U.S. dollar holdings ³	- 52	- 46	- 41	- 34	- 33	- 35	- 43	- 42
Reported official U.S. dollar claims on residents of the United States	111	132	118	138	150	187	194	196
Reported official claims on residents of other countries denominated in the debtor's own currency	40	46	56	61	79	88	110	123
Subtotal	151	178	174	199	229	275	304	320
Identified official holdings of Eurocurrencies								
Eurodollars	57	66	60	54	60	57	58	57
Other currencies	33	38	41	35	48	55	60	68
Subtotal	90	104	101	89	108	112	118	125
ECUs	42	38	38	40	54	51	52	49
Residual ⁴	25	29	35	36	64	55	71	98
Total official holdings of foreign exchange	308	349	348	364	455	493	545	592

Sources: International Monetary Fund, *International Financial Statistics*; U.S. Treasury Department, *Bulletin*; Bank of England, *Quarterly Bulletin*; BIS, *International Banking and Financial Market Developments*.

¹ Official foreign exchange reserves of Fund members and certain other countries and areas, including Switzerland. Beginning in April 1978, Saudi Arabia holdings exclude the foreign exchange cover against a note issue, which amounted to SDR 4.3 billion at the end of March 1978.

² The upward revision in the residual for 1989 and the higher level noted in 1990 reflect a change in compilation procedures to adhere more closely to reported rather than estimated data.

³ Mainly dollars deposited with the European Monetary Cooperation Fund in connection with the issuance of ECUs, U.S. obligations to official institutions in countries not reporting to the Fund, and U.S. obligations that are not classified as foreign exchange reserves in the reports provided to the Fund by the holders.

⁴ Part of this residual occurs because some member countries do not classify all the foreign exchange claims that they report to the Fund. Includes identified official claims on the International Bank for Reconstruction and Development, on the International Development Association, and the statistical discrepancy.

Operations and Financial Transactions of the Fund

The tables in this appendix supplement the information given in the section on the Fund in 1990/91 on the activities of the Fund during the financial year ended April 30, 1991.

Table II.1

Summary of Arrangements Approved During the Financial Years Ended April 30, 1953–91

Financial Year	Number of Arrangements					Amount Committed Under Arrangements (In millions of SDRs)				
	Stand-by	EFF	SAF	ESAF	Total	Stand-by	EFF	SAF ¹	ESAF ²	Total
1953	2				2	55.00				55.00
1954	2				2	62.50				62.50
1955	2				2	40.00				40.00
1956	2				2	47.50				47.50
1957	9				9	1,162.28				1,162.28
1958	11				11	1,043.78				1,043.78
1959	15				15	1,056.63				1,056.63
1960	14				14	363.88				363.88
1961	15				15	459.88				459.88
1962	24				24	1,633.13				1,633.13
1963	19				19	1,531.10				1,531.10
1964	19				19	2,159.85				2,159.85
1965	24				24	2,159.05				2,159.05
1966	24				24	575.35				575.35
1967	25				25	591.15				591.15
1968	32				32	2,352.36				2,352.36
1969	26				26	541.15				541.15
1970	23				23	2,381.28				2,381.28
1971	18				18	501.70				501.70
1972	13				13	313.75				313.75
1973	13				13	321.85				321.85
1974	15				15	1,394.00				1,394.00
1975	14				14	389.75				389.75
1976	18	2			20	1,188.02	284.20			1,472.22
1977	19	1			20	4,679.64	518.00			5,197.64
1978	18	0			18	1,285.09	—			1,285.09
1979	14	4			18	507.85	1,092.50			1,600.35
1980	24	4			28	2,479.36	797.35			3,276.71
1981	21	11			32	5,197.93	5,220.60			10,418.53
1982	19	5			24	3,106.21	7,907.75			11,013.96
1983	27	4			31	5,449.98	8,671.26			14,121.24
1984	25	2			27	4,287.33	94.50			4,381.83
1985	24	0			24	3,218.33	—			3,218.33
1986	18	1			19	2,123.40	825.00			2,948.40
1987	22	0	10		32	4,117.51	—	487.69		4,605.20
1988	14	1	15		30	1,701.90	245.40	1,008.63		2,955.93
1989	12	1	4	7	24	2,956.03	207.30	441.42	954.97	4,559.72
1990	16	3	3	4	26	3,249.37	7,627.10	45.22	415.23	11,336.92
1991	13	2	2	3	20	2,786.14	2,338.00	52.78	425.67	5,602.59

¹ Amount committed is based on total access to SDA resources of 70 percent of quota.

² Includes amounts previously committed under SAF arrangements that were replaced by ESAF arrangements.

Table II.2

Arrangements in Effect as of Financial Years Ended April 30, 1953-91

Financial Year	Number of Arrangements as of April 30					Amount Committed as of April 30 (In millions of SDRs)				
	Stand-by	EFF	SAF ¹	ESAF	Total	Stand-by	EFF	SAF ¹	ESAF ²	Total
1953	2				2	55.00				55.00
1954	3				3	112.50				112.50
1955	3				3	112.50				112.50
1956	3				3	97.50				97.50
1957	9				9	1,194.78				1,194.78
1958	9				9	967.53				967.53
1959	11				11	1,013.13				1,013.13
1960	12				12	351.38				351.38
1961	12				12	416.13				416.13
1962	21				21	2,128.63				2,128.63
1963	17				17	1,520.00				1,520.00
1964	19				19	2,159.85				2,159.85
1965	23				23	2,154.35				2,154.35
1966	24				24	575.35				575.35
1967	25				25	591.15				591.15
1968	31				31	2,227.36				2,227.36
1969	25				25	538.15				538.15
1970	23				23	2,381.28				2,381.28
1971	18				18	501.70				501.70
1972	13				13	313.75				313.75
1973	12				12	281.85				281.85
1974	15				15	1,394.00				1,394.00
1975	12				12	337.25				337.25
1976	17	2			19	1,158.96	284.20			1,443.16
1977	17	3			20	4,672.92	802.20			5,475.12
1978	19	3			22	5,075.09	802.20			5,877.29
1979	15	5			20	1,032.85	1,610.50			2,643.35
1980	22	7			29	2,340.34	1,462.85			3,803.19
1981	22	15			37	5,331.03	5,464.10			10,795.13
1982	23	12			35	6,296.21	9,910.10			16,206.31
1983	30	9			39	9,464.48	15,561.00			25,025.48
1984	30	5			35	5,448.16	13,121.25			18,569.41
1985	27	3			30	3,925.33	7,750.00			11,675.33
1986	24	2			26	4,075.73	831.00			4,906.73
1987	23	1	10		34	4,313.10	750.00	327.45		5,390.55
1988	18	2	25		45	2,187.23	995.40	1,357.38		4,540.01
1989	14	2	23	7	46	3,054.05	1,032.30	1,566.25	954.97	6,607.57
1990	19	4	17	11	51	3,597.02	7,834.40	1,109.64	1,370.20	13,911.26
1991	14	5	12	14	45	2,702.58	9,596.70	539.42	1,812.95	14,651.65

¹ For 1991, the number of arrangements includes three cases where the three-year commitment period has expired but the third annual arrangement remains in effect. The committed amounts exclude these cases.

² Includes amounts previously committed under SAF arrangements that were replaced by ESAF arrangements.

Table II.3

Stand-By and Extended Fund Facility Arrangements in Effect During the Financial Year Ended April 30, 1991
(In millions of SDRs)

Member	Number ²	Arrangement Dates		Amounts Approved				Undrawn Balance	
		Date of inception	Date of expiration	Through 4/30/90 ¹	Borrowed resources	In 1990/1991	Borrowed resources	At date of termination	As at 4/30/91
				Total amount		Total amount			
Stand-by arrangements									
Algeria	1	05/31/89	05/30/90 ³	155.70	—	—	—	—	—
Argentina	13	11/10/89	03/31/91 ⁴	736.00	490.67	—	—	230.00	—
Bulgaria	1	03/15/91	03/14/92	—	—	279.00	—	—	201.50
Cameroon	1	09/19/88	06/30/90 ⁵	61.80	—	—	—	23.18	—
Chile	14	11/08/89	11/07/90	64.00	—	—	—	—	—
Congo	4	08/27/90	05/26/92	—	—	27.98	—	—	23.98
Costa Rica	12	04/08/91	04/07/92	—	—	33.64	—	—	12.00
		05/23/89	05/22/90	42.00	—	—	—	42.00	—
Côte d'Ivoire	5	11/20/89	04/19/91 ⁶	146.50	92.83	—	—	29.30	—
Czechoslovakia	1	01/07/91	03/06/92	—	—	619.50	339.25	—	398.25
Ecuador	14	09/15/89	02/28/91	109.90	73.27	—	—	70.65	—
El Salvador	14	08/27/90	08/26/91	—	—	35.60	—	—	35.60
Gabon	3	09/15/89	03/14/91	43.00	28.67	—	—	32.50	—
Guyana	12	07/13/90	12/31/91 ⁷	—	—	49.50	26.85	—	6.54
Haiti	21	09/18/89	12/31/90	21.00	—	—	—	6.00	—
Honduras	14	07/27/90	08/15/91	—	—	30.50	—	—	9.25
Hungary	4	03/14/90	02/20/91	159.21	—	—	—	31.84	—
India	5	01/18/91	04/17/91 ³	—	—	551.93	—	—	—
Jamaica	8	03/23/90	05/31/91	82.00	54.67	—	—	—	20.40
Jordan	1	07/14/89	01/13/91	60.00	—	—	—	26.80	—
Mali	9	08/05/88	06/04/90 ⁸	12.70	—	—	—	—	—
Morocco	13	07/20/90	03/31/91	—	—	100.00	—	52.00	—
Nigeria	3	01/09/91	04/08/92	—	—	319.00	—	—	319.00
Pakistan	8	12/28/88	11/30/90 ⁹	273.15	—	—	—	78.67	—
Papua New Guinea	1	04/25/90	06/24/91	26.36	—	—	—	—	26.36
Philippines	19	02/20/91	08/19/92	—	—	264.20	—	—	235.89
Poland	1	02/05/90	03/04/91	545.00	—	—	—	187.50	—
Romania	4	04/11/91	04/10/92	—	—	380.50	—	—	249.60
Trinidad and Tobago	2	04/20/90	03/31/91	85.00	56.67	—	—	—	—
Uruguay	15	12/12/90	03/15/92	—	—	94.80	—	—	85.80
Yugoslavia	12	03/16/90	09/15/91	460.00	306.67	—	—	—	394.30
Zaire	9	06/09/89	06/08/90	116.40	—	—	—	41.40	—
Subtotal				3,199.72	1,103.43	2,786.14	366.10	851.84	2,018.47
Extended arrangements									
Hungary	1	02/20/91	02/19/94	—	—	1,114.00	431.07	—	954.79
Mexico	3	05/26/89	05/25/92 ¹⁰	3,263.40	2,677.17	—	—	—	932.40
Philippines	2	05/23/89	02/20/91 ¹¹	660.60	142.59	—	—	424.68	—
Poland	1	04/18/91	04/17/94	—	—	1,224.00	459.50	—	1,147.50
Tunisia	1	07/25/88	07/24/91 ¹²	138.20	0.00	—	—	—	138.20
Venezuela	1	06/23/89	09/22/92 ¹³	3,857.10	1,937.00	—	—	—	2,083.00
Total				7,919.30	4,756.76	2,338.00	890.57	424.68	5,255.89

¹ Approved in 1989/90 unless otherwise noted.² Total number of stand-by or extended arrangements approved for member since 1953³ First credit tranche arrangement.⁴ Amount decreased from SDR 1,104 million.⁵ Approved in 1988/89, extended from March 31, 1990 and amount decreased from SDR 69.53 million.⁶ Amount decreased from SDR 175.8 million.⁷ Extended from July 12, 1991.⁸ Approved in 1988/89 and extended from October 4, 1989.⁹ Approved in 1988/89, extended from March 27, 1990 and June 30, 1990.¹⁰ Amount approved includes augmentation for interest support of SDR 466.2 million.¹¹ Canceled prior to original expiration date of May 22, 1992.¹² Approved in 1988/89 and amount decreased from SDR 207.3 million.¹³ Amount approved includes augmentation for interest support of SDR 154 million. Extended from June 22, 1992.

Table II.4

Arrangements Under the Structural Adjustment Facility Through Financial Year Ended April 30, 1991
(In millions of SDRs)

Member	Arrangement Dates		Amount Approved ¹		Amount Disbursed Through 4/30/91	Undisbursed	
	Date of approval	Date of expiration	Through 4/30/90 ¹	1990/91		At expiration/replacement ²	As at 4/30/91
Bangladesh	02/06/87	02/05/90	201.25	—	201.25	—	—
Benin	06/16/89	06/15/92	21.91	—	6.26	—	15.65
Bolivia	12/15/86	07/27/88	63.49	—	18.14	45.35	—
Burkina Faso	03/13/91	03/12/94	—	22.12	6.32	—	15.80
Burundi	08/08/86	08/07/89	29.89	—	29.89	—	—
Central African Rep. ³	06/01/87	05/31/90	21.28	—	21.28	—	—
Chad ³	10/30/87	10/29/90	21.42	—	21.42	—	—
Dominica	11/26/86	11/25/89	2.80	—	2.80	—	—
Equatorial Guinea	12/07/88	12/06/91	12.88	—	3.68	—	9.20
Gambia	09/17/86	11/23/88	11.97	—	8.55	3.42	—
Ghana	11/06/87	11/09/88	143.15	—	40.90	102.25	—
Guinea	07/29/87	07/28/90	28.95	—	28.95	11.58	—
Guinea-Bissau	10/14/87	10/13/90	3.75	—	3.75	1.50	—
Haiti	12/17/86	12/16/89	8.82	—	8.82	22.05	—
Kenya	02/01/88	05/15/89	99.40	—	28.40	71.00	—
Lao People's Democratic Republic	09/18/89	09/17/92	20.51	—	14.65	—	5.86
Lesotho	06/29/88	06/28/91	10.57	—	10.57	—	—
Madagascar	08/31/87	05/15/89	46.48	—	13.28	33.20	—
Mali	08/05/88	08/04/91	35.56	—	25.40	—	10.16
Mauritania	09/22/86	05/24/89	23.73	—	16.95	6.78	—
Mozambique	06/08/87	06/07/90	42.70	—	42.70	—	—
Nepal	10/14/87	10/13/90	26.11	—	26.11	—	—
Niger	11/17/86	12/12/88	23.59	—	16.85	6.74	—
Pakistan	12/28/88	12/27/91	382.41	—	273.15	—	109.26
Rwanda	04/24/91	04/23/94	—	30.66	8.76	—	21.90
Sao Tome and Principe	06/02/89	06/01/92	2.80	—	0.80	—	2.00
Senegal	11/10/86	11/21/88	59.57	—	42.55	17.02	—
Sierra Leone	11/14/86	11/13/89	11.58	—	11.58	28.95	—
Somalia	06/29/87	06/28/90	8.84	—	8.84	22.10	—
Sri Lanka ³	03/09/88	03/08/91	156.17	—	156.17	—	—
Tanzania	10/30/87	10/29/90	74.90	—	74.90	—	—
Togo	03/16/88	05/31/89	26.88	—	7.68	19.20	—
Uganda	06/15/87	04/17/89	69.72	—	49.80	19.92	—
Zaire	05/15/87	05/14/90	145.50	—	145.50	58.20	—
Total			1,838.58	52.78	1,376.65	469.26	189.83

¹ All amounts are at the 70 percent access level except those that have been reduced to account for the expiration of the commitment period: Guinea reduced SDR 11.58 million, Guinea Bissau SDR 1.50 million, Haiti SDR 22.05 million, Sierra Leone SDR 28.95 million, Somalia SDR 22.10 million, and Zaire SDR 58.20 million.

² See Table II.6 for undisbursed amounts that were subsequently committed under an ESAF arrangement that replaced the SAF arrangement on date shown as SAF expiration date.

³ For the Central African Republic, Chad, and Sri Lanka, the three-year commitment period has expired, but the third annual SAF arrangement will not expire until May 24, 1991, May 15, 1991, and October 21, 1991 respectively.

Table II.5

Arrangements Under the Enhanced Structural Adjustment Facility Through Financial Year Ended April 30, 1991
(In millions of SDRs)

Member	Arrangement Dates		Approved Through 4/30/90		Approved in 1990/91		Disbursements Through 4/30/91		Undisbursed as at 4/30/91
	Date of approval	Date of expiration	Total amount	ESAF Trust resources	Total amount	ESAF Trust resources	Total	ESAF Trust ¹	
Bangladesh	08/10/90	08/09/93	—	—	258.75	258.75	43.13	43.13	215.63
Bolivia	07/27/88	07/26/91	136.05	90.70	—	—	90.70	45.35	45.35
Gambia, The	11/23/88	11/22/91	20.52	17.10	—	—	17.10	13.68	3.42
Ghana	11/09/88	11/08/91	388.55	286.30	—	—	340.55	238.30	48.00
Guyana	07/13/90	07/12/93	—	—	81.52	47.08	46.10	36.26	35.42
Kenya	05/15/89	05/14/92	241.40	170.40	—	—	180.93	109.93	60.47
Madagascar	05/15/89	05/14/92	76.90	43.70	—	—	51.27	18.07	25.63
Malawi	07/15/88	07/14/91	55.80	29.76	—	—	55.80	29.76	—
Mauritania	05/24/89	05/23/92	50.85	44.07	—	—	16.95	13.56	33.90
Mozambique	06/01/90	05/31/93	—	—	85.40	85.40	24.40	24.40	61.00
Niger	12/12/88	12/11/91	47.18	40.44	—	—	23.59	16.85	23.59
Senegal	11/21/88	11/20/91	144.67	127.65	—	—	102.12	90.63	42.55
Togo	05/31/89	05/30/92	46.08	26.88	—	—	30.72	11.52	15.36
Uganda	04/17/89	04/16/92	179.28	159.36	—	—	139.44	119.52	39.84
Total			1,387.28	1,306.36	425.67	391.23	1,162.80	810.96	650.16

¹ Financed with drawings under the following ESAF borrowing agreements: Export-Import Bank of Japan (SDR 318.6 million); Caisse Centrale de Coopération Economique-France (SDR 244.5 million); Bank of Spain (SDR 28.2 million); Canada (SDR 31.2 million); the Bank of Norway (SDR 11.2 million); Korea (SDR 6.8 million); Ufficio Italiano dei Cambi (SDR 17.2 million), and Kreditanstalt für Wiederaufbau—Germany (SDR 43.1 million). The balance of SDR 110.1 million was financed using resources available under the borrowing agreement with the Swiss Confederation.

Table N.6

Summary of Disbursements, Repurchases, and Repayments, Financial Years Ended April 30, 1948-91
(In millions of SDRs)

Financial Year	Disbursements				Repurchases and Repayments			Total Fund Credit Outstanding
	Purchases ¹	Trust Fund loans	SAF loans	ESAF loans ²	Total	Repurchases	Trust Fund repayments	
1948	606.04				606.04	—	—	133.90
1949	119.44				119.44	—	—	192.70
1950	51.80				51.80	24.21	24.21	204.10
1951	28.00				28.00	19.09	19.09	175.80
1952	46.25				46.25	36.58	36.58	213.50
1953	66.12				66.12	184.96	184.96	178.20
1954	231.29				231.29	145.11	145.11	132.10
1955	48.75				48.75	276.28	276.28	54.90
1956	38.75				38.75	271.66	271.66	72.00
1957	1,114.05				1,114.05	75.04	75.04	610.60
1958	665.73				665.73	86.81	86.81	1,026.50
1959	263.52				263.52	537.32	537.32	897.60
1960	165.53				165.53	522.41	522.41	329.60
1961	577.00				577.00	658.60	658.60	551.50
1962	2,243.20				2,243.20	1,260.00	1,260.00	1,022.80
1963	579.97				579.97	807.25	807.25	1,058.90
1964	625.90				625.90	380.41	380.41	951.80
1965	1,897.44				1,897.44	516.97	516.97	1,480.10
1966	2,817.29				2,817.29	406.00	406.00	3,039.00
1967	1,061.28				1,061.28	340.12	340.12	2,945.30
1968	1,348.25				1,348.25	1,115.51	1,115.51	2,462.50
1969	2,838.85				2,838.85	1,542.33	1,542.33	3,299.00
1970	2,995.65				2,995.65	1,670.69	1,670.69	4,020.20
1971	1,167.41				1,167.41	1,656.86	1,656.86	2,556.30
1972	2,028.49				2,028.49	3,122.33	3,122.33	840.20
1973	1,175.43				1,175.43	540.30	540.30	998.20
1974	1,057.72				1,057.72	672.49	672.49	1,084.70
1975	5,102.45				5,102.45	518.08	518.08	4,869.20
1976	6,591.42				6,591.42	960.10	960.10	9,759.80
1977	4,910.33	31.61			4,941.94	868.19	868.19	13,686.91
1978	2,503.01	268.24			2,771.25	4,485.01	4,485.01	12,366.05
1979	3,719.58	670.05			4,389.63	4,859.18	4,859.18	9,843.30
1980	2,433.26	961.54			3,394.80	3,775.83	3,775.83	9,967.44
1981	4,860.01	1,059.87			5,919.88	2,852.93	2,852.93	12,536.13
1982	8,040.62				8,040.62	2,009.88	2,009.88	17,792.93
1983	11,391.89				11,391.89	1,555.12	18.45	26,562.76
1984	11,517.73				11,517.73	2,017.65	110.97	34,603.47
1985	6,288.87				6,288.87	2,730.39	212.34	37,622.18
1986	4,101.22				4,101.22	4,289.01	412.71	36,877.03
1987	3,684.56		139.34		3,823.90	6,169.32	579.32	33,443.29
1988	4,152.56		444.87		4,597.43	7,934.57	528.15	29,542.99
1989	2,541.18		290.14	264.00	3,095.32	6,257.74	447.23	25,520.37
1990	4,502.68		418.59	407.67	5,328.94	6,042.09	355.52	24,388.23
1991	6,955.43		83.71	491.13	7,530.27	5,440.22	167.80	25,603.03

¹ Includes reserve tranche purchases.² Includes SDR 351.84 million of SAF resources disbursed under ESAF arrangements.

Table II.7

Purchases from the Fund, Financial Year Ended April 30, 1991

(In millions of SDRs)

Member	Reserve Tranche	Stand-By Arrangements		Extended Arrangements		Compensatory and Contingency Financing Facility ¹			Financed by		
		Ordinary resources	Enlarged access resources	Ordinary resources	Enlarged access resources	Export shortfalls	Oil import excess	Total Purchases ²	Ordinary resources		Enlarged access resources
									Currencies	SDRs	Currencies
Argentina	—	107.33	214.67	—	—	—	—	322.00	107.33	—	214.67
Bulgaria	70.37	77.50	—	—	—	—	60.60	208.47	100.53	107.94	—
Congo	—	4.00	—	—	—	—	—	4.00	4.00	—	—
Costa Rica	—	21.64	—	—	—	—	33.64	55.28	55.28	—	—
Côte d'Ivoire	—	33.30	54.60	—	—	24.83	—	112.73	57.97	0.15	54.60
Czechoslovakia	133.94	147.50	73.75	—	—	—	314.47	669.66	411.97	183.94	73.75
Guyana	—	20.47	22.49	—	—	—	—	42.96	19.38	1.09	22.49
Honduras	—	21.25	—	—	—	—	—	21.25	21.14	0.11	—
Hungary	—	95.53	—	159.21	—	—	226.20	480.94	479.02	1.92	—
India	487.26	551.93 ³	—	—	—	—	716.90	1,756.08	763.97	992.11	—
Jamaica	—	15.97	31.93	—	—	—	19.90	67.80	35.73	0.14	31.93
Mali	—	2.54	—	—	—	—	—	2.54	2.54	—	—
Mexico	—	—	—	—	722.61	—	—	722.61	—	—	722.61
Morocco	—	48.00	—	—	—	—	—	48.00	48.00	—	—
Namibia	15.89	—	—	—	—	—	—	15.89	—	15.89	—
Papua New Guinea	—	—	—	—	—	42.84	—	42.84	42.84	—	—
Philippines	—	28.31	—	—	—	105.90	171.20	305.41	305.41	—	—
Poland	—	187.50	—	76.50	—	—	162.60	426.60	426.13	0.47	—
Romania	—	130.90	—	—	—	—	247.70	378.60	378.60	—	—
Trinidad and Tobago	—	25.00	50.00	—	—	—	—	75.00	25.00	—	50.00
Uruguay	—	9.00	—	—	—	—	—	9.00	9.00	—	—
Venezuela	—	—	—	1,187.78 ⁴	—	—	—	1,187.78	1,157.78	30.00	—
Total	707.45	1,527.66	447.44	1,423.49	722.61	173.56	1,953.21	6,955.43	4,451.63	1,333.75	1,170.05

¹ During 1990/91, no purchases were made under the cereal component of the compensatory and contingency financing facility.² Includes reserve tranche of SDR 707.45 million. Purchases excluding reserve tranche total SDR 6,248 million (see Table 2).³ First credit tranche stand-by purchase.⁴ Includes purchases of interest support of SDR 154 million and set-asides of SDR 463 million.

Table II.8

Repurchases from the Fund, Financial Year Ended April 30, 1991
(In millions of SDRs)

Member	Ordinary Resources			Borrowed Resources		Total
	Credit tranche	Extended Fund facility	Compensatory financing facility	Supplementary financing facility	Enlarged access resources	
Argentina	219.96	—	194.54	—	192.04	606.53
Bangladesh	82.50	18.33	44.45	—	—	145.28
Barbados	—	—	0.02	—	2.04	2.05
Belize	1.48	—	—	—	—	1.48
Bolivia	16.35	—	15.00	—	—	31.35
Brazil	—	228.59	—	—	327.28	555.87
Central African Republic	3.44	—	—	—	1.50	4.94
Chad	—	—	1.75	—	—	1.75
Chile	—	20.83	17.65	—	108.39	146.88
China	298.86	—	—	—	—	298.86
Congo	4.75	—	—	—	—	4.75
Costa Rica	1.88	1.88	—	—	10.54	14.29
Côte d'Ivoire	17.59	26.59	—	14.43	11.28	69.87
Dominica	—	0.68	—	0.25	—	0.92
Dominican Republic	26.70	11.53	5.81	—	6.75	50.79
Ecuador	35.68	—	25.19	—	29.69	90.56
Egypt	43.50	—	—	—	—	43.50
Equatorial Guinea	1.84	—	—	—	—	1.84
Ethiopia	—	—	17.65	—	—	17.65
Gabon	10.19	—	—	—	3.12	13.31
Gambia, The	2.05	—	2.36	—	0.49	4.90
Ghana	10.67	—	—	—	65.49	76.17
Grenada	—	—	—	—	0.14	0.14
Guatemala	—	—	—	—	9.89	9.89
Guinea	10.49	—	—	—	—	10.49
Guyana	—	27.79	12.68	29.78	—	70.25
Haiti	—	1.78	—	—	3.90	5.67
Honduras	—	7.29	—	—	15.37	22.66
Hungary	—	—	—	—	75.80	75.80
India	—	325.00	—	81.25	62.50	468.75
Indonesia	—	—	173.59	—	—	173.59
Jamaica	18.44	14.52	20.45	—	18.72	72.13
Kenya	8.62	—	14.21	—	39.81	62.64
Liberia	0.23	—	—	—	—	0.23
Madagascar	14.52	—	8.06	—	10.28	32.85
Malawi	—	3.09	—	—	10.37	13.46
Mali	2.94	—	—	—	8.71	11.65
Mauritania	10.55	—	—	—	—	10.55
Mauritius	7.44	—	—	—	25.39	32.83
Mexico	277.88	187.25	—	—	406.16	871.30
Morocco	25.42	24.29	28.78	—	74.54	153.02
Nepal	8.04	—	—	—	—	8.04
Niger	4.88	—	—	—	4.46	9.34
Pakistan	—	90.32	—	5.94	—	96.26
Panama	14.37	—	—	—	39.95	54.33
Peru	—	35.18	1.03	—	6.74	42.95
Philippines	62.29	—	112.05	—	59.83	234.17
Senegal	10.67	2.68	—	—	25.05	38.40
Sierra Leone	1.00	0.10	—	—	0.49	1.60
Solomon Islands	0.63	—	—	—	—	0.63
Somalia	0.33	—	—	—	1.55	1.89
Sri Lanka	—	27.55	—	—	3.82	31.37
Sudan	—	—	1.05	—	—	1.05
Tanzania	21.18	—	—	—	—	21.18
Thailand	—	—	—	—	53.86	53.86

Table II.8 (concluded)

Repurchases from the Fund, Financial Year Ended April 30, 1991
(In millions of SDRs)

Member	Ordinary Resources			Borrowed Resources		Total
	Credit tranche	Extended Fund facility	Compensatory financing facility	Supplementary financing facility	Enlarged access resources	
Togo	3.48	—	—	—	5.34	8.82
Tunisia	29.75	—	57.36	—	—	87.11
Turkey	—	—	—	11.25	—	11.25
Uganda	—	—	9.38	—	17.00	26.38
Uruguay	24.50	—	16.53	—	31.89	72.91
Western Samoa	0.05	—	—	—	0.42	0.47
Yugoslavia	62.34	—	—	63.50	83.75	209.59
Zaire	48.90	11.23	11.33	—	23.97	95.43
Zambia	4.38	5.90	17.20	—	12.04	39.52
Zimbabwe	—	—	—	—	12.24	12.24
Total ¹	1,450.76	1,072.40	808.06	206.40	1,902.60	5,440.22

¹ Details may not add due to rounding.

Table II.9

Outstanding Fund Credit by Facility and Policy, April 30, 1985–91
(In millions of SDRs)

	Financial Year Ended April 30													
	1985		1986		1987		1988		1989		1990		1991	
	Amount	As percent of total	Amount	As percent of total	Amount	As percent of total	Amount	As percent of total	Amount	As percent of total	Amount	As percent of total	Amount	As percent of total
Stand-by arrangements ¹														
Ordinary resources	5,511	14.6	6,315	17.1	6,575	19.7	5,732	19.4	5,964	23.4	5,119	21.0	5,196	20.3
Supplementary financing	3,788	10.1	3,030	8.2	2,061	6.2	1,064	3.6	527	2.1	226	0.9	151	0.6
Enlarged access policy	5,065	13.5	6,021	16.3	6,380	19.1	6,500	22.0	5,458	21.4	4,648	19.1	3,976	15.5
Extended Fund facility arrangements														
Ordinary resources	6,529	17.4	6,498	17.6	6,242	18.7	5,762	19.5	5,055	19.8	5,472	22.4	5,823	22.7
Supplementary financing	2,522	6.7	2,246	6.1	1,708	5.1	1,097	3.7	599	2.3	249	1.0	117	0.5
Enlarged access policy	3,831	10.2	4,026	10.9	3,867	11.6	3,329	11.3	2,409	9.4	2,561	10.5	2,500	9.8
Compensatory and contingency financing	7,490	19.9	6,430	17.4	4,779	14.3	4,342	14.7	3,689	14.5	3,823	15.7	5,142	20.1
Buffer stock financing	237	0.6	73	0.2	34	0.1	3	0.0	—	—	—	—	—	—
Oil facility (1974 and 1975)	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Subtotal (General Resources Account)	34,973	93.0	34,640	93.9	31,646	94.6	27,829	94.2	23,700	92.9	22,098	90.6	22,906	89.5
SAF Arrangements	—	—	—	—	139	0.4	584	2.0	874	3.4	1,293	5.3	1,377	5.4
ESAF Arrangements	—	—	—	—	—	—	—	—	264	1.0	672	2.8	1,163	4.5
Trust Fund	2,650	7.0	2,237	6.1	1,658	5.0	1,129	3.8	682	2.7	326	1.3	158	0.6
Total ²	37,622	100.0	36,877	100.0	33,443	100.0	29,543	100.0	25,520	100.0	24,388	100.0	25,603	100.0

¹ Includes outstanding first credit tranche and emergency purchases.² Details may not add due to rounding.

Table II.10

Borrowed Resources and Repayments to Lenders (Excluding the GAB and ESAF), May 29, 1980–April 30, 1991
(In millions of SDRs)

	Total Amount of Agreement (1)	Amount Borrowed (2)	As Percent of Total (3)	Repayments (4)	Outstanding Balance (2) – (4) (5)	Balance Available (1) – (2) (6)
Enlarged access resources						
Medium term						
Saudi Arabian Monetary Agency (SAMA)	8,000	8,000	100	6,700	1,300	—
Short term						
Concluded in 1981 ¹	1,275	1,275	100	1,275	—	—
Concluded in 1984	6,000	4,200	70	4,200	—	—
Of which						
BIS, Japan, and BNB ²	3,000	3,000	100	3,000	—	—
SAMA ³	3,000	1,200	40	1,200	—	—
Subtotal	15,275	13,475	88	12,175	1,300	—
Borrowing agreement with Japan	3,000	3,000	100	—	3,000	—
Supplementary financing facility⁴	7,784	7,232	93	7,232	—	—
Total	26,059	23,707		19,407	4,300	—

¹ Composed of agreements with the Bank for International Settlements (BIS) (SDR 675 million), National Bank of Belgium (SDR 50 million), Swiss National Bank, Bank of England, Japan (SDR 150 million each), The Reserve Bank of Australia (SDR 50 million), Bank of Finland (SDR 30 million), and the Central Bank of Ireland (SDR 20 million). Another agreement for SDR 30 million was not drawn upon before it expired in view of lender's weak balance of payments and reserve position.

² Composed of agreements with the BIS, Japan, and the National Bank of Belgium and fully repaid by August 1988.

³ Agreement has expired and was fully repaid on November 6, 1989.

⁴ Fully committed by March 1981.

Table II.11

Enhanced Structural Adjustment Facility—Contributions as of April 30, 1991¹

(In millions of SDRs)

Contributor	Subsidies	
	(Grant or grant equivalent) ²	Loans ³
Austria	(48)	—
Belgium	(95)	—
Canada	(174)	300
Denmark	48	—
Finland	40	—
France	(407)	800
Germany	130	700
Greece	(28)	—
Iceland	3	—
Italy	(215)	370
Japan	355	2,200 ⁴
Korea	(50)	65
Luxembourg	5	—
Malaysia	(39)	—
Malta	1	—
Netherlands	68	—
Norway	28	90
Saudi Arabia	(116)	200
Singapore	(28)	—
Spain	(23)	260
Sweden	127	—
Switzerland	(127)	200
United Kingdom	417	—
United States	112	—
Other ⁵	(42)	129
Total ⁶	2,697	5,314 ⁴

¹ Some of the contributions listed are subject to parliamentary approval or completion of other internal procedures.

² The subsidy contributions listed take a variety of forms, including grants and the grant element of resources provided for the benefit of the ESAF at concessional rates of interest. Figures indicated are partly staff estimates taking into account information on the likely timing of subsidy contributions in relation to projected operational needs and estimated investment earnings on balances held by or for the benefit of the Subsidy Account. Amounts in parentheses represent estimates of the subsidy value of contributions at concessional interest rates or in the form of grants sufficient to reduce the effective interest rate on accompanying loans to 0.5 percent or less; in general, the calculated subsidy value of these contributions will rise or fall with increases or decreases in interest rates over time. The other amounts listed are based on specific grant amounts indicated by contributors. Contributions expressed in local currency are valued at April 30, 1991 exchange rates.

³ Loan contributions are provided either at concessional interest rates or on the basis of weighted averages of market interest rates in the five currencies comprising the SDR basket. The interest rate basis for one market-related loan is somewhat higher than for other loans.

⁴ Additional loan amounts up to SDR 0.3 billion could be provided by Japan, subject to the availability of further contributions to the Subsidy Account to subsidize those amounts down to 0.5 percent, and to the extent that total loan contributions do not thereby exceed SDR 6 billion. With the possibility of this additional loan amount, the total of loan contributions could rise to up to SDR 5.6 billion.

⁵ Includes contributions that have not been announced publicly or have been advised but on which discussions are continuing.

⁶ Total may not add due to rounding. In addition, the sum of individual contributions has been adjusted downward to take account of the estimated added cost of interest and exchange rate charges.

Table II.12

Summary of Transactions and Operations in SDRs, Financial Year Ended April 30, 1991

(In thousands of SDRs)

Holders	Total Holdings April 30, 1990	Receipts from Participants and Prescribed Holders		Transfers to Participants and Prescribed Holders		Receipts from the General Resources Account	Transfers to the General Resources Account	Interest, Charges, and Assess- ment (Net)	Positions as at April 30, 1991		
		Designated	Other	Designated	Other				Holdings	Net cumulative allocations	Holdings as percent of cumulative allocations
PARTICIPANTS											
Afghanistan	7,664	—	—	—	—	—	—	-1,787	5,877	26,703	22.0
Algeria	417	—	66,420	—	16,232	9,253	44,908	-11,491	3,459	128,640	2.7
Angola	75	—	—	—	—	1	—	+7	83	—	—
Antigua and Barbuda	3	—	—	—	—	—	—	—	3	—	—
Argentina	22,325	—	332,109	—	—	8,822	206,627	-23,414	133,215	318,370	41.8
Australia	230,177	—	—	—	500	6,211	—	-22,368	213,520	470,545	45.4
Austria	182,505	—	60,000	—	72,100	15,080	—	-68	185,417	179,045	103.6
Bahamas, The	326	—	521	—	—	259	—	-908	198	10,230	1.9
Bahrain	16,113	—	—	—	—	77	—	+930	17,120	6,200	276.1
Bangladesh	32,982	—	161,000	—	2,158	1,715	170,414	-1,791	21,334	47,120	45.3
Barbados	193	—	437	—	—	414	147	-724	173	8,039	2.2
Belgium	420,617	—	124,178	—	131,877	12,754	—	-7,311	418,361	485,246	86.2
Belize	30	—	—	—	—	97	105	+2	24	—	—
Benin	306	—	800	—	—	—	—	-846	260	9,409	2.8
Bhutan	217	—	—	—	—	29	—	+21	267	—	—
Bolivia	125	—	8,163	—	—	3,413	8,377	-2,357	967	26,703	3.6
Botswana	19,609	—	—	—	—	1,283	—	+1,475	22,367	4,359	513.1
Brazil	1,806	—	173,902	—	—	22,301	150,871	-32,128	15,010	358,670	4.2
Bulgaria	—	—	70,370	—	107,635	109,217	71,758	—	194	—	—
Burkina Faso	5,647	—	—	—	—	329	—	-342	5,634	9,409	59.9
Burundi	287	—	520	—	—	738	—	-1,237	308	13,697	2.2
Cambodia	—	—	—	—	—	—	—	—	—	15,417	—
Cameroon	2,607	—	7,600	—	—	408	8,104	-2,090	421	24,463	1.7
Canada	1,046,590	—	—	—	—	8,688	—	+25,311	1,080,589	779,290	138.7
Cape Verde	25	—	50	—	—	—	—	-54	21	620	3.4
Central African Republic	2,286	—	6,080	—	252	34	5,562	-517	2,069	9,325	22.2
Chad	1,125	—	1,550	—	—	15	1,845	-801	44	9,409	0.5
Chile	15,828	—	61,500	—	—	18,693	83,461	-10,693	1,867	121,924	1.5
China	404,421	—	74,716	—	—	15,765	115,158	+14,785	394,529	236,800	166.6
Colombia	114,231	—	—	—	—	—	—	-23	114,208	114,271	99.9
Comoros	42	—	80	—	—	—	—	-61	61	716	8.5
Congo	1,560	—	2,350	—	49	60	3,176	-721	24	9,719	0.2
Costa Rica	745	—	3,191	—	—	661	1,918	-2,117	562	23,726	2.4
Côte d'Ivoire	5,631	—	26,666	—	—	1,497	25,338	-3,262	5,194	37,828	13.7
Cyprus	335	—	950	—	—	785	—	-1,754	316	19,438	1.6
Czechoslovakia	—	—	133,930	—	133,935	186,160	140,467	+576	46,264	—	—
Denmark	172,233	—	60,000	—	42,973	13,148	—	-1,905	200,503	178,864	112.1
Djibouti	260	—	—	—	—	41	—	-85	216	1,178	18.3
Dominica	306	—	988	—	14	10	1,077	-41	172	592	29.0
Dominican Republic	—	—	—	—	—	8,898	6,021	-2,877	—	31,585	—
Ecuador	5,143	—	108,593	—	—	823	111,257	-2,538	764	32,929	2.3
Egypt	6,284	—	33,282	—	13,187	578	10,162	-12,185	4,610	135,924	3.4
El Salvador	570	—	—	—	—	1,779	89	-2,260	—	24,985	—
Equatorial Guinea	1,278	—	1,630	—	481	12	1,942	-476	21	5,812	0.4
Ethiopia	828	—	1,500	—	—	113	1,137	-985	319	11,160	2.9

Fiji	15,595	—	—	—	—	352	—	+ 821	16,768	6,958	241.0
Finland	150,523	—	60,050	—	47,551	9,281	—	+ 1,202	173,505	142,690	121.6
France	936,027	—	29,600	—	62,000	50,396	—	- 15,071	938,952	1,079,870	87.0
Gabon	3,635	—	20,350	—	—	211	23,014	- 991	191	14,091	1.4
Gambia, The	788	—	9,333	—	3,585	47	5,653	- 352	578	5,121	11.3
Germany	1,323,946	—	—	—	144,888	138,406	—	+ 10,550	1,328,014	1,210,760	109.7
Ghana	8,240	—	157,461	—	2,208	1,231	99,813	- 5,183	59,728	62,983	94.8
Greece	1,666	—	4,100	—	—	4,928	—	- 9,371	1,323	103,544	1.3
Grenada	3	—	21	—	—	73	12	- 85	—	930	—
Guatemala	7	—	—	—	—	7,909	4,843	- 2,518	555	27,678	2.0
Guinea	20	—	10,461	—	557	881	8,238	- 1,571	996	17,604	5.7
Guinea-Bissau	17	—	—	—	—	119	—	- 110	26	1,212	2.1
Guyana	—	—	10,594	—	2,797	33,441	38,911	- 1,636	691	14,530	4.8
Haiti	8	—	—	—	1	3,074	1,840	- 1,241	—	13,697	—
Honduras	—	—	—	—	—	7,262	5,135	- 1,753	374	19,057	2.0
Hungary	80	—	32,310	—	—	7,924	28,943	+ 156	11,527	—	—
Iceland	353	—	1,150	—	—	2	—	- 1,436	69	16,409	0.4
India	145,102	—	142,742	—	543,590	1,008,657	572,016	- 46,772	134,123	681,170	19.7
Indonesia	17,569	—	52,500	—	—	2,882	40,208	- 21,316	11,427	238,956	4.8
Iran, Islamic Republic of	305,948	—	136	—	—	7	—	+ 5,763	311,854	244,056	127.8
Iraq	31	—	1,627	—	—	1,460	—	- 3,118	—	68,464	—
Ireland	148,614	—	—	—	—	6,654	—	+ 5,979	161,247	87,263	184.8
Israel	2,571	—	9,440	—	—	—	—	- 9,631	2,380	106,360	2.2
Italy	777,736	—	32	—	138,289	65,606	—	+ 8,030	713,115	702,400	101.5
Jamaica	921	—	1	—	—	27,986	24,381	- 3,651	876	40,613	2.2
Japan	1,933,507	—	133,935	—	500,726	167,274	—	+ 99,790	1,833,780	891,690	205.7
Jordan	6,309	—	6,000	—	4,235	312	6,358	- 1,219	809	16,887	4.8
Kenya	9,990	—	71,100	—	—	696	78,262	- 2,819	705	36,990	1.9
Kiribati	5	—	—	—	—	—	—	—	5	—	—
Korea	3,016	—	—	—	—	15,529	—	- 6,018	12,527	72,911	17.2
Kuwait	102,007	—	—	—	680	9,105	—	+ 7,351	117,783	26,744	440.4
Lao People's Democratic Republic	459	—	900	—	—	397	—	- 845	911	9,409	9.7
Lebanon	5,794	—	—	—	—	1,307	—	+ 177	7,278	4,393	165.7
Lesotho	673	—	—	—	—	4	—	- 288	389	3,739	10.4
Liberia	—	—	—	—	—	—	—	—	—	21,007	—
Libyan Arab Jamahiriya	258,683	—	—	—	—	18,724	—	+ 19,377	296,784	58,771	505.0
Luxembourg	19,249	—	—	—	—	572	—	+ 232	20,053	16,955	118.3
Madagascar	1,344	—	6,850	—	—	217	6,039	- 1,712	660	19,270	3.4
Malawi	1,343	—	4,000	—	—	125	3,791	- 894	783	10,975	7.1
Malaysia	129,476	—	—	—	—	9,436	—	- 573	138,339	139,048	99.5
Maldives	13	—	25	—	—	—	—	- 25	13	282	4.6
Mali	680	—	3,050	—	—	1,332	2,748	- 1,408	906	15,912	5.7
Malta	54,956	—	7	—	—	1,367	—	+ 4,138	60,468	11,288	535.7
Mauritania	1,008	—	5,060	—	2,739	218	1,942	- 840	765	9,719	7.9
Mauritius	5,391	—	51,000	—	—	71	35,676	- 795	19,991	15,744	127.0
Mexico	297,784	—	1,429,100	—	69,930	12,856	1,153,162	+ 3,406	520,054	290,020	179.3
Morocco	7,466	—	106,455	—	27,823	1,283	54,011	- 7,535	25,835	85,689	30.1
Mozambique	23	—	—	—	—	—	—	+ 2	25	—	—
Myanmar	1,472	—	4,000	—	—	9	—	- 3,892	1,589	43,474	3.7
Namibia	—	—	15,890	—	15,890	15,890	15,890	—	—	—	—
Nepal	680	—	1,000	—	—	274	908	- 704	342	8,105	4.2
Netherlands	564,370	—	100,763	—	151,723	25,853	—	- 1,341	537,922	530,340	101.4
New Zealand	3,708	—	12,300	—	—	—	—	- 12,782	3,226	141,322	2.3
Nicaragua	—	—	—	—	—	2,176	—	- 1,767	409	19,483	2.1
Niger	577	—	3,400	—	956	475	2,202	- 820	474	9,409	5.0
Nigeria	498	—	17,500	—	—	450	798	- 14,174	3,476	157,155	2.2
Norway	337,882	—	—	—	58,663	27,886	—	+ 14,259	321,364	167,770	191.6
Oman	11,506	—	—	—	—	1,885	—	+ 559	13,950	6,262	222.8

Table II.12 (concluded)

Summary of Transactions and Operations in SDRs, Financial Year Ended April 30, 1991

(In thousands of SDRs)

Holders	Total Holdings April 30, 1990	Receipts from Participants and Prescribed Holders		Transfers to Participants and Prescribed Holders		Receipts from the General Resources Account	Transfers to the General Resources Account	Interest, Charges, and Assess- ment (Net)	Positions as at April 30, 1991		
		Designated	Other	Designated	Other				Holdings	Net cumulative allocations	Holdings as percent of cumulative allocations
Pakistan	14,081	—	43,578	—	—	2,069	34,391	-15,172	10,165	169,989	6.0
Panama	—	—	39,813	—	—	20,692	46,072	-6,928	7,505	26,322	28.5
Papua New Guinea	2,495	—	1,350	—	—	322	3,278	-708	181	9,300	1.9
Paraguay	51,837	—	—	—	—	540	—	+3,590	55,967	13,697	408.6
Peru	2,060	—	10,025	—	—	64,960	68,763	-8,282	—	91,319	—
Philippines	1,289	—	93,088	—	—	3,136	71,976	-10,345	15,192	116,695	13.0
Poland	513	—	23,018	—	—	5,281	28,671	+68	209	—	—
Portugal	36,636	—	20,000	—	—	6,597	—	-1,598	61,635	53,320	115.6
Qatar	29,357	—	—	—	—	1,031	—	+1,584	31,972	12,822	249.4
Romania	75,983	—	4,630	—	75,950	3,115	2,844	-919	4,015	75,950	5.3
Rwanda	7,444	—	—	—	—	170	—	-581	7,033	13,697	51.3
St. Lucia	285	—	965	—	—	—	—	-4	1,246	742	168.0
St. Vincent	2	—	26	—	—	19	—	-32	15	354	4.2
Sao Tome and Principe	47	—	24	—	4	12	—	-55	24	620	3.9
Saudi Arabia	402,169	—	—	—	1,615,570	1,310,950	—	+7,018	104,567	195,527	53.5
Senegal	2,152	—	11,553	—	966	240	9,131	-2,136	1,692	24,462	6.9
Seychelles	31	—	25	—	—	—	—	-36	20	406	4.9
Sierra Leone	—	—	—	—	—	890	—	-890	—	17,455	—
Singapore	82,326	—	404	—	10,000	5,326	—	+5,986	84,042	16,475	510.1
Solomon Islands	58	—	750	—	—	16	701	-52	71	654	10.8
Somalia	—	—	—	—	—	1,394	400	-994	—	13,697	—
South Africa	6,414	—	19,100	—	—	76	—	-19,812	5,778	220,360	2.6
Spain	544,815	—	—	—	149,457	59,630	—	+23,881	478,869	298,805	160.3
Sri Lanka	1,693	—	23,494	—	693	2,748	20,483	-6,351	408	70,868	0.6
Sudan	—	—	—	—	—	2,670	—	-2,670	—	52,192	—
Suriname	2	—	—	—	—	706	—	-705	3	7,750	—
Swaziland	671	—	8,000	—	—	2	—	-148	8,525	6,432	132.5
Sweden	276,885	—	164,074	—	179,099	13,285	—	-2,066	273,079	246,525	110.8
Syrian Arab Republic	4	—	2,013	—	1,242	2,545	—	-3,319	1	36,564	—
Tanzania	30	—	514	—	—	6,058	3,151	-2,831	620	31,372	2.0
Thailand	70,196	—	400	—	1,157	549	57,514	-5,614	6,860	84,652	8.1
Togo	581	—	11,480	—	7,680	64	2,614	-961	870	10,975	7.9
Tonga	134	—	500	—	—	37	—	+14	685	—	—
Trinidad and Tobago	6,995	—	17,927	—	—	1,001	20,080	-3,902	1,941	46,231	4.2
Tunisia	28,408	—	82,918	—	5,405	1,131	102,501	-1,703	2,848	34,243	8.3
Turkey	2,770	—	10,671	—	—	84	579	-10,148	2,798	112,307	2.5
Uganda	4,067	—	31,720	—	353	2,791	19,997	-2,202	16,026	29,396	54.5
United Arab Emirates	87,091	—	—	—	—	380	—	+4,535	92,006	38,737	237.5
United Kingdom	928,449	—	471,136	—	365,734	37,490	—	-94,638	976,703	1,913,070	51.1
United States	7,757,160	—	—	—	699,756	382,793	—	+260,282	7,700,479	4,899,530	157.2
Uruguay	8,263	—	92,000	—	—	403	82,873	-3,857	13,936	49,977	27.9
Vanuatu	422	—	—	—	—	61	—	+42	525	—	—
Venezuela	10,096	—	188,500	—	30,000	38,270	121,503	-27,846	57,517	316,890	18.2
Viet Nam	—	—	—	—	—	10,010	—	-10,010	—	47,658	—
Western Samoa	314	—	2,978	—	17	3	547	+54	2,785	1,142	243.9
Yemen Arab Republic ¹	12,850	—	6,160	—	13,045	—	—	+195	—	—	—
Yemen, People's Democratic Republic of ¹	609	—	22,583	—	127	—	—	-482	—	—	—

Yemen, Republic of ¹	—	—	22,953	—	48,040	2	—	-1,281	2,377	28,743	8.3
Yugoslavia	43,999	—	15,000	—	—	1,186	41,408	-12,293	6,484	155,161	4.2
Zaire	2,298	—	15,170	—	366	13,502	21,143	-7,757	1,704	86,309	2.0
Zambia	—	—	9,712	—	434	84,889	59,616	-23,284	11,267	68,298	16.5
Zimbabwe	3,221	—	11,000	—	—	25	13,143	-833	270	10,200	2.6
Total Participants	20,830,223	—	5,516,571	—	5,505,339	4,233,824	4,218,094	-99,771	20,757,414	21,433,330	96.8
PRESCRIBED HOLDERS											
Arab Monetary Fund	78	—	136,814	—	134,963	—	—	+880	2,809	—	—
Bank of Central African States	586	—	32,950	—	33,480	—	—	+90	146	—	—
Bank for International Settlements	9,817	—	104,055	—	114,545	—	—	+1,226	553	—	—
East African Development Bank	426	—	—	—	—	—	—	+40	466	—	—
Eastern Caribbean Central Bank	1,436	—	—	—	—	—	—	+134	1,570	—	—
International Bank for Reconstruction and Development	4,512	—	—	—	2,064	—	—	+313	2,761	—	—
Islamic Development Bank	1,639	—	—	—	—	—	—	+154	1,793	—	—
Nordic Investment Bank	305	—	—	—	—	—	—	+29	334	—	—
Swiss National Bank	485	—	—	—	—	929	—	+84	1,498	—	—
Total Prescribed Holders	19,285	—	273,818	—	285,051	929	—	+2,950	11,930	—	—
GENERAL RESOURCES ACCOUNT	628,487	—	4,218,091	—	4,234,749	—	—	+82,452	694,280	—	—
Total	21,477,995	—	10,008,479	—	10,025,139	4,234,753	4,218,094	-14,370	21,463,624	21,433,330	—

¹ In June 1990, the Executive Board of the Fund, following the merger of the Yemen Arab Republic and the People's Democratic Republic of Yemen concluded that the Republic of Yemen is a single member of the Fund. Their positions were consolidated as of that date.

Table II.13

Holdings of SDRs by All Participants and by Groups of Countries as Percent of Their Cumulative Allocations of SDRs and of Their Non-Gold Reserves, Financial Years Ended April 30, 1970-91

Developing Countries							
	All Participants ¹	Industrial Countries	All developing countries	Net creditor countries	Net debtor countries		
					All net debtor countries	With recent debt- servicing problems	Without recent debt- servicing problems
Holdings of SDRs as percent of cumulative allocations							
1970	93.8	101.4	73.5	100.0	72.9	82.9	56.0
1971	92.3	103.3	63.2	2.8	64.7	71.6	53.1
1972	90.2	100.0	64.4	34.5	65.2	61.5	71.2
1973	93.4	105.7	60.8	55.4	60.9	56.4	68.3
1974	94.6	106.2	64.3	59.5	64.4	61.3	69.6
1975	94.5	106.5	63.1	72.5	62.8	64.2	60.6
1976	95.1	108.4	59.8	99.1	58.8	60.3	56.4
1977	91.7	105.7	54.9	106.3	53.6	56.3	49.2
1978	85.3	95.6	58.1	117.6	56.6	60.1	50.7
1979	90.3	97.0	74.5	112.3	71.5	71.1	72.2
1980	91.9	96.8	81.0	148.3	75.6	71.0	82.6
1981	74.5	81.0	60.8	139.6	53.5	53.2	53.9
1982	74.6	81.9	59.1	140.5	51.5	45.6	60.3
1983	79.8	95.1	47.4	207.9	32.4	21.6	48.4
1984	69.8	80.4	47.3	183.9	34.6	22.0	53.1
1985	78.4	95.2	42.8	182.2	29.8	20.3	43.8
1986	87.3	105.3	49.0	192.5	35.6	25.5	50.6
1987	90.8	110.0	49.9	195.4	36.4	22.5	56.8
1988	96.2	115.9	54.4	202.8	40.6	31.7	53.7
1989	93.1	116.3	43.5	181.6	30.7	21.0	45.0
1990	97.2	121.9	44.4	205.3	29.4	17.0	47.6
1991	96.8	120.7	45.9	166.2	34.6	26.9	46.0
Holdings of SDRs as percent of non-gold reserves							
1970	7.5	9.0	4.3	0.7	5.0	5.8	3.8
1971	9.2	9.9	6.1	0.0	7.7	8.7	6.2
1972	9.2	9.3	7.2	0.4	9.6	9.4	9.8
1973	8.0	8.7	5.0	0.5	6.4	6.1	6.7
1974	7.4	9.2	3.6	0.4	4.6	4.4	4.7
1975	6.1	8.9	2.4	0.2	3.9	3.7	4.4
1976	5.5	8.3	2.0	0.2	3.3	3.4	3.3
1977	4.5	7.4	1.4	0.2	2.3	2.5	2.0
1978	3.6	5.3	1.4	0.2	2.1	2.4	1.7
1979	4.8	5.8	2.9	1.1	3.6	3.9	3.1
1980	5.8	7.1	3.5	1.5	4.4	4.7	4.2
1981	5.0	6.2	2.9	1.8	3.5	4.0	3.0
1982	5.5	6.9	3.0	1.6	3.7	4.3	3.2
1983	5.5	7.2	2.3	2.2	2.3	2.4	2.3
1984	4.3	5.6	2.0	1.9	2.1	2.0	2.1
1985	4.6	6.3	1.6	1.7	1.6	1.5	1.7
1986	5.2	6.7	2.0	1.8	2.2	2.2	2.2
1987	4.9	5.7	2.0	1.4	2.4	2.2	2.6
1988	4.6	5.1	2.0	1.4	2.5	3.1	2.1
1989	4.1	4.7	1.5	1.2	1.7	2.3	1.5
1990	4.0	4.6	1.5	1.5	1.4	1.5	1.4
1991	3.6	4.3	1.3	1.2	1.3	1.8	1.1

Source: International Monetary Fund, *International Financial Statistics*, various issues.

¹ This category consists of member countries that are participants in the Fund's SDR Department. At the end of the financial year 1991, of the total SDRs allocated to participants in the SDR Department (SDR 21.4 billion), SDR 0.72 billion was not held by participants but by the Fund (SDR 0.7 billion) and by prescribed holders (SDR 0.02 billion).

Table II.14

Purchases and Subsidy Payments Under Supplementary Financing Facility, May 29, 1980–April 30, 1991
(In millions of SDRs)

	Cumulative Purchases	Cumulative Subsidy Payments
Recipients of subsidy at the full rate¹		
Bangladesh	110.0	16.35
Bolivia	25.5	3.89
Dominica	4.5	0.61
Gambia, The	4.8	0.65
Guyana	30.9	4.66
India	1,200.0	157.30
Kenya	94.8	13.84
Liberia	42.9	6.26
Madagascar	22.2	3.30
Malawi	28.1	4.18
Mauritania	16.0	2.33
Pakistan	537.1	75.90
Philippines	333.0	49.26
Senegal	54.2	7.79
Sierra Leone	17.2	2.54
Sri Lanka	—	0.59 ²
Sudan	171.4	25.36
Tanzania	16.3	2.45
Togo	7.3	1.07
Zambia	—	3.52 ³
Subtotal	2,716.2	381.85
Recipients of subsidy at half the full rate⁴		
Côte d'Ivoire	286.4	19.38
Jamaica	227.1	16.80
Mauritius	69.2	5.07
Morocco	137.5	10.23
Peru	195.1	15.06
Subtotal	915.3	66.54
Total	3,631.5	448.38 ^{5,6}

¹ Members with per capita incomes equal to or below the level of per capita income used to determine eligibility for assistance from the International Development Association (IDA) are eligible for the full rate subsidy (not to exceed 3 percent per annum).

² Subsidy paid in respect of Fund holdings in excess of 140 percent of quota under the Fund's policy on exceptional use.

³ Subsidy paid in respect of Fund holdings in excess of 200 percent of quota under the Fund's policy on exceptional use.

⁴ Members with per capita incomes in excess of the IDA level but not more than the per capita income of the member with the highest per capita income in 1979 that was eligible to receive assistance from the Trust Fund.

⁵ Including SDR 2.5 million of subsidies approved but not paid to four members on account of nonpayment of SFF charges by these members.

⁶ Total may not add up due to rounding.

Table II.15

Key IMF Rates, May 1, 1990–April 30, 1991

Week Beginning	SDR Interest Rate and Unadjusted Rate of Remuneration ¹	Basic Rate of Charge on Ordinary Resources ²	Week Beginning	SDR Interest Rate and Unadjusted Rate of Remuneration ¹	Basic Rate of Charge on Ordinary Resources ²
1990			November 4	8.92	7.83
May 6	9.05	8.26	November 11	8.97	7.88
May 13	9.07	8.28	November 18	8.98	7.88
May 20	8.99	8.21	November 25	9.06	7.95
May 27	9.05	8.26	December 2	8.96	7.87
June 3	9.05	8.26	December 9	9.06	7.95
June 10	9.06	8.27	December 16	9.02	7.92
June 17	9.07	8.28	December 23	9.03	7.93
June 24	9.06	8.27	December 30	8.96	7.87
July 1	9.10	8.31	1991		
July 8	9.10	8.31	January 6	8.97	7.88
July 15	9.10	8.31	January 13	8.63	7.58
July 22	9.10	8.31	January 20	8.49	7.45
July 29	9.07	8.28	January 27	8.48	7.45
August 5	9.06	8.27	February 3	8.47	7.44
August 12	9.05	8.26	February 10	8.41	7.38
August 19	9.14	8.34	February 17	8.26	7.25
August 26	9.16	8.36	February 24	8.14	7.15
September 2	9.27	8.46	March 3	8.15	7.16
September 9	9.22	8.42	March 10	8.19	7.19
September 16	9.23	8.43	March 17	8.11	7.12
September 23	9.23	8.43	March 24	8.00	7.02
September 30	9.20	8.40	March 31	8.01	7.03
October 7	9.18	8.38	April 7	7.86	6.90
October 14	8.92	8.14	April 14	7.89	6.93
October 21	8.93	8.15	April 21	7.82	6.87
October 28	8.99	8.21	April 28	7.87	6.91

¹ The rate of remuneration is adjusted downward in light of overdue charges so as to share the burden of protecting the Fund's income. These burden-sharing amounts are refundable when overdue charges are paid.

² The rate of charge is adjusted upward in light of overdue charges so as to share the burden of protecting the Fund's income. These burden-sharing amounts are refundable when overdue charges are paid.

Table A.16

Members That Have Accepted the Obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement

Member	Effective Date of Acceptance	Member	Effective Date of Acceptance
Antigua and Barbuda	November 22, 1983	Kuwait	April 5, 1963
Argentina	May 14, 1968	Luxembourg	February 15, 1961
Australia	July 1, 1965	Malaysia	November 11, 1968
Austria	August 1, 1962	Mexico	November 12, 1946
Bahamas, The	December 5, 1973	Netherlands	February 15, 1961
Bahrain	March 20, 1973	New Zealand	August 5, 1982
Belgium	February 15, 1961	Nicaragua	July 20, 1964
Belize	June 14, 1983	Norway	May 11, 1967
Bolivia	June 5, 1967	Oman	June 19, 1974
Canada	March 25, 1952	Panama	November 26, 1946
Chile	July 27, 1977	Papua New Guinea	December 4, 1975
Costa Rica	February 1, 1965	Peru	February 15, 1961
Cyprus	January 9, 1991	Portugal	September 12, 1988
Denmark	May 1, 1967	Qatar	June 4, 1973
Djibouti	September 19, 1980	St. Kitts and Nevis	December 3, 1984
Dominica	December 13, 1979	St. Lucia	May 30, 1980
Dominican Republic	August 1, 1953	St. Vincent	August 24, 1981
Ecuador	August 31, 1970	Saudi Arabia	March 22, 1961
El Salvador	November 6, 1946	Seychelles	January 3, 1978
Fiji	August 4, 1972	Singapore	November 9, 1968
Finland	September 25, 1979	Solomon Islands	July 24, 1979
France	February 15, 1961	South Africa	September 15, 1973
Germany	February 15, 1961	Spain	July 15, 1986
Guatemala	January 27, 1947	Suriname	June 29, 1978
Guyana	December 27, 1966	Swaziland	December 11, 1989
Haiti	December 22, 1953	Sweden	February 15, 1961
Honduras	July 1, 1950	Thailand	May 4, 1990
Iceland	September 19, 1983	Tonga	March 22, 1991
Indonesia	May 7, 1988	Turkey	March 22, 1990
Ireland	February 15, 1961	United Arab Emirates	February 13, 1974
Italy	February 15, 1961	United Kingdom	February 15, 1961
Jamaica	February 22, 1963	United States	December 10, 1946
Japan	April 1, 1964	Uruguay	May 2, 1980
Kiribati	August 22, 1986	Vanuatu	December 1, 1982
Korea	November 1, 1988	Venezuela	July 1, 1976

Table II.17

Exchange Rate Arrangements as of March 31, 1991¹

Pegged					Flexibility Limited vis-à-vis a Single Currency or Group of Currencies		More Flexible		
Single currency			Currency composite		Single currency ²	Cooperative arrangements ³	Adjusted according to a set of indicators	Other managed floating	Independently floating
U.S. dollar	French franc	Other	SDR	Other					
Afghanistan ⁴	Benin	Bhutan	Burundi	Algeria	Bahrain ⁵	Belgium	Chile ^{4,8}	China ⁴	Australia
Angola	Burkina Faso	(Indian rupee)	Iran, Islamic Republic of ⁴	Austria	Qatar ⁵	Denmark	Colombia	Costa Rica	Bolivia ⁴
Antigua and Barbuda	Cameroon	Kiribati	Libyan Arab Jamahiriya ⁶	Bangladesh ⁴	Saudi Arabia ⁵	France	Madagascar	Ecuador ⁴	Brazil
Argentina	Central African Republic	(Australian dollar)	Cyprus	Botswana	United Arab Emirates ⁵	Germany	Mozambique ⁴	Egypt ⁴	Bulgaria
Bahamas, The ⁴	Chad	Lesotho ⁴	Myanmar	Cape Verde		Ireland	Zambia ⁴	Greece	Canada
Barbados	Comoros	(South African rand)	Rwanda			Italy		Guinea	Dominican Republic ⁴
Belize	Congo	Swaziland	Seychelles	Czechoslovakia ⁴		Luxembourg		Guinea Bissau	El Salvador ⁴
Djibouti	Côte d'Ivoire	(South African rand)		Fiji		Netherlands		Honduras ⁴	Gambia, The
Dominica	Equatorial Guinea			Finland ⁷		Spain		India ⁸	Ghana ⁴
Ethiopia	Gabon			Hungary		United Kingdom		Indonesia	Guatemala
Grenada	Mali	Yugoslavia (deutsche mark)		Iceland ⁹				Korea	Guyana ⁴
Haiti ⁴	Niger			Israel ¹⁰				Lao People's Democratic Republic	Jamaica
Iraq ⁴	Senegal			Jordan					Japan
Liberia ⁴	Togo			Kenya					Lebanon
Mongolia ⁴				Kuwait					Maldives
Nicaragua ⁴				Malawi				Mauritania	Namibia ¹¹
Oman				Malaysia ⁹				Mexico ⁴	New Zealand
Panama				Malta				Pakistan	Nigeria ⁴
Poland				Mauritius				Portugal	Paraguay
St. Kitts and Nevis				Morocco ⁷				Singapore	Peru
St. Lucia				Nepal				Somalia	Philippines
St. Vincent and the Grenadines				Norway ¹²				Sri Lanka	Sierra Leone
Sudan ⁴				Papua New Guinea				Tunisia	South Africa ⁴
Suriname				Romania ⁴				Turkey	United States
Syrian Arab Republic ⁴				Sao Tome and Principe				Viet Nam	Uruguay
Trinidad and Tobago				Solomon Islands					Venezuela
Yemen, Republic of				Sweden ¹³					Zaire
				Tanzania					
				Thailand					
				Tonga					
				Uganda					
				Vanuatu					
				Western Samoa					
				Zimbabwe					

¹ Current information relating to Cambodia is unavailable.² In all cases listed in this column, the U.S. dollar was the currency against which exchange rates showed limited flexibility.³ This category consists of countries participating in the exchange rate mechanism of the European Monetary System. In each case, the exchange rate is maintained within a margin of 2.25 percent around the bilateral central rates against other participating currencies, with the exception of Spain and the United Kingdom in which case the exchange rate is maintained within a margin of 6 percent.⁴ Member maintains exchange arrangements involving more than one exchange market. The arrangement shown is that maintained in the major market.⁵ Exchange rates are determined on the basis of a fixed relationship to the SDR, within margins of up to ± 7.25 percent. However, because of the maintenance of a relatively stable relationship with the U.S. dollar, these margins are not always observed.⁶ The exchange rate is maintained within margins of ± 7.5 percent.⁷ The exchange rate is maintained within margins of ± 3.0 percent.⁸ The exchange rate is maintained within margins of ± 5 percent on either side of a weighted composite of the currencies of the main trading partners.⁹ The exchange rate is maintained within margins of ± 2.25 percent.¹⁰ The exchange rate is maintained within margins of ± 5.0 percent.¹¹ The currency of Namibia is the South African rand, pending issuance of Namibia's own national currency.¹² The exchange rate, which is pegged to the ECU, is maintained within margins of ± 2.25 percent.¹³ The exchange rate is maintained within margins of ± 1.5 percent.

Technical Assistance and Training, Relations with International Organizations, and External Relations

Technical assistance and training are extended by the Fund to members in a wide range of economic and financial areas, either at Fund headquarters or through staff missions to a member country. Staff from almost every department and bureau of the Fund may be provided in response to a member's request. Assistance may relate to a whole range of subjects, including economic policy, balance of payments adjustment programs, legal matters, debt management, exchange and trade issues, financial sector topics, and accounting, statistics, and data processing.

The *IMF Institute* trains officials of member countries, both at headquarters and overseas, through courses and seminars held in Arabic, English, French, and Spanish. It also organizes briefings for visiting officials and provides lecturing assistance to training programs of member countries and other international organizations in areas of Fund expertise.

During 1990/91, training at headquarters consisted of 13 courses and three seminars for senior officials, attended by 498 participants. The program included two 12-week courses on financial programming and policy, four 10-week courses on techniques of financial analysis and programming, two 8-week courses on programming and policies for medium-term adjustment, and a 16-week course on financial analysis and policy. The financial programming and policy course covered financial programming and adjustment issues for officials with substantial macroeconomic training and practical experience; the course on techniques of financial analysis and programming provided a more elementary review of similar issues; technical and policy aspects of medium-term adjustment programs were emphasized in the course on programming and policies for medium-term adjustment; the long course on financial analysis and policy will not be presented in future years. Eight-week courses were presented on balance of payments methodology, money and banking statistics, and government finance statistics (in collaboration with the Statistics Department) and a 10-week course on public finance (in collaboration with the Fiscal Affairs Department). Seminars for senior officials were held on centrally planned economies in transition, on central banking (in collaboration with the Central Banking Department), and on social aspects of adjustment (in collaboration with the External Relations Department). The latter seminar was attended by officials of UN specialized agencies and regional offices.

The Institute conducted 18 overseas seminars and provided lecturing assistance to six training organizations in 1990/91. Five of these seminars were held in eastern European countries undergoing a transition from planned to market-oriented economies. The Institute also organized 20 briefings at headquarters for a total of 224 visiting officials.

The provision of technical assistance, for long an important part of the *Fiscal Affairs Department's* activities, has increased appreciably in recent years. In 1990/91, assistance was provided to 67 countries. There were 111 missions and other short-term assignments by staff, consultants based at headquarters, and panel experts, and 36 long-term assignments by panel experts. Most of these indicators for 1990/91 point to an approximate doubling in technical assistance activity compared with three years earlier. Externally financed assignments, notably by the UN Development Program (UNDP) and the Japan Administered Account, have grown in importance. In 1990/91, they accounted for about 20 percent of the total use of panel experts on short- and long-term assignments.

The department's technical assistance has continued to be concentrated in the areas of tax policy and administration, including customs, budget preparation and control, and government accounting and treasury management. In all these areas, the design of computerized systems has assumed increasing importance in recent years. Requests for technical assistance have also been diversifying into new areas, including the design of social benefits and social security systems, partly in order to cushion the impact of price reform and other adjustment measures on living standards.

As in previous years, most of the department's technical assistance was provided to support, whether directly or indirectly, countries' efforts in connection with Fund-supported adjustment programs. The main change in the geographical distribution of the technical assistance in 1990/91 was the strongly increased level of activity in eastern Europe: missions, generally at least two, took place to all Fund member countries in the region. Countries in other parts of the world engaged in similar reorientations of their economic structures have also absorbed considerable assistance. At the same time, the provision of technical assistance to Africa, particularly to recently independent countries, has continued to expand in absolute terms as it has to Latin America. During the year, technical assistance, whether in the form of short-term missions or long-term expert assignments, was provided to all but a handful of the countries of Central and South America.

The *Central Banking Department* provides technical assistance on central banking and financial sector issues through the assignment of outside experts and through advisory missions involving staff and outside experts. The objective is to strengthen monetary policy management and the regulation and development of the financial system, often as part of structural reforms underlying Fund-supported adjustment programs.

In 1990/91, 194 experts and consultants were assigned to executive and advisory positions with central banks and monetary authorities of 65 member countries and four regional organizations, representing 268 assignments and totaling 81 man-years of assistance. Most of this assistance (85 percent) was in the broad areas of research and policy, bank regulation and supervision, and central banking operations. Assistance in central bank accounting, organization and methods, and external debt made up the remaining 15 percent. The first project document for UNDP-supported technical assistance to a member country was signed in April 1990. During the year, a total of 8 UNDP-supported assignments were initiated, equivalent to about 3 man-years. The Government of Japan, through the Japan Administered Account, provided grant funds, which enabled the Central Banking Department to undertake 6 assignments, equivalent to about 2 man-years.

During 1990, the Central Banking Department, in cooperation with the IMF Institute, conducted another Central Banking Seminar in the series of such seminars, with the participation of 30 senior officials from central banks and regional monetary institutions. The main theme was the role and functions of a central bank in a market-based economy. Guest speakers included governors and deputy governors from the central banks of several member countries and several other senior officials of international distinction.

Departmental staff carried out 45 advisory missions in 1990/91, giving advice on a wide range of policy issues including design of monetary instruments, development of money markets, bank

regulation and supervision, recapitalization of central banks, the structure of the financial system, and (in cooperation with the Legal Department) banking legislation. In addition, departmental staff participated in one joint Bank-Fund advisory mission. The department became extensively involved in providing assistance to countries in eastern Europe. Policy-oriented research by the department in 1990/91 included completion of papers on issues in developing market-based methods of monetary control; sequencing of financial sector reforms; central bank independence and functions; and financial sector reform in eastern Europe. The department's computerized data base on banking legislation was continuously updated during the year and is an important source of information for member countries and other departments of the Fund. It now contains the laws of the central banks or monetary authorities of 142 countries, and also the general banking laws of most of them.

The *Statistics Department* (known as the Bureau of Statistics prior to May 1, 1991) provides technical assistance aimed at improving the basis for macroeconomic analysis and the monitoring of economic developments. The principal areas of statistics covered are balance of payments, government finance, money and banking, and real sector data. In 1990/91, the program of technical assistance continued to focus attention on countries that were actual or prospective users of Fund resources or whose statistical infrastructure was at an early stage of development. Prominent among these were the eastern European countries that were undergoing major economic restructuring.

Technical assistance is primarily provided through staff visits to address methodological and technical issues in specific areas, and increasingly through multi-topic missions that respond to the need to address multiple problems within a consistent macroeconomic framework. From its beginnings in 1989/90, the program of medium-term and long-term technical assistance activities under the Executing Agency Agreement with the UNDP and resources provided from the Japan Administered Account also continued to expand. Specialized training to familiarize national statisticians with statistical methodologies and with their application was provided at headquarters and, in collaboration with the IMF Institute, courses were offered in money and banking, government finance, and balance of payments statistics.

A total of 37 technical assistance missions to 33 countries were undertaken. Of these, 8 were multi-topic missions. Training was provided at headquarters for 10 officials from 4 member countries. A seminar in government finance statistics was held in Australia for participants from the Asian-Pacific region and Statistics Department staff lectured at a seminar on financial statistics that was sponsored by the UNDP in Geneva. Statistics Department staff also lectured on balance of payments statistics at seminars organized by the Arab Monetary Fund and by the Eastern Caribbean Central Bank.

In 1990/91, the services of 4 resident advisors were provided to 3 countries under the Executing Agency Agreement with the UNDP or with financing from the Japan Administered Account. Medium-term and long-term technical assistance projects in 4 additional countries advanced to the implementation stage. The continued development of the program of longer-term technical assistance has made it possible for the Statistics Department to provide a much broader range of technical assistance in statistics and to address problems of institution building and the development of statistical infrastructure in a far more comprehensive manner than previously.

As in the past few years, technical assistance in the area of electronic data processing was restricted by tight budgetary policy,

strict interpretation of the electronic data processing mission guidelines, and limited staff resources. The Fund's management did, however, authorize the *Bureau of Computing Services* to undertake a few short-term missions to member countries (Jordan, Barbados) in direct support of the economic and financial work of the Fund. These missions provided narrowly focused advice on planning and developing systems for the automation of external debt data, implementation of time-series data bases, and guidance in the computerization of fiscal and administrative policy. Also, recently, in conjunction with Fund mission activities associated with UNDP-funded technical assistance projects for Angola, Myanmar, Namibia, and Viet Nam, the Bureau of Computing Services has been asked to actively assist the functional and area departments in structuring and monitoring the design and implementation of computing systems and automation training programs. The computing efforts will support the Fund technical assistance work program in the areas of central banking operation, tax administration, budget and treasury operations, and policy and planning.

With regard to computer training at headquarters during 1990/91, the Bureau continued to receive a large number of official visitors from 12 member countries and 5 international and regional organizations. Due to the expanding role of technology and the proliferation of microcomputers within member countries, there was particular interest in discussing and learning about the Fund's experiences in developing and operating economic and financial data systems including data management software, and in electronic data and document access and exchange between member countries and the Fund. Technology training sessions typically consisted of 3-10 days of lectures, briefings, and demonstrations on strategic planning, management of large-scale data bases, statistical analysis and modeling, financial processing and reporting, office automation, and the use of microcomputers for desktop computing. Many country delegations were specifically interested in the hands-on, economist work station/Aremos one-week training session, which focused on data-base management, time-series programming facilities, estimation and modeling, graphics production, and report generation. During the past year, the Fund made available demonstration copies of the Arenos analytical software to ten member countries. Five countries have purchased the software and are now using it under the IMF site license agreement. Visiting officials were also interested in learning about the Fund's application systems, training curriculum, and support provided for end-users.

Relations with Other International Organizations

Cooperation and maintenance of close relations with other international and regional organizations having related responsibilities or sharing common interests play an important role in enabling the Fund to fulfill its responsibilities with respect to international monetary and financial matters. Close ties are maintained with several organizations, including the United Nations, the Contracting Parties to the General Agreement on Tariffs and Trade (GATT), the Organization for Economic Cooperation and Development (OECD), the Commission of the European Communities (CEC), and the Bank for International Settlements (BIS).

Liaison with these organizations is the special responsibility of the three offices of the Fund located away from headquarters. The Director of the Fund Office in the United Nations and the Special

Representative to the United Nations is responsible for relations with the UN and its subsidiary bodies. The Office in Europe, in Paris, is particularly responsible for the Fund's relations with the BIS, CEC, and OECD, while the Geneva Office maintains close relations with the GATT, the UN Conference on Trade and Development, and other UN organizations located in Geneva. Liaison activity includes attendance at meetings, participation in seminars and expert groups, and exchange of information and pertinent documents. The work of these offices is supplemented, as necessary, by assignment of staff and technical experts from headquarters, and by staff participation in meetings and seminars, such as those of the regional economic and financial organizations in Africa, Asia and the Pacific, Latin America and the Caribbean, and the Middle East, including the regional development banks.

The Fund and the World Bank enjoy a unique relationship, and collaboration between the two institutions has assumed a variety of forms, such as joint participation in missions, periodic attendance at each other's Executive Board meetings, regular exchange of documents and information, and attendance at and participation in conferences and seminars. Fund staff attend a number of aid coordination meetings held under the auspices of the World Bank, including Aid Groups, Consultative Groups, and Donors Conferences.

As part of the long-standing cooperative arrangements with the GATT, the Fund provides pertinent documents and participates in meetings held by the GATT for consultations with common member countries on trade restrictions imposed for balance of payments purposes. In addition, meetings of the GATT Council of Representatives, as well as the annual session of the Contracting Parties to the GATT, are attended by Fund staff. Progress within the Uruguay Round of multilateral trade negotiations continues to be closely monitored by the Geneva Office and through staff attendance at meetings of many of the trade negotiating groups. Reflecting the importance to the Fund of the GATT's work in this area, the Managing Director addressed the Ministerial Level Meeting of the Uruguay Round of Trade Negotiations Committee in Brussels on December 4, 1990.

The past year has witnessed a dramatic change in the orientation of the economies of central and eastern Europe, and the Fund has deepened its involvement with a number of international organizations that are currently engaged in, or actively considering, support for the reform efforts under way in the region. Staff members were involved in the preparation of a detailed study of the economy of the U.S.S.R., which was issued in December 1990. The study was prepared jointly by Fund staff and the staffs of the World Bank and OECD, and by consultants to the designated President of the European Bank for Reconstruction and Development.

The Managing Director participated in a number of meetings sponsored by various international and regional organizations, most notably the United Nations, where he attended regular meetings of the Administrative Committee on Coordination (ACC) and the Economic and Social Council (ECOSOC). On July 11, 1990, he addressed the second regular session of ECOSOC in Geneva. The Managing Director also addressed the UN Conference on Least Developed Countries in Paris, on September 11, 1990, and the Second Committee of the UN General Assembly in New York, on October 22, 1990. On April 18, 1991, he attended the inaugural ceremonies of the European Bank for Reconstruction and Development (EBRD) in London.

External Relations

Public interest in the work of the Fund continued to grow during 1990/91, and the Fund further broadened its efforts to explain its work and policies to a wider audience.

The increased level of attention given to the Fund, both by the media and the general public, was stimulated by events in the Middle East, and the Fund's response; the evolving reform process in eastern Europe; the IMF-convened study on the economy of the Soviet Union; the completion of work on the Ninth General Review of Quotas and the move toward adoption of the Third Amendment to the Articles of Agreement; the Fund's continuing role in the debt strategy; and the addition of new members. To help satisfy this expanding interest, the Managing Director and senior staff delivered speeches on a broad range of economic issues at both international and national forums. Staff members also delivered papers and participated in a wide variety of conferences, seminars, and symposiums. The seminar program for nonofficials continued to play an important part in the Fund's external relations efforts. Two seminars were held: one in San Jose, Costa Rica, in November 1990, and one in Baden, Austria, in April 1991. Also, a high-level symposium for African central bank governors, academics, and others took place in Gaborone, Botswana, in February 1991.

The Fund developed its contacts with the international news media during the financial year. Management and senior staff played an active role in expanding these contacts through interviews, press conferences, and briefings for the press to explain major issues and developments, and by participating in seminars for the media designed to broaden knowledge about the institution and its functions. At headquarters and during information missions, the external relations staff gave presentations on the role and work of the Fund to representatives of the press and to academic, business, financial, labor, and political groups from Africa, Asia, Europe, Latin America and the Caribbean, and North America.

In the audio-visual field, work was completed during the financial year on a film series entitled "One World—One Economy." This series consists of four separate films. An introductory film examines the myths and realities surrounding the Fund and clarifies its role as consultant, advisor, monitor, and lender to its member countries. The other three are country studies on Poland, Ghana, and Mexico. The series is available in a number of languages and broadcast standards and, together with an instructor's guide, is being distributed worldwide to television stations, schools, and universities, as well as to the general public.

The IMF Visitors' Center continued to be active in the organization of events for the local community and international visitors, with an increase in the number of seminars on international economic issues held within the Economic Forum and the International Seminar series. The Center hosted cultural events, such as art exhibitions, film screenings, and concerts, with an increase in the participation of embassies and Washington-based international organizations.

The active publications program of the Fund is a significant means of disseminating information about its work and about those international monetary and financial topics that relate to the Fund's concerns. As has been the pattern of recent years, during 1990/91 the number of titles and the range of subject matter continued to expand. A number of publication series were redesigned during the year to enhance their appeal to the public. Following a survey of the audience for statistical publications, changes have been made in

the frequency and content of some of these publications. In addition, plans were made to market *International Financial Statistics* data in CD-ROM form; the first test marketing was made in June 1991. Effective with the May 1990 issue, the biannual *World Economic Outlook* was published in French and Spanish, as well as in English. Both it, and the other publications in the World Economic and Financial Surveys and Occasional Papers series, attracted wide attention. A complete list of publications issued during the financial year appears in Table III.1.

Executive Directors and Staff

A list of Executive Directors and their voting power on April 30, 1991, is given in Appendix VI. The changes in membership of the Executive Board during 1990/91 are shown in Appendix VII.

In the financial year ended April 30, 1991, there were 138 appointments to the Fund's regular staff and 106 separations. At the end of the financial year, the staff numbered 1,763 and was drawn from 104 countries.

Table III.1

Publications Issued, Financial Year April 30, 1991

Reports and Other Documents

Annual Report of the Executive Board for the Financial Year Ended April 30, 1990
(English, French, German, and Spanish). Free.

By-Laws, Rules and Regulations
Forty-Sixth Issue (English, French, and Spanish). Free.

Exchange Arrangements and Exchange Restrictions, Annual Report 1990.
\$39.50 (\$20.00 to full-time university faculty members and students).

Proposed Third Amendment of the Articles of Agreement.
Free.

Selected Decisions of the International Monetary Fund and Selected Documents, Fifteenth Issue
(English). Free.

Summary Proceedings of the Forty-Fifth Annual Meeting of the Board of Governors.
Free.

Periodic Publications

Balance of Payments Statistics Yearbook
Vol. 41. A two-part yearbook. \$45.00 a year. \$27.00 to full-time university faculty members and students.

Direction of Trade Statistics
Quarterly, with yearbook. \$86.00 a year. \$43.00 to full-time university faculty members and students. \$25.00 for yearbook only.

Government Finance Statistics Yearbook
Vol. 14, 1990. (Introduction and titles of lines in English, French, and Spanish) \$48.00. \$24.00 to full-time university faculty members and students.

International Financial Statistics
Monthly, with yearbook (English, French, and Spanish). \$188.00 a year. \$94.00 to full-time university faculty members and students. \$50.00 for yearbook only.

Staff Papers
Four times a year. \$35.00 a year. \$17.50 to full-time university faculty members and students.

The five publications listed above may be obtained at a special rate of \$290.00 (\$145.00 to full-time university faculty members and students).

Magnetic tape subscriptions to *Balance of Payments Statistics Yearbook*, *Direction of Trade Statistics*, *Government Finance Statistics Yearbook*, and *International Financial Statistics* are also available. Price information is available on request.

Finance and Development

Issued jointly with the World Bank; quarterly (English, Arabic, Chinese, French, German, Portuguese, and Spanish). Free.

IMF Survey

Twice monthly, but only once in December (English, French, and Spanish). Private firms and individuals are charged at an annual rate of \$60.00.

Occasional Papers

No. 70. *The Conduct of Monetary Policy in the Major Industrial Countries: Instruments and Operating Procedures*
By Dallas S. Batten, Michael P. Blackwell, In-Su Kim, Simon E. Nocera, and Yuzuru Ozeki.

No. 71. *MULTIMOD Mark II: A Revised and Extended Model*
By Paul Masson, Steven Symansky, and Guy Meredith.

No. 72. *The Czech and Slovak Federal Republic: An Economy in Transition*
By Jim Prust and an IMF Staff Team.

No. 73. *The European Monetary System: Developments and Perspectives*
By Horst Ungerer, Jouko J. Hauvonen, Augusto Lopez-Carros, and Thomas Mayer.

No. 74. *The Impact of the European Community's Internal Market on the EFTA*
By Richard Abrams, Peter K. Cornelius, Per L. Hedfors, and Gunnar Tersman.

No. 75. *German Unification: Economic Issues*
Edited by Leslie Lipschitz and Donogh McDonald.

No. 76. *China: Economic Reform and Macroeconomic Management*
By Mario Blejer, David Burton, Steven Dunaway, and Gyorgy Szapary.

No. 77. *Determinants and Systemic Consequences of International Capital Flows*
By Morris Goldstein, Donald J. Mathieson, David Folkerts-Landau, Timothy Lane, J. Saúl Lizondo, and Liliana Rojas-Suárez.

No. 78. *Exchange Rate Policy in Developing Countries: Some Analytical Issues*
By Bijan B. Aghevli, Mohsin S. Khan, and Peter J. Montiel.

No. 79. *The Mongolian People's Republic: Toward a Market Economy*
By Elizabeth Milne, John Leimone, Franek Rozwadowski, and Padej Sukachevin.

Occasional Papers are available for \$10.00 each, with a special price of \$7.50 each to full-time university faculty members and students.

Table III.1 (concluded)

Publications Issued, Financial Year April 30, 1991

World Economic and Financial Surveys

Primary Commodities: Market Developments and Outlook
(July 1990)
By the Commodities Division of the Research Department.
\$15.00 (\$10.00 to full-time university faculty members and students).

Staff Studies for the World Economic Outlook
(September 1990)
By the Research Department of the International Monetary Fund.
\$20.00 (\$12.00 to full-time university faculty members and students).

World Economic Outlook: A Survey by the Staff of the International Monetary Fund
(October 1990)
\$30.00 (\$20.00 to full-time university faculty members and students).

Multilateral Official Debt Rescheduling: Recent Experience
(November 1990)
By Michael G. Kuhn with Jorge P. Guzman.
\$15.00 (\$10.00 to full-time university faculty members and students).

International Capital Markets: Developments and Prospects
(May 1991)
By a Staff Team from the Exchange and Trade Relations and Research Departments.
\$20.00 (\$12.00 to full-time university faculty members and students).

World Economic Outlook: A Survey by the Staff of the International Monetary Fund
(May 1991) (English, French, and Spanish).
\$30.00 (\$20.00 to full-time university faculty members and students).

Books

Analytical and Policy Aspects of Financial Programming: The Case of Egypt
By Taher Dajani, Samir El-Khouri, Mohamed Hosny, and Mounir Rached. (Arabic only).
\$12.50

Choosing an Exchange Rate Regime: The Challenge for Smaller Countries
Edited by Victor Argy and Paul De Grauwe.
\$19.50

The Economy of the U.S.S.R.: Summary and Recommendations
By the International Monetary Fund, the World Bank, the Organization for Economic Cooperation and Development, and the European Bank for Reconstruction and Development.
\$15.95

A Study of the Soviet Economy
By the International Monetary Fund, the World Bank, the Organization for Economic Cooperation and Development, and the European Bank for Reconstruction and Development.
\$100.00

Fiscal Policy in Opening Developing Economies
Edited by Vito Tanzi.
\$15.00

Government Financial Management: Issues and Country Studies
Edited by A. Premchand.
\$21.50

Investment Policies in the Arab Countries
Edited by Said El-Naggar.
\$18.50

Legal Effects of Fluctuating Exchange Rates
By Sir Joseph Gold.
\$37.50

Perspectives on the Role of a Central Bank
By Paul A. Volcker, Miguel Mancera, Jean Godeaux.
\$12.50

Strategies for Structural Adjustment: The Experience of Southeast Asia
Moderator, Ungku A. Aziz.
\$16.50

Pamphlet Series

No. 45. *Financial Organization and Operations of the IMF*
By the Treasurer's Department. Free.

Booklets

Funding the IMF: Why an Increase in Quotas?
By Esha Ray (English, French, and Spanish). Free.

Promoting Development: The IMF's Contribution
By Bahram Nowzad (English, French, and Spanish). Free.

One World—One Economy, instructor's guide to the four-part IMF film series of the same name. \$12.50

Copies of the Fund's publications may be obtained from Publication Services, International Monetary Fund, 700 19th Street, N.W., Washington, D.C. 20431, U.S.A.

Principal Policy Decisions of the Executive Board

A. Surveillance Over Members' Exchange Rate Policies

(a) Extension of Period for Reviews

In Decision No. 8857-(88/64)¹ and in Decision No. 8858-(88/64),² as amended, "June 30, 1990" shall be replaced by "July 31, 1990."

Decision No. 9492-(90/107)
July 3, 1990

(b) Review of Implementation of Procedures and 1977 Document

1. The Executive Board has reviewed the general implementation of the Fund's surveillance over members' exchange rate policies, as required by paragraph VI of Procedures for Surveillance contained in the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63),³ adopted April 29, 1977, as amended, including the procedures for the conduct of consultations under Article IV, which in principle shall comprehend the regular consultations under Article VIII and Article XIV, and approves the modifications of the procedures as described [in the staff paper], in the light of the Managing Director's summing up, until the next review, which shall be conducted not later than July 11, 1992.

2. The Executive Board also has reviewed the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63),³ adopted April 29, 1977, as amended, as required by paragraph 2 of that decision. The next review of the document shall be conducted not later than July 11, 1992.

Decision No. 9499-(90/111)
July 11, 1990

(c) Amendment of Procedures

The fourth sentence of Section II of Procedures for Surveillance contained in the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63),³ adopted April 29, 1977, as amended, shall be amended to read as follows:

Not later than three months after the termination of discussions between the member and the staff, the Executive Board shall reach conclusions and thereby complete the consultation under Article IV, Section 3, provided that an interim consultation shall be completed without conclusions unless, within two weeks after the date of the circulation of the staff report to the Board, an Executive Director requests discussion by the Executive Board of the staff report or the Managing Director places the staff report for discussion on the agenda of the Executive Board.

Decision No. 9637-(91/15)
February 8, 1991

B. Policy on Enlarged Access to the Fund's Resources

(a) Modalities for Financing—Substitution of Ordinary for Borrowed Resources

1. Whenever the Fund has disbursed all resources borrowed for

¹ See *Selected Decisions*, Fifteenth Issue, page 16.

² *Ibid.*, page 18.

³ *Ibid.*, pages 9–14.

the financing of purchases under the Enlarged Access Policy, ordinary resources shall be substituted for borrowed resources in financing purchases made under arrangements under the Enlarged Access Policy that have been approved prior to, or will be approved after, the date of this decision, provided that this decision shall only apply to arrangements approved not later than the date on which the requirement for the effectiveness of increases in quotas under the Ninth General Review of Quotas specified in paragraph 3 of the Resolution of the Board of Governors No. 45-2 has been fulfilled, or December 31, 1991, whichever is earlier.

2. In Decision No. 6783-(81/40),⁴ adopted March 11, 1981, as amended, borrowed resources shall be deemed to include ordinary resources of the Fund that are substituted for borrowed resources ("substituted resources"), except in paragraphs 10(b) and 14 of that decision. The Fund will state, for each purchase involving substituted resources, the amount of substituted resources used in such purchase.

3. The Fund will review this decision at the same time as it reviews Decision No. 6783-(81/40),⁴ adopted March 11, 1981, as amended.

Decision No. 9546-(90/145)
September 17, 1990

(b) Modalities for Financing—Amendment of Rule I-6(4)

In Rule I-6(4), the following shall be added in the introductory paragraph after "(Executive Board Decision No. 8955-(88/126)),":

or (vii) of resources substituted for borrowed resources under the Policy on Enlarged Access (Executive Board Decision No. 6783-(81/40), as amended) pursuant to Executive Board Decision No. 9546-(90/145), adopted September 17, 1990.

Decision No. 9547-(90/145)
September 17, 1990

(c) Amendment of Guidelines on Access Limits

The third sentence of paragraph (a) of Decision No. 7600-(84/3),⁵ adopted January 6, 1984, as amended, shall be amended to read as follows:

Access by members to the Fund's general resources under arrangements approved under Decision No. 6783-(81/40)⁴ during 1986, 1987, 1988, 1989, and the period until the date on which the requirement for the effectiveness of increases in quotas under the Ninth General Review of Quotas specified in paragraph 3 of the proposed Resolution of the Board of Governors on the Ninth General Review of Quotas,⁶ attached to Decision No. 9436-(90/79), adopted by the Executive Board on May 21, 1990, has been fulfilled shall be subject to annual limits of 90 or 110 percent of quota, three-year limits of 270 or 330 percent of quota, and cumulative limits of 400 or 440 percent of quota net of scheduled repurchases, depending on the seriousness of the member's balance of payments needs and the strength of its adjustment effort, provided that, through December 31, 1991, the annual, three-year, and cumulative limits shall be 110 percent of quota, 330 percent of quota, and 440 percent of quota net of scheduled repurchases, respectively.

Decision No. 9584-(90/161)
November 15, 1990

⁴ *Ibid.*, pages 84–88.

⁵ *Ibid.*, pages 89–90.

⁶ See *Annual Report*, 1990, pages 103–104.

C. Compensatory and Contingency Financing Facility

(a) Amendment

I.

The following paragraphs of Decision No. 8955-(88/126),⁷ as amended, establishing the Compensatory and Contingency Financing Facility, shall be amended to read as follows:

12. (a) Subject to the provisions of subparagraphs (b) and (c) below, a member may expect that its request for a purchase on account of an export shortfall under this Section or Section IV will be met immediately, whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed:

- (i) 40 percent of the member's quota, if the Fund is satisfied that the member will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties; and
- (ii) 65 percent of the member's quota, if the member has a Fund arrangement, in support of a program that meets the criteria for the use of the Fund's general resources in the upper credit tranches, under which performance is broadly satisfactory, or if the Fund approves such an arrangement for the member at the time of the request, or if the member's current and prospective policies are such as would, in the Fund's view, meet such criteria.

(b) If the Fund considers that the record of the member's cooperation with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties had not been satisfactory, the member may expect that its request for a purchase on account of an export shortfall under this Section or Section IV will be met whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed:

- (i) 20 percent of the member's quota, if the Fund is satisfied that the member has taken action that gives, prior to submission of the request, a reasonable assurance that policies corrective of the member's balance of payments problem will be adopted;
- (ii) 40 percent of the member's quota, if the member has a Fund arrangement, in support of a program that meets the criteria for the use of the Fund's general resources in the upper credit tranches, under which performance is broadly satisfactory, or if the Fund approves such an arrangement for the member at the time of the request, or if the member's current and prospective policies are such as would, in the Fund's view, meet such criteria; and
- (iii) 65 percent of the member's quota, if the member has a Fund arrangement, in support of a program that meets the criteria for the use of the Fund's general resources in the upper credit tranches, under which a review is completed by the Fund at the time of the request, or if the member's policies in the recent past, as well as its current and prospective policies, are such as would, in the Fund's view, continue to meet such criteria.

(c) Notwithstanding subparagraphs (a) and (b) above, if a member's balance of payments position apart from the effects of the export shortfall is satisfactory, such member may expect that its request for a purchase on account of an export shortfall under this Section or Section IV will be met whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed 83 percent of the member's quota.

(d) Approval in principle of a Fund arrangement shall be deemed to fulfill the conditions in subparagraphs (a)(i) and (b)(i) above.

17. When approving a Fund arrangement, or when completing its review of an annual program supported by a multiyear Fund arrangement, the Fund will be prepared to decide, at the request of the member and subject

to the provisions of this decision, that, should unfavorable deviations in the member's balance of payments due to adverse external contingencies occur during the period of the program supported by the arrangement, it will provide to the member external contingency financing in association with the arrangement.

18. (a) Such external contingency financing will only be provided in association with a Fund arrangement, generally on the basis of a review by the Executive Board, to a member facing unanticipated deviations from the baseline projections of key external variables of the member's current account that are highly volatile and easily identifiable and that relate to the specified external contingencies during the period of the projections (hereinafter called the "baseline period"), if:

- (i) the deviations from the baseline projections are outside of the control of the member;
- (ii) the member's performance under the associated Fund arrangement is satisfactory; and
- (iii) the member is prepared to adapt its adjustment policies as may be necessary to ensure the viability of the program supported by the associated arrangement through a mix of adjustment and financing appropriate to the circumstances of the member.

(b) The need for financing to be provided on account of external contingencies pursuant to this Section will be established after taking into account the extent to which the effects of unanticipated deviations in external contingencies affecting the member's current account that have not been specified pursuant to paragraph 19(a)(i) largely offset the effects of deviations in the external contingencies that have been so specified.

(c) Such financing will be limited to the extent that the amount of the member's balance of payments deficit that exists at the time of the member's request for a contingency purchase exceeds the corresponding amount specified in the member's then current program supported by the associated Fund arrangement.

19. (a) When the Fund approves an arrangement, or when the Fund completes its review of an annual program supported by a multiyear Fund arrangement, in association with which external contingency financing is to be provided under this Section, it will specify for the arrangement:

- (i) the external contingencies that will be taken into account;
- (ii) the maximum amount of purchases that may be permitted in case of unfavorable external contingent deviations;
- (iii) the minimum threshold, which shall generally be 10 percent of the member's quota, that must be exceeded by the applicable net sum of deviations, cumulated from the beginning of the baseline period, before external contingency purchases may be permitted or adjustments pursuant to paragraph 27 may be required;
- (iv) the proportion of the applicable net sum of deviations that may be financed under this Section, subject to any subsequent changes that may be required pursuant to paragraph 18(a)(iii) to ensure the viability of the member's program supported by the arrangement; and
- (v) the maximum amount by which the associated arrangement could be reduced or other adjustments pursuant to paragraph 27 could be required in case of favorable external contingent deviations, which amount will normally be the same as the amount specified pursuant to (ii) above.

(b) For purposes of this Section, the expression "net sum of deviations" shall mean the net aggregate effect on the member's balance of payments of deviations in the variables relating to the external contingencies specified pursuant to subparagraph (a)(i) above; and the expression "applicable net sum of deviations" shall mean the net sum of deviations in the situations covered by paragraph 20(b) or the net sum of deviations adjusted for the limit on interest cost deviations in the situations covered by paragraph 20(c), as appropriate.

(c) The Fund shall determine the length of each baseline period, which shall generally be from twelve to eighteen months, and the maximum amount of external contingency purchases that may be permitted on account of deviations that occur during such baseline period.

(d) When a member makes a request under paragraph 17, every effort will be made to obtain contingent financing from other sources.

⁷ See *Selected Decisions*, Fifteenth Issue, pages 133–64.

20. (a) Subject to the limitations specified by this Decision, the amount of an external contingency purchase under this Section shall be determined on the basis of the applicable net sum of the deviations in accordance with subparagraphs (b) and (c) below. Deviations will be calculated in relation to baseline projections established for each period.

(b) Except as provided in subparagraph (c) below, the amount that may be financed under this Section shall be determined as the net sum of deviations reduced by the equivalent of the minimum threshold specified pursuant to paragraph 19(a)(iii) and subsequently multiplied by the proportion specified pursuant to paragraph 19(a)(iv).

(c) In case of a favorable or unfavorable deviation in net interest costs that, when multiplied by the proportion specified pursuant to paragraph 19(a)(iv), would exceed the percentage of the member's quota that is available for purchases under paragraph 21(a), the amount that may be financed under this Section shall be determined as the sum of:

- (i) the net aggregate amount of the deviations, other than a deviation in net interest costs, multiplied by the proportion specified pursuant to paragraph 19(a)(iv); and
- (ii) the amount of the deviation in net interest costs reduced by the equivalent of the minimum threshold specified pursuant to paragraph 19(a)(iii) and multiplied by the same proportion, up to a limit equivalent to the percentage of the member's quota available for purchases under paragraph 21(a), except that any excess of a favorable or unfavorable deviation in net interest costs over such limit shall be included in the calculation as required to avoid or to reduce an unfavorable or favorable net sum of deviations;

For the cases covered by this subparagraph (c), the net sum of deviations shall be determined by dividing the amount that may be financed by the proportion specified pursuant to paragraph 19(a)(iv) and by adding an amount equivalent to the minimum threshold specified pursuant to paragraph 19(a)(iii).

(d) Once the threshold adjustment in subparagraph (b) or subparagraph (c) above has been made for a purchase in respect of a baseline period, no further such adjustment shall be made for later purchases in respect of that period.

(e) Purchases under this Section shall be permitted only when the applicable net sum of deviations exceeds the minimum threshold specified by the Fund pursuant to paragraph 19(a)(iii), provided that in applying this subparagraph (e) the limit specified by subparagraph (c)(ii) above shall be disregarded.

21. (a) Subject to the other limitations on purchases specified in this Decision, the Fund's holdings of a member's currency resulting from purchases on account of deviations in net interest costs in association with all Fund arrangements for the member shall not exceed 35 percent of the member's quota.

(b) For purposes of applying the limitation in subparagraph (a) above, when a purchase under this Section is attributable to unfavorable deviations in net interest costs and in one or more other variables relating to external contingencies, the portion of the purchase that is to be allocated to a deviation in net interest costs shall be determined on the basis of the share of such deviation in the applicable net sum of deviations, and in determining this share the portion of the threshold reduction in paragraph 20(b) that is to be allocated to net interest costs shall be determined on the same basis.

27. If, in respect of any baseline period, the Fund finds that a favorable applicable net sum of deviations with respect to the contingencies specified pursuant to paragraph 19(a)(i) has occurred, the following provisions shall apply, subject to the maximum amount specified pursuant to paragraph 19(a)(v) and only if such net sum of deviations has not been largely offset by the effects of unanticipated deviations in external contingencies affecting the member's current account that have not been specified pursuant to paragraph 19(a)(i):

(a) When no purchase under this Section has been made by the member in respect of the baseline period for which the Fund makes such finding, as a preference, the limits on, or objectives for, the member's reserves under the associated Fund arrangement shall be increased or, as

a second option, the amount of the associated Fund arrangement shall be reduced, or both, as determined by the Fund, by an amount that shall be equivalent to a substantial part of the applicable net sum of deviations not exceeding the amount that would have been financed under this Section if the applicable net sum of deviations would have been unfavorable; and

(b) When one or more purchases under this Section had earlier been made by the member in respect of the baseline period for which the Fund makes such finding, as a preference, the limits on, or objectives for, the member's reserves under the associated Fund arrangement shall be increased or, as a second option, the amount of the associated Fund arrangement shall be reduced, or both, as determined by the Fund, by an amount that shall be equivalent to a substantial part of the applicable net sum of deviations not exceeding the amount that would have been financed under this Section if the applicable net sum of deviations that have occurred since the latest of any such earlier purchases would have been unfavorable, provided that the member may choose to substitute for a reduction of the amount of the arrangement a repurchase of a corresponding amount of the Fund's holdings of the member's currency in respect of such earlier purchases.

28. Until June 30, 1994, the Fund will be prepared to extend financial assistance subject to the provisions of this Decision to members that encounter a balance of payments difficulty produced by an excess in the cost of their cereal imports.

36. (a) The provisions of paragraph 12 shall apply to purchases on account of export shortfalls under this Section.

(b) Subject to the provisions of subparagraphs (c) and (d) below, a member may expect that its request for a purchase on account of an excess in cereal import costs under this Section will be met immediately, whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed:

- (i) 17 percent of the member's quota, if the Fund is satisfied that the member will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties; and
- (ii) 42 percent of the member's quota, if the member has a Fund arrangement, supporting a program that meets the criteria for the use of the Fund's general resources in the upper credit tranches, under which performance is broadly satisfactory, or if the Fund approves such an arrangement at the time of the request, or if the member's current and prospective policies are such as would, in the Fund's view, meet such criteria.

(c) If the Fund considers that the record of the member's cooperation with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties had not been satisfactory, the member may expect that its request for a purchase on account of an excess in cereal import costs under this Section will be met whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed:

- (i) 17 percent of the member's quota, if the Fund is satisfied that the member has taken action that gives, prior to submission of the request, a reasonable assurance that policies corrective of the member's balance of payments problem will be adopted; and
- (ii) 42 percent of the member's quota, if the member has a Fund arrangement, supporting a program that meets the criteria for the use of the Fund's general resources in the upper credit tranches, under which a review is completed by the Fund at the time of the request, or if the member's policies in the recent past, as well as its current and prospective policies, are such as would, in the Fund's view, continue to meet such criteria.

(d) Notwithstanding subparagraphs (b) and (c) above, if a member's balance of payments position apart from the effects of the excess in cereal import costs is satisfactory, such member may expect that its request for a purchase on account of an excess in cereal import costs under this Section will be met whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed 83 percent of the member's quota.

(e) Approval in principle of a Fund arrangement shall be deemed to fulfill the conditions in subparagraphs (b)(i) and (c)(i) above.

46. The Fund will review this decision not later than July 16, 1992.

II.

Paragraph 41 of Decision No. 8955-(88/126),⁸ as amended, shall be deleted and the subsequent paragraphs shall be renumbered accordingly.

Decision No. 9503-(90/114)

July 16, 1990

(b) Amendment—Coverage of Services

(a) Paragraph 13 of Decision No. 8955-(88/126),⁸ adopted August 23, 1988, as amended, shall be amended to read as follows:

If, in the opinion of the Fund, adequate data on receipts from services other than investment income are available, the member requesting a purchase under this Section shall specify whether the receipts shall be included or excluded in the calculation of the shortfall. The choice by the member to include such receipts shall continue to apply for a period of three years.

(b) Paragraph 46 of Decision No. 8955-(88/126),⁸ adopted August 23, 1988, as amended, shall be renumbered paragraph 47, and the following paragraph shall be added as paragraph 46:

Notwithstanding paragraph 13, any member that has specified, for a purchase made prior to [the date of adoption of this decision], that receipts from travel and workers' remittances shall be included in the calculation of the shortfall, shall specify, for the first purchase under Section II or Section IV following [the date of adoption of this decision], whether services shall be included or excluded in the calculation of the shortfall.

Decision No. 9586-(90/161)

November 15, 1990

(c) Amendment—Early Drawing Provision

Paragraph 14 of Decision No. 8955-(88/126),⁸ adopted August 23, 1988, as amended, shall be amended to read as follows:

The existence and amount of an export shortfall for the purpose of any purchase under this Section shall be determined with respect to the latest 12-month period preceding the request for which the Fund has sufficient statistical data, provided that a member may request a purchase in respect of a shortfall year for which not more than 12 months of the data on merchandise exports and on receipts from services are estimated.

Decision No. 9587-(90/161)

November 15, 1990

(d) Amendment—Contingency Mechanism

(a) Paragraph 17 of Decision No. 8955-(88/126),⁸ adopted August 23, 1988, as amended, shall be amended to read as follows:

When approving a Fund arrangement, or when completing a review under such an arrangement at least six months before the expiration date of the arrangement, the Fund will be prepared to decide, at the request of the member and subject to the provisions of this decision, that, should unfavorable deviations in the member's balance of payments due to adverse external contingencies occur during the period of the program supported by

the arrangement, it will provide to the member external contingency financing in association with the arrangement.

(b) The introductory sentence of paragraph 19 of Decision No. 8955-(88/126),⁹ adopted August 23, 1988, as amended, shall be amended to read as follows:

When the Fund approves an arrangement, or when the Fund completes a review under such an arrangement, in association with which external contingency financing is to be provided under this Section, it will specify for the arrangement: . . .

Decision No. 9588-(90/161)

November 15, 1990

(e) Amendment—Compensatory Financing of Fluctuations in Cost of Oil Imports

In Decision No. 8955-(88/126),⁹ adopted August 23, 1988, as amended, paragraph 1 shall be amended to read as follows:

The Fund is prepared to extend financial assistance, in accordance with the provisions of this Decision, to members that encounter balance of payments difficulties arising out of (i) temporary export shortfalls, (ii) adverse external contingencies, (iii) excess costs of cereal imports, or (iv) excess costs of oil imports.

Paragraph 6 shall be amended to read as follows:

The Fund shall indicate in an appropriate manner which purchases by a member are made pursuant to Section II, III, IV, or V of this Decision, and the export shortfall component, the cereal import cost component, and the oil import cost component of each purchase under Section IV or Section V.

Paragraph 8 shall be amended to read as follows:

(a) Subject to the other limitations on purchases specified by this Decision, the Fund's holdings of a member's currency resulting from purchases under this Decision shall not exceed any of the following access limits:

- (i) a combined limit of 105 percent of the member's quota for
 - the sum of purchases on account of export shortfalls under Section II, Section IV, or Section V and purchases on account of external contingencies under Section III;
 - the sum of purchases on account of export shortfalls under Section II, Section IV, or Section V and purchases on account of an excess in cereal import costs under Section IV or Section V;
 - the sum of purchases on account of external contingencies under Section III and purchases on account of an excess in cereal import costs under Section IV or Section V;
 - the sum of purchases on account of export shortfalls under Section II, Section IV, or Section V and purchases on account of excesses in oil import costs under Section V; and
 - the sum of purchases on account of excesses in cereal import costs under Section IV or Section V and purchases on account of excesses in oil import costs under Section V.
- (ii) a limit of 83 percent of the member's quota for purchases on account of export shortfalls under Section II, Section IV, or Section V if at the time of the request for the purchase the member's balance of payments position apart from the effects of the export shortfall is satisfactory, and a limit of 40 percent of the member's quota for such purchases in all other cases;
- (iii) a limit of 40 percent of the member's quota for purchases on account of external contingencies under Section III;
- (iv) a limit of 83 percent of the member's quota for purchases on account of an excess in cereal import costs under Section IV or Section V if at the time of the request for the purchase the member's balance of payments position apart from the effects of the excess in cereal

⁸ Ibid.

⁹ Ibid.

import costs is satisfactory, and a limit of 17 percent of the member's quota for such purchases in all other cases;

- (v) a limit of 83 percent of the member's quota for purchases on account of an excess in oil import costs under Section V if at the time of the request for the purchase the member's balance of payments position apart from the effects of the excess in oil import costs is satisfactory, and a limit of 57 percent of the member's quota for such purchases in all other cases; and
- (vi) a combined limit of 122 percent of the member's quota for the sum of purchases on account of export shortfalls under Section II, Section IV, or Section V, purchases on account of external contingencies under Section III, purchases on account of an excess in cereal import costs under Section IV or Section V, and purchases on account of an excess in oil import costs under Section V.

(b) Notwithstanding the provisions of subparagraph (a)(ii), (iii), (iv), and (v) above, the limits of 40, 17, and 57 percent above may be exceeded to permit additional purchases under this Decision, provided that the aggregate amount of the Fund's holdings of the member's currency resulting from such additional purchases shall not exceed 25 percent of the member's quota.

The introductory sentence of paragraph 12(a) shall be amended to read as follows:

Subject to the provisions of subparagraphs (b) and (c) below, a member may expect that its request for a purchase on account of an export shortfall under this Section, Section IV, or Section V will be met immediately, whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed: . . .

The introductory sentence of paragraph 12(b) shall be amended to read as follows:

If the Fund considers that the record of the member's cooperation with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties had not been satisfactory, the member may expect that its request for a purchase on account of an export shortfall under this Section, Section IV, or Section V will be met whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed: . . .

Paragraph 12(c) shall be amended to read as follows:

Notwithstanding subparagraphs (a) and (b) above, if a member's balance of payments position apart from the effects of the export shortfall is satisfactory, such member may expect that its request for a purchase on account of an export shortfall under this Section, Section IV, or Section V will be met whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed 83 percent of the member's quota.

A new paragraph 12(e) shall be inserted as follows:

When a member has outstanding purchases on account of excesses in oil import costs under Section V, the limits in subparagraphs (a), (b), and (c) above shall be reduced in accordance with paragraph 49(f).

Paragraph 16(b) shall be amended to read as follows:

If a member requests a purchase under this Section in relation to a shortfall year that in whole or in part is included in the period of the two postshortfall years concerning any earlier purchase under this Section, Section IV, or Section V, the amount of the requested purchase shall be adjusted so as to take into account any amount by which such earlier purchase differs from the amount that could have been purchased on the basis of data available at the time of the request.

Paragraph 29 shall be amended to read as follows:

For a period of three years from the date of a member's first request for a purchase in respect of cereal imports under Decision No. 6860-(81/81),¹⁰ or under this Section or Section V, any purchases by the member in respect of its export shortfalls shall be made under this Section instead of under Section II of this Decision. The same provision shall apply if, after the end of the three-year period, the member makes a new purchase in respect of cereal imports under this Section or Section V.

The introductory sentence of paragraph 36(b) shall be amended to read as follows:

Subject to the provisions of subparagraphs (c) and (d) below, a member may expect that its request for a purchase on account of an excess in cereal import costs under this Section or Section V will be met immediately, whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed: . . .

The introductory sentence of paragraph 36(c) shall be amended to read as follows:

If the Fund considers that the record of the member's cooperation with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties had not been satisfactory, the member may expect that its request for a purchase on account of an excess in cereal import costs under this Section or Section V will be met whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed: . . .

Paragraph 36(d) shall be amended to read as follows:

Notwithstanding subparagraphs (b) and (c) above, if a member's balance of payments position apart from the effects of the excess in cereal import costs is satisfactory, such member may expect that its request for a purchase on account of an excess in cereal import costs under this Section or Section V will be met whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed 83 percent of the member's quota.

A new paragraph 36(f) shall be inserted as follows:

When a member has outstanding purchases on account of excesses in oil import costs under Section V, the limits in subparagraphs (b), (c), and (d) above shall be reduced in accordance with paragraph 49(f).

Paragraph 38(b) shall be amended to read as follows:

If a member requests a purchase under this Section in relation to a shortfall year that in whole or in part is included in the period of the two postshortfall years concerning any earlier purchase under Section II, Section V, or this Section, the amount of the requested purchase shall be adjusted so as to take into account any amount by which such earlier purchase differs from the amount that could have been purchased on the basis of data available at the time of the request.

A new Section V shall be inserted as follows:

Section V. Compensatory Financing of Fluctuations in the Cost of Oil Imports

41. Until December 31, 1991, the Fund will be prepared to extend financial assistance subject to the provisions of this Decision to members that encounter a balance of payments difficulty produced by an excess in the cost of their oil imports.

¹⁰ See *Annual Report, 1981*, pages 169-71.

42. For the period from the date of a member's first request for a purchase in respect of oil imports under this Section through December 31, 1991, any purchase by the member in respect of its export shortfalls or of its excesses in cereal import costs shall be made under this Section instead of under Section II or Section IV of this decision.

43. A member with balance of payments difficulties may expect that its request for a purchase under this Section will be met if the Fund is satisfied that:

(a) any shortfall in exports, any excess costs in oil imports, and any excess costs in cereal imports that result in a net shortfall in the member's exports are of a short-term character and are largely attributable to circumstances beyond the control of the member, and

(b) the member satisfies the conditions of cooperation with the Fund in accordance with paragraph 49.

44. (a) Subject to the limits specified in paragraphs 8 and 49, a member may request a purchase under this Section for an amount equal to the net shortfall in its exports calculated as the sum of its export shortfall, the excess in its oil import costs, and, if cereal import costs are to be included in the calculation of the net shortfall in exports in accordance with paragraph 29, the excess in its cereal import costs.

(b) (i) For the calculation of the net shortfall in exports, an excess in exports shall be considered a negative shortfall in exports, a shortfall in oil import costs shall be considered a negative excess in oil import costs, and a shortfall in cereal import costs shall be considered a negative excess in cereal import costs.

(ii) An export shortfall shall be determined in accordance with Section II, and an excess in cereal import costs shall be determined in accordance with Section IV.

(iii) An excess in oil import costs shall be determined in accordance with paragraphs 45 and 46.

(c) For the purposes of this Section, oil imports will be understood to mean imports of crude petroleum, petroleum products, and natural gas. Such imports shall be included in the calculation of an excess in oil import costs to the extent that, in the opinion of the Fund, adequate data are available.

45. The existence and amount of an excess in the cost of oil imports shall be determined, for the purposes of purchases under this Section, with respect to the latest 12-month period preceding the request for which the Fund has sufficient statistical data, provided that the Fund may allow a member to make a purchase on the basis of estimated data in respect of a 12-month period ending not later than 12 months after the latest month for which the Fund has sufficient statistical data on the member's oil import costs. The calculation of a member's shortfall or excess in exports, of its excess or shortfall in the cost of oil imports, and of its excess or shortfall in the cost of cereal imports shall be made for the same 12-month period.

46. In order to identify more clearly what are to be regarded as excess costs of oil imports of a short-term character, the Fund, in consultation with the member concerned, will seek to establish reasonable estimates regarding the medium-term trend of the member's oil import costs. For the purposes of this Section, the excess in a member's oil imports for the 12-month period referred to in paragraph 45 shall be the amount by which the member's oil imports in that 12-month period are more than the arithmetic average of the member's oil imports for the 5-year period centered on that 12-month period.

47. The amount of a purchase under this Section, as defined in paragraph 44, may be on account of an export shortfall, on account of an excess in oil import costs, or on account of an excess in cereal import costs, or it may be on account of any combination of two or three of these components. The total amount of the purchase and the amount of each component are subject to the limits specified in paragraphs 8 and 49.

48. (a) The part of a purchase relating to an export shortfall, subject to the limits in paragraphs 8 and 49, shall not exceed the lesser of the export shortfall defined in paragraph 44(b)(ii) and the net shortfall in exports defined in paragraph 44(a).

(b) The part of a purchase relating to an excess in oil import costs, subject to the limits in paragraphs 8 and 49, shall not exceed the lesser of the excess in oil import costs defined in paragraph 44(b)(iii) and the net shortfall in exports defined in paragraph 44(a).

(c) The part of a purchase relating to an excess in cereal import costs, subject to the limits in paragraphs 8 and 49, shall not exceed the lesser of the export shortfall defined in paragraph 44(b)(ii) and the net shortfall in exports defined in paragraph 44(a).

49. (a) The provisions of paragraph 12 shall apply to purchases on account of export shortfalls under this Section.

(b) The provisions of paragraph 36 shall apply to purchases on account of excesses in cereal import costs under this Section.

(c) Subject to the provisions of subparagraphs (d) to (i) below, a member may expect that its request for a purchase on account of an excess in oil import costs under this Section will be met immediately, whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed:

(i) 40 percent of the member's quota if the Fund is satisfied that the member will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties; and

(ii) 82 percent of the member's quota if the member has a Fund arrangement, in support of a program that meets the criteria for the use of the Fund's general resources in the upper credit tranches, under which performance is broadly satisfactory, or if the Fund approves such an arrangement for the member at the time of the request, or if the member's current and prospective policies are such as would, in the Fund's view, meet such criteria.

(d) Subject to the provisions of subparagraphs (e) to (i) below, if the Fund considers that the record of the member's cooperation with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties had not been satisfactory, the member may expect that its request for a purchase on account of an excess in oil import costs under this Section will be met, whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed:

(i) 20 percent of the member's quota if the Fund is satisfied that the member has taken action that gives, prior to the submission of the request, a reasonable assurance that policies corrective of the member's balance of payments problem will be adopted;

(ii) 40 percent of the member's quota if the member has a Fund arrangement, in support of a program that meets the criteria for the use of the Fund's general resources in the upper credit tranches, under which performance is broadly satisfactory, or if the Fund approves such an arrangement for the member at the time of the request, or if the member's current and prospective policies are such as would, in the Fund's view, meet such criteria; and

(iii) 82 percent of the member's quota if the member has a Fund arrangement, in support of a program that meets the criteria for the use of the Fund's general resources in the upper credit tranches, under which a review is completed by the Fund at the time of the request, or if the member's policies in the recent past, as well as its current and prospective policies, are such as would, in the Fund's view, continue to meet such criteria.

(e) Notwithstanding subparagraphs (c) and (d) above, if a member's balance of payments position apart from the effects of the excess in oil import costs is satisfactory, such member may expect that its request for a purchase on account of an excess in oil import costs under this Section will be met whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed 83 percent of the member's quota.

(f) Notwithstanding subparagraphs (c), (d), and (e) above, the Fund's holdings of a member's currency resulting from purchases on account of excesses in oil import costs under this Section shall not exceed: — in the case of a member falling under subparagraph (c)(i), (d)(i), or (d)(ii) above, the amount of access that remains available to

the member for purchases on account of export shortfalls under Section II, Section IV, or this Section, and

- in the case of a member falling under subparagraph (c)(ii), (d)(iii), or (e) above, the amount of access that remains available to the member either for purchases on account of export shortfalls under Section II, Section IV, or this Section or for purchases on account of excesses in cereal import costs under Section IV or this Section.

When a member makes a purchase on account of an excess in oil import costs under this Section, the access limits in paragraph 12 for purchases on account of export shortfalls and the access limits in paragraph 36 for purchases on account of excesses in cereal import costs shall be reduced accordingly. If the member falls under subparagraph (c)(ii), (d)(iii), or (e) above, it shall, when requesting the purchase, specify, in accordance with this subparagraph, the extent to which this purchase shall reduce the access limits in paragraph 12 for purchases on account of export shortfalls and the access limits in paragraph 36 for purchases on account of excesses in cereal import costs.

(g) The Fund shall approve a member's request for a purchase on account of an excess in oil import costs under subparagraph (c), (d), or (e) above only if it is satisfied that the member is pursuing appropriate energy policies.

(h) A purchase under subparagraph (c)(i) or (d)(i) above shall be approved by the Fund if the Fund is satisfied, based on a written statement submitted by the member, that the member will pursue appropriate macro-economic policies and objectives.

(i) Except in this subparagraph, when compensatory financing is phased in accordance with this subparagraph, references in this Decision to purchases on account of excesses in oil import costs under this Section shall be understood to apply to the amount of compensatory financing before phasing. Whenever estimated data are used for 9 months or more of the 12-month period referred to in paragraph 45, the amount of compensatory financing on account of an excess in oil import costs under this Section shall be phased in two purchases in accordance with this subparagraph. The member may expect that its request for the first purchase, which shall be for up to 65 percent of the amount, shall be met immediately. The member may expect that its request for the second purchase, which shall be for up to the difference between the amount recalculated on the basis of the actual data available at the time of the request and the amount of the first purchase, shall be met after actual data become available for at least 6 months of the 12-month period referred to in paragraph 45, provided that:

- if policy implementation by the member or the external circumstances of the member differ materially from that originally anticipated at the time of the request for the first purchase, the Fund may decide not to approve, or to reduce the amount available under, the second purchase, and
- if the sum of the first purchase and of the second purchase requested by the member exceeds the limit in this paragraph under which the first purchase was made, the second purchase shall be subject to the relevant provisions of subparagraph (c), (d), or (e) above instead of the provisions of this subparagraph.

(j) Without prejudice to subparagraph (g) above, approval in principle of a Fund arrangement shall be deemed to fulfill the conditions in subparagraphs (c)(i) and (d)(i) above.

50. A member shall allocate the amount of its purchase as between the export shortfall, the oil import, and the cereal import element, where the sum of the three components, each as limited by paragraph 8,

(a) exceeds the limit of 105 percent of the member's quota, if, at the time of the request for the purchase, the member's balance of payments position apart from the effects of the export shortfall, the excess in oil import costs, or the excess in cereal import costs is satisfactory; or

(b) exceeds the amount that the member may purchase pursuant to the access limits in paragraph 8, in all other cases.

51. (a) When a member has made a purchase under this Section on the basis of estimated statistical data and the amount of the purchase exceeds the amount that could have been purchased on the basis of actual statistical

data, the member will be expected to make a prompt repurchase in respect of the outstanding purchase, in an amount equivalent to the excess.

(b) If a member requests a purchase under this Section in relation to a shortfall year that in whole or in part is included in the period of the two postshortfall years concerning any earlier purchase under Section II, Section IV, or this Section, the amount of the requested purchase shall be adjusted so as to take into account any amount by which such earlier purchase differs from the amount that could have been purchased on the basis of data available at the time of the request.

52. (a) Subject to paragraph 51(a), when a reduction in the Fund's holdings of a member's currency is attributed to a purchase under this Section, the member shall attribute that reduction between the outstanding oil import component, export shortfall component, and cereal import component of the purchase.

(b) When the Fund's holdings of a member's currency resulting from a purchase under this Section, Section II, or Section IV are reduced by the member's repurchase or otherwise, the member's access to the Fund's resources under this Section will be restored pro tanto, subject to the limits in paragraphs 8 and 49.

53. (a) After the expiration of the period referred to in paragraph 42, the total amount of the export shortfall components and of the cereal import components of a member's purchases outstanding under this Section shall be counted as having been purchased under Section II or Section IV, depending on the Section under which they would otherwise have been made.

(b) The provisions of Section II or of Section IV shall continue to apply to the export shortfall and cereal import components of a purchase under this Section after the expiration of the period referred to in paragraph 42 or the expiration of this Section.

Section V shall become Section VI, paragraphs 41 to 46 shall be renumbered 54 to 59, and paragraph 47 shall be renumbered 61. The first sentence of paragraph 57 shall be amended to read as follows:

If on August 23, 1988 the Fund's holdings of a member's currency resulting from purchases on account of export shortfalls exceed 65 percent of the member's quota, purchases by the member on account of export shortfalls under Section II, Section IV, or Section V and purchases on account of external contingencies under Section III may be permitted, up to a transitional combined access limit for the sum of such purchases, in excess of the 105 percent and 122 percent limits specified in paragraph 8(a).

Paragraph 58 shall be amended to read as follows:

(a) Rule I-6(4) shall be amended by inserting the following new subparagraph (vi):

or (vi) under the Compensatory and Contingency Financing Facility (Executive Board Decision No. 8955-(88/126), as amended).

(b) Decision No. 5703-(78/39)¹¹ shall be amended by inserting the following clause in paragraph 1(a) immediately after the reference to Decision No. 6860-(81/81)¹²:

or the decision on the Compensatory and Contingency Financing Facility (Decision No. 8955-(88/126), as amended).

Paragraph 59 shall be amended to read as follows:

Notwithstanding paragraph 13, any member that has specified, for a purchase made prior to November 15, 1990, that receipts from travel and workers' remittances shall be included in the calculation of the shortfall shall specify, for the first purchase under Section II, Section IV, or Section V following November 15, 1990, whether services shall be included or excluded in the calculation of the shortfall.

¹¹ See *Selected Decisions*, Fifteenth Issue, pages 196-98.

¹² See *Annual Report*, 1981, pages 169-71.

The following new paragraph 60 shall be inserted:

60. Notwithstanding paragraph 41, a purchase under Section V may be made after the date of expiration of that Section, if (i) it results from a request initiated before such date of expiration and relates to a net shortfall year ending not later than December 31, 1991, or (ii) it is a second purchase within the meaning of paragraph 49(i), and the first purchase was made prior to such date of expiration or was made pursuant to (i) above, provided that a first purchase within the meaning of paragraph 49(i) may not be made after June 30, 1992.

Decision No. 9604-(90/170)
December 5, 1990

D. Operational Budget—Method of Allocating Currencies—Operational Guidelines

The Executive Board approves the operational guidelines set out in the Annex.

Decision No. 9480-(90/103)
June 27, 1990

Annex

1. On the transfer side of the operational budget, currencies will be allocated in proportion to members' gold and foreign exchange reserves, as reported in *International Financial Statistics*, provided that for the budgets before the March–May 1991 budget, the Fund's holdings of a member's currency in terms of quota shall not be reduced as a result of transfer allocations below a floor of one half of the average level, expressed as a percent of quota, at which the Fund would hold by the end of a budget period the currencies of members that are sufficiently strong to be included in the operational budget (excluding the U.S. dollar). The floor would be raised to two thirds of the average level of currencies in relation to quotas starting with the budget for the period March–May 1991;

2. The use of the U.S. Dollar in transfers shall be included in the operational budgets on the basis of ad hoc proposals and, to the extent feasible, the Fund will aim to maintain the Fund's holdings of U.S. dollars close to the average level of the Fund's holdings of currencies of other members that are sufficiently strong to be included in the operational budget;

3. On the receipts side of the operational budget, the currencies to be used in receipts will be allocated in proportion to the reserve tranche positions of those members included in the operational budget, provided that such use shall not raise the Fund's holdings of such a member's currency above its norm for remuneration;

4. The currencies of members with no outstanding purchases and with relatively large reserve tranche positions that were not considered sufficiently strong for inclusion in the operational budget would be used in receipts only, with their agreement;

5. The Fund will seek to maintain adequate working balances, of not less than 10 percent of quotas;

6. The Fund will review these guidelines before the end of 1991 or before the increase in quotas under the Ninth General Review will come into effect, whichever comes earlier.

E. Valuation of SDR

(a) SDR Valuation Basket

The Executive Board, having reviewed the list of the currencies, and the weights of these currencies, that determine the value of the special drawing right, in accordance with Decision No. 6631-(80/145) G/S,¹³ adopted September 17, 1980, decides that, with effect from January 1, 1991, the list of the currencies in the SDR valuation basket shall remain the same, and the weight of each of these currencies to be used to calculate the amount of each of these currencies in the basket will be as follows:

Currency	Weight (In percent)
U.S. dollar	40
Deutsche mark	21
Japanese yen	17
French franc	11
Pound sterling	11

Decision No. 9549-(90/146) G/S
October 5, 1990

(b) Amendment to Rule O-1

In accordance with Executive Board Decision No. 6631-(80/145) G/S,¹³ adopted September 17, 1980, Executive Board Decision No. 9549-(90/146) G/S,¹⁴ adopted October 5, 1990, and the guidelines set out in Decision No. 8160-(85/186) G/S,¹⁵ adopted December 23, 1985, Rule O-1 shall read as follows, effective January 1, 1991:

Rule O-1. The value of the SDR shall be the sum of the values of the following amounts of the following currencies:

U.S. dollar	0.572
Deutsche mark	0.453
Japanese yen	31.8
French franc	0.800
Pound sterling	0.0812

Decision No. 9619-(91/1) G/S
December 31, 1990

F. Overdue Financial Obligations—Special Charges—Suspension of Application in General Resources Account

1. The Fund has reviewed Decision No. 8165-(85/189) G/TR,¹⁶ as amended.

2. The special charges on overdue repurchases and on overdue charges in the General Resources Account prescribed by Sections I and II of Decision No. 8165-(85/189) G/TR,¹⁶ as amended, shall cease to be levied on the following members:

¹³ See *Selected Decisions*, Fifteenth Issue, pages 351–52.

¹⁴ See Item (a), above.

¹⁵ See *Selected Decisions*, Fifteenth Issue, page 353.

¹⁶ *Ibid.*, pages 204–205.

Member	Specified Ceiling Level as Calculated in [the staff paper]
Panama	Arrears as of April 30, 1990
Peru	Arrears as of August 31, 1989
Viet Nam	Arrears as of December 31, 1988
Zambia	Arrears as of March 15, 1991, and, effective December 31, 1991, as of July 1, 1990

The suspension shall be effective May 1, 1991, or as of the date when the member's overdue obligations to the Fund are equal to or below the level specified above, whichever is later.

3. The Fund will extend the suspension of special charges under paragraph 2 to any member presently in protracted arrears to the Fund as listed in the Annex to this decision if the Fund endorses a Fund-monitored or rights accumulation program for that member, or if the Fund determines that (i) the member is actively cooperating with the Fund toward the clearance of its arrears to the Fund, and (ii) the member has undertaken not to increase its overdue obligations to the Fund above a specified ceiling level. In this case, the suspension of special charges shall become effective as of the date of the Fund's decision to add the member to the list under paragraph 2, or as of the date on which the member's overdue obligations to the Fund are equal to or below the specified ceiling level, whichever is later.

4. If, after a suspension of special charges under paragraph 2, a member fails to make payment of any newly maturing obligation to the Fund or the equivalent thereof within ten business days of the due date of such obligation, the member shall be subject to special charges on the total of its overdue repurchases and charges in the General Resources Account to which special charges are applicable for as long as such payment is not made. In addition, such suspension shall cease as of the date on which a member fails to reduce its overdue obligations to the Fund to or below any ceiling level that becomes applicable after the effectiveness of suspension, for as long as the member's overdue obligations to the Fund exceed that applicable ceiling level.

5. The Fund will review this decision not later than the next regular annual review of the system of special charges pursuant to Decision No. 8165-(85/189) G/TR,¹⁷ as amended.

Decision No. 9723-(91/63) G/TR
April 24, 1991

Annex

List of Members in Protracted Arrears

Democratic Kampuchea	Somalia
Liberia	Sudan
Panama	Viet Nam
Peru	Zambia
Sierra Leone	

G. Debt- and Debt-Service Reduction Operations—Early Repurchase Expectations—Amendment

1. The following section shall be inserted as Section C in Decision No. 9331-(89/167),¹⁸ adopted December 19, 1989:

C. Release of Collateral Financed with Additional Resources

7. The provisions of this section shall apply when a member has pur-

¹⁷ Ibid.

¹⁸ Ibid., pages 66–69.

chased additional resources to finance the establishment of a collateral, and any portion of such collateral is released, subject to the following conditions:

- (i) the member has not fully repurchased these additional resources from the Fund; and
- (ii) the amount of the aggregate collateral that remains after this release is less than a threshold amount equal to:
 - the sum of outstanding disbursements to the member of additional resources from the Fund and of additional funds for debt and debt service reduction from the World Bank and from regional development banks ("outstanding additional disbursements from international financial institutions"), minus
 - any amounts that may have been used previously by the member for further debt or debt service reduction operations in accordance with paragraph 8 below.

8. If the member has not used an amount equivalent to the difference between the threshold amount and the remaining aggregate collateral ("excess release") for further debt or debt service reduction operations within 12 months of the release, the Managing Director shall, after consultation with the member, promptly report the matter to the Executive Board. In this report, the Managing Director shall recommend that the Executive Board decide that the member is expected to make an early repurchase, or shall recommend such other action as may be appropriate.

9. The member will inform the Fund of the release of any portion of the aggregate collateral within 5 working days of such release, and of any use of the excess release for further debt or debt-service reduction operations within 30 days of such use.

10. The Fund may decide that the member shall be expected to repurchase, within 30 days of the decision or within such longer period as the Executive Board may decide, an amount equivalent to the portion of the excess release that was financed with additional resources from the Fund. For purposes of this Section, the portion of the excess release financed with additional resources from the Fund shall be calculated by applying the same proportion to the excess release as the amount of the member's outstanding purchases from the Fund of additional resources bears to the total amount of outstanding additional disbursements from international financial institutions to the member.

2. Decision No. 9331-(89/167)¹⁹ shall be further amended as follows:

(a) Section C shall become Section D, and paragraphs 7 to 10 of the decision shall be renumbered paragraphs 11 to 14;

(b) The phrase "paragraph 3, 6 or 10" shall be substituted for the phrase "paragraph 3 or 6" in former paragraphs 7, 8, and 9 (new paragraphs 11, 12, and 13); and

(c) The phrase "Decision No. 9331-(89/167), as amended" shall be substituted for the phrase "Decision No. 9331-(89/167)" in former paragraph 8(b) and (c) (new paragraph 12(b) and (c)).

Decision No. 9693-(91/48)
April 3, 1991

H. Fund's Income Position

(a) Rate of Charge as of November 1, 1990

Effective November 1, 1990, the proportion of the rate of charge referred to under paragraph 3 of Decision No. 9457-(90/89),²⁰ shall be 87.8 percent.

Decision No. 9603-(90/170)
December 10, 1990

¹⁹ Ibid.

²⁰ See *Annual Report, 1990*, page 96.

(b) Burden Sharing—Implementation in FY 1992**Section I. Principles of "Burden Sharing"**

1. The financial consequences for the Fund which stem from the existence of overdue financial obligations shall be shared between debtor and creditor member countries.

2. The sharing shall be applied in a simultaneous and symmetrical fashion.

Section II. Determination of the Rate of Charge

1. The rate of charge for financial year 1992 referred to in Rule I-6(4)(a) shall be adjusted in accordance with the provisions of Section IV.

2. The rate of charge in force as of the end of financial year 1992, as adjusted under Section IV, shall continue to apply subsequently unless it is otherwise decided.

Section III. Amount for Special Contingent Account 1

An amount equivalent to 5 percent of the Fund's reserves at the beginning of the financial year shall be generated during financial year 1992 in accordance with the provisions of Section IV, and shall be placed to the Special Contingent Account 1 referred to in Decision No. 9471-(90/98),²¹ adopted June 20, 1990.

Section IV. Implementation of Burden Sharing

1. During financial year 1992, notwithstanding Rule I-6(4)(a) and (b) and Rule I-10, the rate of charge referred to in Rule I-6(4) and the rate of remuneration prescribed in Rule I-10 shall be adjusted in accordance with the provisions of this Section.

2. (a) In order to generate the amount to be placed to the Special Contingent Account 1 in accordance with Section III, the rate of charge, and, subject to the limitation in (c), the rate of remuneration shall be adjusted, in accordance with the provisions of this paragraph, so as to produce equal amounts of income.

(b) If income from charges becomes deferred during an adjustment period as defined in (d), the rate of charge and, subject to the limitation in (c), the rate of remuneration shall be further adjusted, in accordance with the provisions of this paragraph, so as to generate, in equal amounts, an additional amount of income equal to the amount of deferred charges. For the purposes of this provision, special charges on overdue financial obligations under Decision No. 8165-(85/189) G/TR,²² adopted December 30, 1985, as amended, shall not be taken into account.

(c) No adjustment in the rate of remuneration under this paragraph shall be carried to the point where the average remuneration coefficient would be reduced below 85 percent for an adjustment period.

(d) The adjustments under this paragraph shall be made as of May 1, 1991, August 1, 1991, November 1, 1991 and February 1, 1992:

— shortly after July 31 for the period from May 1 to July 31;

- shortly after October 31 for the period from August 1 to October 31;
- shortly after January 31 for the period from November 1 to January 31;
- shortly after April 30 for the period from February 1 to April 30;

(e) The operation of this decision shall be reviewed when the adjustment in the rate of remuneration reduces the remuneration coefficient to the limit in (c) above.

3. A midyear review of the Fund's income position shall be held shortly after October 31, 1991. If, after any adjustment under paragraph 2, the actual net income for the first six months of the financial year, on an annual basis, is below the target amount for the year, by an amount equivalent to, or greater than, 2 percent of the Fund's reserves at the beginning of the financial year, the Executive Board will consider how to deal with the situation. If by December 15 no agreement has been reached as a result of this consideration, the rate of charge shall be increased as of November 1 to the level necessary to reach the target amount of net income for the year.

4. (a) Subject to paragraph 3 of Decision No. 8780-(88/12),²³ adopted January 29, 1988, the balances held in the Special Contingent Account 1 shall be distributed in accordance with the provisions of this paragraph to members that have paid additional charges or have received reduced remuneration as a result of the adjustment, when there are no outstanding overdue charges and repurchases, or at such earlier time as the Fund may decide.

(b) An amount equal to the proceeds of any adjustment for deferred charges shall be distributed, in accordance with the provisions of this paragraph, to members that have paid additional charges or have received reduced remuneration, when, and to the extent that, charges, the deferral of which had given rise to the same adjustment, are paid to the Fund. Distributions under this provision shall be made quarterly.

(c) Distributions under (a) or (b) shall be made in proportion to the amounts that have been paid or have not been received by each member as a result of the respective adjustments.

(d) If a member that is entitled to a payment under this paragraph has any overdue obligation to the Fund in the General Department at the time of payment, the member's claim under this paragraph shall be set off against the Fund's claim in accordance with Decision No. 8271-(86/74),²⁴ adopted April 30, 1986, or any subsequent decision of the Fund.

(e) Subject to paragraph 4 of Decision No. 8780-(88/12),²³ adopted January 29, 1988, if any loss is charged against the Special Contingent Account 1, it shall be recorded in accordance with the principles of proportionality set forth in (c).

Decision No. 9696-(91/49)
April 5, 1991

(c) Extended Burden Sharing—Review

Pursuant to Decision No. 9471-(90/98),²⁵ adopted June 20, 1990,

²¹ *Ibid.*, pages 96–97.

²² See *Selected Decisions*, Fifteenth Issue, pages 204–205.

²³ See *Selected Decisions*, Fifteenth Issue, pages 216–17.

²⁴ *Ibid.*, page 206.

²⁵ See *Annual Report*, 1990, pages 96–97.

the Fund has reviewed the operation of the implementation of extended burden sharing, including the amounts of adjustments.

Decision No. 9697-(91/49)
April 5, 1991

(d) Retroactive Reduction of Rate of Charge for FY 1991

Net income for financial year 1991 in excess of the target amount of 5 percent of the Fund's reserves at the beginning of that financial year shall be used to reduce retroactively the proportion of the rate of charge to the SDR interest rate specified in paragraph 2 of Decision No. 9457-(90/89),²⁶ adopted June 8, 1990, for the period May 1, 1990 to October 31, 1990, to 87.8 percent, and any excess amount remaining after such reduction shall be used to reduce further the proportion for the period May 1, 1990 to April 30, 1991.

Decision No. 9749-(91/77)
June 7, 1991

(e) Disposition of Net Income for FY 1991

The Fund's net income for FY 1991, equal to SDR 69,848,835, shall be placed to the Special Reserve.

Decision No. 9750-(91/77)
June 7, 1991

(f) Net Income Target and Rate of Charge for FY 1992

1. In accordance with Rule I-6(4)(a), the target amount of net income for FY 1992 shall be 5 percent of the Fund's reserves at the beginning of the financial year.

2. During FY 1992, and notwithstanding Rule I-6(4), the rate of charge referred to in Rule I-6(4) shall be a proportion of the SDR interest rate under Rule T-1.

3. Effective May 1, 1991, the proportion shall be 96.6 percent.

4. In accordance with Section IV, paragraph 3 of Decision No. 9696-(91/49),²⁷ adopted April 5, 1991, a midyear review of the Fund's income position shall be held shortly after October 31, 1991. At that time, the proportion of the SDR interest rate shall be reviewed on the basis of (i) the then prevailing SDR interest rate, and (ii) the revised estimated income and expense of the Fund during the year and the target amount of net income for the year. If after any adjustments under Section IV, paragraph 2, of Decision No. 9696-(91/49)²⁷ actual net income for the first six months of the financial year, on an annual basis, is below the target amount for the year by an amount equal to, or greater than, 2 percent of the Fund's reserves at the beginning of the financial year, the Executive Board will consider how to deal with the situation. If by December 15, 1991 no agreement has been reached as a result of this consideration, the proportion of the SDR interest rate shall be increased as of November 1, 1991 to the level necessary to reach the target amount of net income for the year.

5. When estimating income, no deduction shall be made for projected deferred income.

²⁶ *Ibid.*, page 96.

²⁷ See Item (b), above.

6. The Executive Board shall be notified, shortly after the end of each quarter, of the average rate of charge for the quarter.

Decision No. 9751-(91/77)
June 7, 1991

I. Structural Adjustment Facility, Enhanced Structural Adjustment Facility, and Enhanced Structural Adjustment Facility Trust

(a) Extension of Period for Reviews

a. The Fund decides that in Decision No. 9114-(89/40) SAF/ESAF,²⁸ adopted March 29, 1989, "June 30, 1990" shall be replaced by "July 31, 1990."

b. The Fund, as Trustee, decides that in Decision No. 9119-(89/40) ESAF,²⁹ adopted March 29, 1989, "June 30, 1990" shall be replaced by "July 31, 1990."

Decision No. 9486-(90/105) SAF/ESAF
June 29, 1990

(b) Review of Operation

Pursuant to Decision No. 9114-(89/40) SAF/ESAF,²⁸ adopted March 29, 1989, the Fund has reviewed the operation of the Structural Adjustment Facility, of the Enhanced Structural Adjustment Facility, and of the Enhanced Structural Adjustment Facility Trust. The operation of these facilities and of the Enhanced Structural Adjustment Facility Trust shall be further reviewed before July 31, 1991.

Decision No. 9487-(90/106) SAF/ESAF
July 2, 1990

J. Structural Adjustment Facility—Amendment

The Regulations for the Administration of the Structural Adjustment Facility, annexed to Decision No. 8238-(86/56) SAF,³⁰ adopted March 26, 1986, as amended, shall be amended as follows:

(i) Paragraph 14(1) shall be amended to read:

(1) The amounts of such assistance shall be identified in any commitment, arrangement, or disbursement under the Enhanced Structural Adjustment Facility. They shall remain available for disbursement until the expiration of the commitment period under the three-year arrangement under the Enhanced Structural Adjustment Facility.

(ii) The following new subparagraph shall be added to paragraph 14:

(5) If a member has received loans from the Structural Adjustment Facility in conjunction with loans from the Enhanced Structural Adjustment

²⁸ See *Selected Decisions*, Fifteenth Issue, page 254.

²⁹ *Ibid.*, pages 45–46.

³⁰ *Ibid.*, pages 231–38.

Facility Trust, any payment made by the member for the discharge of an obligation under any such loan shall also be attributed to the obligation under the other loan having the same due date in proportion to the respective amounts of such obligations.

Decision No. 9490-(90/106) SAF
July 2, 1990

K. Enhanced Structural Adjustment Facility Trust

(a) Amendments

Section II, paragraph 2(d) of the Instrument to Establish the Enhanced Structural Adjustment Facility Trust annexed to Decision No. 8759-(87/176) ESAF,³¹ adopted December 18, 1987, as amended, shall be amended by adding the following sentence after the first sentence:

The Fund may increase, within the overall amount of resources committed under a three-year arrangement, the amount to be made available for the second disbursement under an annual arrangement to help meet adverse external contingencies occurring during the period of the arrangement.

Decision No. 9488-(90/106) ESAF
July 2, 1990

Section II, paragraph 1(d) of the Instrument to Establish the Enhanced Structural Adjustment Facility Trust annexed to Decision No. 8759-(87/176) ESAF,³¹ adopted December 18, 1987, as amended, shall be amended by substituting "1992" for "1990," to read as follows: "(d) Commitments under three-year arrangements may be made during the period from January 1, 1988 to November 30, 1992."

Decision No. 9555-(90/147) ESAF
September 24, 1990

(a) The following subparagraph shall be added to paragraph 1 of Section II of the Instrument to Establish the ESAF Trust (Annex to Decision No. 8759-(87/176) ESAF,³¹ adopted December 18, 1987, as amended), as subparagraph (e):

After the expiration of the third annual arrangement for an eligible member, the Trustee may approve an additional annual arrangement for that member, if it is satisfied that the performance of the member under the arrangement has been satisfactory and that the member has adopted appropriately strong measures in response to its external circumstances in an effort to strengthen substantially and in a sustainable manner its balance of payments position. Commitments under such additional annual arrangements shall be within the access limits determined in accordance with paragraph 2 of this Section, and may be made during the period specified in (d) above.

(b) Paragraph 2(d) of Section II of the Instrument to Establish the ESAF Trust (Annex to Decision No. 8759-(87/176) ESAF,³¹ as amended) shall be amended to read as follows:

The amount of resources committed to a qualifying member under a three-year arrangement and the amounts for the second- and third-year arrangements shall be reviewed at the time of the consideration of each

annual program. The Fund may increase the overall amount of resources committed under a three-year arrangement, when increasing the amount to be made available for the second disbursement under an annual arrangement to help meet adverse external contingencies occurring during the period of the arrangement. The amounts committed to a member shall not be reduced because of developments in its balance of payments, unless such developments are substantially more favorable than envisaged at the time of approval of the three-year arrangement and the improvement for the member derives in particular from improvements in the external environment.

(c) Paragraph 3(c) of Section II of the Instrument to Establish the ESAF Trust (Annex to Decision No. 8759-(87/176) ESAF,³² as amended) shall be amended to read as follows:

No disbursement under any commitment to a member shall be made after the expiration of the period specified in Section III, paragraph 3.

Decision No. 9585-(90/161) ESAF
November 15, 1990

(b) Review of Access Limits

Pursuant to Section II, Paragraph 2(a) of the Instrument to Establish the Enhanced Structural Adjustment Facility Trust, the Fund as Trustee has reviewed the maximum limit and the exceptional maximum limit on access to the resources of the Enhanced Structural Adjustment Facility Trust established by Decision No. 8845-(88/61) ESAF,³³ adopted April 20, 1988. These limits shall be further reviewed not later than July 31, 1991.

Decision No. 9489-(90/106) ESAF
July 2, 1990

L. Supplementary Financing Facility Subsidy Account—Additional Subsidy Payments for May 1, 1989 Through June 30, 1989 and Subsidy Payments for July 1, 1989 Through June 30, 1990

1. In accordance with the Instrument establishing the Supplementary Financing Facility Subsidy Account, as amended, additional subsidy payments shall be made with respect to charges paid on holdings of currency referred to in Section 7 of the Instrument for the period May 1, 1989 through June 30, 1989, in the amount indicated to each of the eligible members as listed in Column 2 of the attachment.

2. In accordance with the Instrument establishing the Supplementary Financing Facility Subsidy Account, as amended, subsidy payments shall be made with respect to charges paid on holdings of currency referred to in Section 7 of the Instrument for the period July 1, 1989 through June 30, 1990, in the amount indicated to each of the eligible members as listed in Column 5 of the attachment.

3. The subsidy payments shall be made to each eligible member on July 25, 1990, or as soon thereafter as the member has paid all outstanding charges, if any, on balances eligible for the subsidy.

Decision No. 9510-(90/122) SBS
July 25, 1990

³² Ibid.

³³ Ibid., page 45.

³¹ Ibid., pages 23–45.

Attachment

**SFF Subsidy Account:
Approved Disbursements and Proposed Disbursements
for May–June 1989 and July 1989–June 1990
(In SDRs)**

	Cumulative Approved Subsidies in Period 1981– June 1989 ¹ (1)	Proposed Amount of Disbursement				
		Additional subsidy May 1989– June 1989 (2)	July– December 1989 (3)	January– June 1990 (4)	July 1989– June 1990 (3) + (4) (5)	Grand total (2) + (5) (6)
(a) Members eligible to receive subsidy at the full rate						
Bangladesh	16,347,415	—	—	—	—	—
Bolivia	3,892,179	—	—	—	—	—
Dominica	610,123	247	1,029	559	1,588	1,835
Gambia, The	645,071	298	1,053	—	1,053	1,351
Guyana	4,662,959	—	—	—	—	—
India	156,559,347	106,047	419,180	216,733	635,913	741,960
Kenya	13,837,916	491	—	—	—	491
Liberia	6,255,557	184	—	—	—	184
Madagascar	3,297,841	—	—	—	—	—
Malawi	4,184,213	—	—	—	—	—
Mauritania	2,325,289	—	—	—	—	—
Pakistan	75,816,727	13,784	49,785	14,850	64,635	78,419
Philippines	49,259,335	—	—	—	—	—
Senegal	7,784,826	876	1,714	—	1,714	2,590
Sierra Leone	2,539,567	—	—	—	—	—
Sri Lanka	591,705	—	—	—	—	—
Sudan	25,363,197	—	—	—	—	—
Tanzania	2,447,084	—	—	—	—	—
Togo	1,074,507	—	—	—	—	—
Zambia	3,520,127	—	—	—	—	—
Subtotal	381,014,985	121,927	472,761	232,142	704,903	826,830
(b) Members eligible to receive subsidy at half the full rate						
Côte d'Ivoire	19,314,755	9,332	36,857	19,528	56,385	65,717
Jamaica	16,799,833	441	282	—	282	723
Mauritius	5,067,060	—	—	—	—	—
Morocco	10,226,265	—	—	—	—	—
Peru	15,061,171	—	—	—	—	—
Subtotal	66,469,084	9,773	37,139	19,528	56,667	66,440
Total	447,484,069	131,700	509,900	251,670	761,570	893,270

¹ These figures include SDR 2,535,384 withheld by the Fund pending payment of overdue SFF charges by members.

— Indicates that the member has no outstanding purchases under the SFF for the period shown.

Press Communiqués of the Interim Committee and the Development Committee

Interim Committee of the Board of Governors on the International Monetary System

PRESS COMMUNIQUÉS

Thirty-Fifth Meeting, Washington, September 23–24, 1990

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its thirty-fifth meeting in Washington, D.C. on September 23–24, 1990 under the chairmanship of Mr. Michael H. Wilson, Minister of Finance of Canada. Mr. Michel Camdessus, Managing Director of the International Monetary Fund, participated in the meeting, which was also attended by observers from a number of international and regional organizations and from Switzerland.

2. The Committee noted that, after several years of rapid expansion, growth is continuing, albeit at a slower pace. The recent rise in the world price of oil, were it to continue, may contribute to cost-price pressures and moderate growth, especially in oil importing countries.

It is therefore important that fiscal and monetary policies continue to focus on improving the conditions for strong, sustainable non-inflationary growth over the medium term. Attempts to insulate domestic energy prices through subsidies or price controls, or to compensate for higher oil prices by increasing nominal wages, would only serve to fuel inflationary expectations and require, at a later stage, tighter fiscal and monetary policies. While the consequences of recent developments in the Middle East are likely to complicate the task of fiscal consolidation in a number of countries, the need for credible actions to lower fiscal deficits remains urgent. Stability-oriented monetary policy has a crucial role to play in preventing a wage-price spiral. It is also essential that both industrial and developing countries continue to implement structural reforms aimed at fostering energy conservation, boosting saving and capital formation and increasing efficiency through enhanced competition and liberalization of trade and domestic markets.

Such a policy stance in the face of recent events would contribute to strengthening the medium- and long-term outlook for the world economy and would help to maximize the gains expected from the accelerated integration of the European Community, the German unification, and the far-reaching changes now taking place in Central and Eastern Europe.

3. The Committee stressed that the resilience of the world economy and the success of market-oriented reforms and adjustment efforts in Central and Eastern Europe and in developing countries all depend importantly on an open, transparent, and competitive trading system. In this context, it strongly emphasized the vital importance of a successful Uruguay Round in reducing further the barriers to trade, in establishing trading rules and disciplines for the future, and in bringing into the multilateral trading system areas that have largely remained outside its framework. While welcoming the progress that has been made in certain areas of the Round, the Committee expressed deep concern over delays and noted that differences have yet to be resolved on several issues that are crucial to an overall agreement. The Committee urged all participants in the negotiations to make every effort to ensure a timely and successful conclusion of the Round and thereby create the conditions for higher rates of economic growth world wide.

4. The Committee welcomed the continuing examination by the Executive Board of major issues in the evolving international monetary system, including the implications of policies of major countries, the progress toward European Monetary Union, and the prospects for further moves toward convertibility in Eastern Europe, as well as work on exchange rate systems and on the determinants and systemic consequences of capital flows. The Committee emphasized the central responsibility of the Fund for evaluating continuously the functioning of the international monetary system and identifying improvements that could be implemented, especially through its bilateral and multilateral surveillance activities, support for the process of policy coordination, technical assistance, and its readiness to alleviate global liquidity shortages should they arise.

5. The Committee noted that once again unexpected events have adversely affected the world economy. The Committee welcomed the international efforts of individual countries to provide immediate and medium-term economic assistance to those countries seriously affected by the Persian Gulf crisis. It encouraged the Executive Board to continue to explore how the Fund can best support members' efforts to deal with recent developments, including the increase in oil prices. Committee members noted that the Fund is well equipped to help members formulate appropriate and strong adjustment policies and catalyze support from other sources. The Committee agreed that the Fund should respond on an expedited basis to present difficulties through use and, as appropriate, adaptations of its existing instruments, including access to stand-by and extended arrangements, the Compensatory and Contingency Financing Facility, and the Enhanced Structural Adjustment Facility. The Committee invited the Executive Board expeditiously to develop the modalities of these adaptations and to take account of the requirements of current circumstances in tailoring members' access to Fund resources, including ways to address the problems of certain members in servicing such new debt. The Committee hoped that all members that are in a position to do so will collaborate in these efforts to assist members that are severely affected by current developments in the Middle East.

6. The Committee welcomed the progress made by a number of heavily indebted countries in undertaking measures designed to restore macroeconomic balance and re-establish the conditions for sustained growth. The successful experience of these countries illustrates the central importance for members with debt difficulties of adopting policies to improve efficiency and to foster saving, investment, and private capital inflows, including a return of flight capital. It underscores also the crucial role of prompt and adequate external financing in support of such policies. The early and successful conclusion of financing arrangements in the context of the strengthened debt strategy has been a key element in fostering an improved economic performance in heavily indebted countries. The timely assistance of the Fund and the World Bank to these members in support of growth-oriented adjustment programs is of critical importance in their efforts to normalize relations with all external

creditors and mobilize the necessary additional financial resources.

In this light, the Committee noted with concern the difficult prospects facing many low-income and lower middle-income countries indebted mainly to official creditors, and the likely worsening of payments imbalances in many countries on account of the recent developments in the Middle East. The Committee urged those countries to adopt and sustain the necessary corrective policies. The Committee also noted with concern the slow progress of some negotiations between commercial banks and members. With respect to commercial bank financing packages, it called on all parties concerned to expedite negotiations and resolve outstanding arrears problems. As regards official bilateral debts, the Committee welcomed the continuing support of creditors for members' efforts to pursue adjustment and regain external viability. It noted in that connection the helpful actions taken by some creditor countries to provide new money or to reduce debt and debt service burdens, including through cancellation of official development assistance obligations. It also welcomed the recent decisions of the Paris Club to permit debt/equity and other debt conversion in reschedulings and to extend longer repayment periods on a case-by-case basis to lower middle-income countries, as well as the continuing review of additional options. It invited the Paris Club to consider recent initiatives and proposals to enlarge the scope of official debt relief. The Committee welcomed the U.S. effort to implement the "Enterprise for the Americas Initiative" designed to promote investment, growth, and debt reduction in Latin America.

7. The Committee welcomed the progress achieved in some Central and Eastern European countries in reducing imbalances and observed that the process of structural change on which the region is embarking will require action in many fields—particularly in light of recent oil market developments—and over an extended period. Safety nets will be necessary to protect the vulnerable segments of society. It will be important for these economies to be opened to foreign trade and investment as rapidly as possible. While remaining mindful of the need to continue to address the needs of other countries facing similar difficulties, the international community should support the programs of stabilization and reform of these countries by improving the access of their exports to world markets and increasing its financial and technical assistance. In this connection, the support provided by national governments and regional and multilateral institutions, and its effective coordination, were welcomed.

The Committee welcomed the entry of the Czech and Slovak Federal Republic and the prospective entry of Bulgaria and Namibia into the Bretton Woods institutions. Together with the membership applications of Mongolia and Switzerland, these developments enhance the universal character of the Fund and the Bank.

8. The Committee welcomed the role of the Fund in convening work, undertaken jointly with the World Bank, the OECD and the designated President of the EBRD, and in close consultation with the Commission of the European Communities, on a detailed study of the economy of the Soviet Union.

9. The Committee stressed the importance of bringing into effect the quota increases under the Ninth General Review at the earliest possible date, particularly in view of recent events and uncertainties in the world economy. The Committee called upon all members to consent to the quota increase and accept the associated Third Amendment of the Articles of Agreement as soon as possible.

10. The Committee agreed to hold its next meeting in Washington, D.C. on April 29, 1991.

Annex: Interim Committee Attendance September 23–24, 1990

Chairman

Michael H. Wilson, Minister of Finance, Canada

Managing Director

Michel Camdessus

Members or Alternates

Mohammad Abalkhail, Minister of Finance and National Economy, Saudi Arabia
 Abubakar Alhaji, Minister of Finance and Economic Development, Nigeria
 Pierre Bérégovoy, Minister of State for Economy, Finance, and the Budget, France
 Nicholas F. Brady, Secretary of the Treasury, United States
 Zelia Maria Cardoso de Mello, Minister of Economy, Finance and Planning, Brazil
 Guido Carli, Minister of the Treasury, Italy
 Madhu Dandavate, Minister of Finance, India
 Antonio Erman Gonzalez, Minister of Economy, Argentina
 Abderrahmane Hadj-Nacer, Governor, Banque Centrale d'Algérie
 Ryutaro Hashimoto, Minister of Finance, Japan
 Simon Crean, Minister of Science and Technology and Minister Assisting the Treasurer, Australia (Alternate for Paul J. Keating, Deputy Prime Minister and Treasurer, Australia)
 Wim Kok, Deputy Prime Minister and Minister of Finance, Netherlands
 Rolf Kullberg, Governor, Bank of Finland
 CHEN Yuan, Deputy Governor, People's Bank of China (Alternate for LI Guixian, State Councillor and Governor of the People's Bank of China)
 John Major, Chancellor of the Exchequer, United Kingdom
 Philippe Maystadt, Minister of Finance, Belgium
 Adrianus Mooy, Governor, Bank of Indonesia
 PAY PAY wa Syakassighe, Governor, Banque du Zaïre
 Abdul Malik Al Hamar, Governor, United Arab Emirates Central Bank (Alternate for Mohammed Mehdi Saleh, Acting Minister of Finance, Iraq)
 Pedro R. Tinoco, Jr., President, Banco Central de Venezuela
 Theo Waigel, Federal Minister of Finance, Germany
 John W. Crow, Governor, Bank of Canada (Alternate for Michael H. Wilson, Minister of Finance, Canada)

Observers

Rafeeuddin Ahmed, Under-Secretary-General for International Economic and Social Affairs, UN
 Horst Bockelmann, Economic Adviser and Head of the Monetary and Economic Department, BIS

B.T.G. Chidzero, Chairman, Development Committee
 Henning Christophersen, Vice President, CEC
 Barber B. Conable, President, World Bank
 Kenneth K.S. Dadzie, Secretary-General, UNCTAD
 Arthur Dunkel, Director General, GATT

Markus Lusser, Chairman of the Governing Board, Swiss
 National Bank
 Izevbuwa Osayimwese, Head, Economics and Finance Department, OPEC
 Jean-Claude Paye, Secretary-General, OECD

Thirty-Sixth Meeting, Washington, April 29–30, 1991

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its thirty-sixth meeting in Washington, D.C. on April 29–30, 1991 under the chairmanship of Mr. Michael H. Wilson, Minister of Industry, Science and Technology and Minister for International Trade of Canada. Mr. Michel Camdessus, Managing Director of the International Monetary Fund, participated in the meeting, which was also attended by observers from a number of international and regional organizations and from Switzerland. The Committee accepted with regret the resignation of Mr. Wilson as Chairman. It expressed its warmest thanks for his contribution to the work of the Committee and wished him well in his new responsibilities.

2. The Committee observed that the spike in oil prices in the second half of last year and the uncertainty triggered by the Middle East crisis had added to the weakening of world economic activity that had become manifest during the course of 1990. There was a general view that growth would be slow in 1991 but that it would be stronger in 1992 and be accompanied by a moderation of inflation.

The Committee agreed that monetary and fiscal policies should be directed toward providing a basis for lower real interest rates and sustained global economic recovery with price stability. The Committee also agreed on the importance of increasing global savings. To help further these objectives, the Committee welcomed recent budgetary actions in several countries and urged other countries to increase efforts to strengthen their fiscal positions. These policy actions would need to be complemented by structural reforms aimed at increasing economic efficiency, particularly those designed to foster greater competition and remove distortions affecting private saving, investment, and the allocation of capital. Such a medium-term strategy was crucial to raising investment and growth in both industrial and developing countries and to addressing the new challenges of reform and reconstruction.

3. The Committee commended the prompt action of the Fund to assist countries seriously affected by the crisis in the Middle East. As for some countries in the region itself, the effects of the crisis had compounded imbalances and structural maladjustments that predated recent events. The Fund needed to play its traditional key role through its policy advice, balance of payments support, and mobilization of financial and technical assistance in helping those countries adopt appropriate macroeconomic and structural adjustment policies.

4. The Committee welcomed the comprehensive efforts of Eastern European countries at introducing market based systems. Despite the initial output and employment losses the Committee was of the view that strong and all-encompassing reforms in these countries were the best way to achieve sustainable growth and full integration into the world economy. The Committee regarded the financial and technical support provided by national governments and international institutions as essential at this stage. Foreign private

capital nevertheless would be expected to play an increasingly important, and eventually decisive, role in meeting the financing and technical assistance requirements of these countries, provided tangible progress was made toward a stable economic environment hospitable to private enterprise.

5. The Committee was encouraged by the perseverance of a number of developing countries in pursuing comprehensive policy and structural reforms. The Committee emphasized the indispensable role of adequate and timely external financing in support of such policies, including in countries that had avoided debt servicing difficulties. It welcomed the progress achieved by several heavily indebted members in putting in place bank financing arrangements. At the same time, the Committee noted that difficult cases remained and urged all parties to expedite negotiations. The Committee also underscored the importance of sustained support by official bilateral creditors. Concerning the poorest countries, the Committee welcomed the ongoing review in the Paris Club of recently suggested adaptations to debt restructuring and reduction practices designed to assure appropriate support for members embarked on comprehensive reforms.

6. The Committee viewed with concern the slow progress in the Uruguay Round and urged all members to work with determination toward its prompt and successful conclusion, noting the threats that failure would pose to the global economy. It stressed the importance of a favorable international trading environment and of transparent rules for the trade liberalization and reform efforts of developing and Eastern European countries. It emphasized the responsibility of the industrial countries for opening their own markets, in order to ensure the success of these efforts.

7. The Committee noted the significant increase in the number of member countries seeking Fund support for their adjustment efforts and the attendant sharp rise in demand for Fund resources. These developments underlined the need for bringing into effect the quota increases under the Ninth General Review of Quotas as soon as possible. The Committee noted with satisfaction that a number of members had already consented to the quota increase and accepted the associated Third Amendment of the Articles of Agreement. It urged other members to move speedily toward consent and acceptance.

8. The Committee encouraged the Executive Board to continue its analysis of developments and of key issues in the functioning of the international monetary system. The Committee emphasized the positive contribution that policy coordination is making to the evolution of the system. It urged the Executive Board to study further improvements that could be implemented and to keep the role of the SDR under review.

9. The Committee agreed to hold its next meeting in Bangkok, Thailand, on October 13, 1991.

Annex: Interim Committee Attendance
April 29–30, 1991

Chairman

Michael H. Wilson, Minister of Industry, Science and Technology,
and of International Trade, Canada

Managing Director

Michel Camdessus

Members or Alternates

Mohammad Abalkhail, Minister of Finance and National Economy,
Saudi Arabia
Abubakar Alhaji, Minister of Finance and Economic Development,
Nigeria
Abdul Malik Al Hamar, Governor, United Arab Emirates Central
Bank
Pierre Bérégovoy, Minister of State for Economy, Finance and
the Budget, France
Nicholas F. Brady, Secretary of the Treasury, United States
Zelia Maria Cardoso de Mello, Minister of Economy, Finance and
Planning, Brazil
Guido Carli, Minister of the Treasury, Italy
Domingo Felipe Cavallo, Minister of Economy, Argentina
Abderrahmane Hadj-Nacer, Governor, Banque Centrale d'Algérie
Ryutaro Hashimoto, Minister of Finance, Japan
Anwar Ibrahim, Minister of Finance, Malaysia
R.F. McMullan, Parliamentary Secretary to the Treasurer,
Australia (Alternate for Paul J. Keating, Deputy Prime Minis-
ter and Treasurer, Australia)

W. Kok, Deputy Prime Minister and Minister of Finance,
Netherlands

Rolf Kullberg, Governor, Bank of Finland
Norman Lamont, Chancellor of the Exchequer, United Kingdom
TONG Zengyin, Deputy Governor, People's Bank of China
(Alternate for LI Guixian, State Councillor and Governor of
the People's Bank of China)
Philippe Maystadt, Minister of Finance, Belgium
Donald Mazankowski, Deputy Prime Minister and Minister of
Finance, Canada
NYEMBO Shabani, Governor, Banque du Zaïre
Yashwant Sinha, Minister of Finance, India
Carlos Solchaga, Minister of Economy and Finance, Spain
Theo Waigel, Federal Minister of Finance, Germany

Observers

Rafeeuddin Ahmed, Under-Secretary-General for International
Economic and Social Affairs, UN
S. Balabanoff, Head, Economics Section, Economics and Finance
Department, OPEC
Horst Bockelmann, Economic Adviser and Head of the Monetary
and Economic Department, BIS
Henning Christophersen, Vice President, CEC
Barber B. Conable, President, World Bank
Kenneth K.S. Dadzie, Secretary-General, UNCTAD
Arthur Dunkel, Director General, GATT
Alejandro Foxley, Chairman, Development Committee
Markus Lusser, Chairman of the Governing Board, Swiss
National Bank
Jean-Claude Paye, Secretary-General, OECD

**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)**

PRESS COMMUNIQUÉS

Thirty-Ninth Meeting, Washington, September 24, 1990

1. The Development Committee met in Washington, D.C. on September 24, 1990 under the chairmanship of the Hon. B.T.G. Chidzero, Senior Minister of Finance, Economic Planning and Development of Zimbabwe.¹

2. The Committee met at a time when the economic prospects of many developing countries were being affected adversely, particularly by the disruption of trade and workers' remittances and the increase in the price of oil resulting from the events in the Middle East as well as by the economic slowdown in some industrial countries, higher interest rates, and the weakening in non-oil commodity prices. It welcomed the efforts currently underway to coordinate the distribution of financial resources for those developing countries affected by the Middle East crisis. Members welcomed the recent suggestions made by the managements of the Bank and the Fund on the response of their respective institutions. They recommended that the Boards of Executive Directors at the Bank and the Fund commence, on an expedited basis, a comprehensive review of measures that would enable them to respond promptly, flexibly and with expanded resources to the current situation. They agreed that experience shows that strong and rapid adjustment measures by affected countries are essential for maintaining internal and external balances. They also stressed that the impact of the Middle East crisis underlines the need to address development issues even more vigorously, including those considered at this meeting.

3. Noting the continuing severity of poverty problems in developing countries, the Committee agreed that the objective of a sizable reduction in the incidence of poverty is the highest priority for the international development community. Members also agreed that a broad consensus is emerging on strategies to be pursued toward the achievement of this goal. They welcomed the contribution of the 1990 World Development Report and the work of the Bank and the Fund in support of this process.

4. The Committee agreed that governments of developing countries have the primary responsibility for achieving the objective of poverty reduction. Members stressed that this objective would be most effectively achieved through the adoption of national development strategies, including sound macroeconomic and structural policies, which:

- (a) encourage sustainable growth that increases income earning opportunities for the poor; and

- (b) develop the human resources of the poor, particularly through broad access to education, health, and family planning services.

Members also stressed that the above strategies should be supplemented by social safety net programs, selectively targeted to those in need and consistent with growth-oriented adjustment and development policies. The Committee encouraged all parties concerned to discuss their poverty reduction approaches, programs, and goals in the framework of their policy dialogue. Members also agreed that good governance and involvement of the poor in the design and execution of development projects and programs are key elements for the effectiveness of poverty reduction efforts.

5. The Committee emphasized that the poverty reduction efforts of developing countries should be supported and complemented by developed countries in a consistent manner, through increased official flows, as well as through sound macroeconomic, structural, and open trade policies. Members agreed that aid donors and multilateral development agencies should examine their operational policies to ensure that their external assistance more fully supports the implementation of recipient countries' national development strategies aimed at lasting poverty reduction, thus improving the quality of aid. In this connection, members welcomed the commitment of the President of the World Bank to submit to the Bank's Board of Executive Directors, for its early consideration, proposals for fully translating the conclusions of the 1990 World Development Report into the Bank's operational practice.

6. The Committee reaffirmed its support for the strengthened debt strategy and welcomed the number of debt and debt service reduction packages already concluded, or in the course of negotiation, between debtor countries and commercial banks. Members expressed concern, however, about the slow pace of negotiations on commercial bank financing packages in some cases. They called on the Bank and the Fund to continue to provide support for debt and debt service reduction packages, with the necessary flexibility, under their established guidelines. The Committee emphasized the crucial importance for debtor countries to adopt appropriate growth-oriented adjustment programs as a basis for debt and debt service reduction, thus creating the conditions favorable to domestic and foreign investment and the repatriation of flight capital. Members welcomed U.S. efforts to implement the "Enterprise for the Americas Initiative" designed to promote investment, growth, and debt reduction in Latin America.

7. The Committee expressed its concern that the prospects for external viability with sustainable growth remain difficult for some of the severely indebted lower middle-income countries, largely indebted to bilateral official creditors, even if a significant strengthening of domestic policies is assumed. Members welcomed the recent consensus by Paris Club creditor countries to lengthen repayment

¹ Mr. Barber B. Conable, President of the World Bank, Mr. Michel Camdessus, Managing Director of the International Monetary Fund, Mr. Yves L. Fortin, Executive Secretary of the Development Committee, and Mr. S.M.H. Adeli, Chairman of the Group of Twenty-Four, participated in the meeting. Observers from Switzerland and a number of international and regional organizations also attended.

periods and to permit debt/equity and other debt conversion in reschedulings. The review of additional options should take into account the need for debtor countries to benefit from increased new financial flows. The Committee welcomed the recent bilateral decisions by a number of creditor countries which would contribute to alleviating the burden of bilateral debt of some severely indebted lower middle-income countries. Members invited all creditor countries to consider taking further measures on a coordinated and case-by-case basis in favor of those countries implementing adjustment programs.

8. The Committee welcomed the debt relief that creditor countries have provided, in particular through concessional official debt rescheduling and official development assistance debt cancellation, to an increasing number of severely indebted low-income countries implementing Bank and Fund supported adjustment programs. Members also welcomed the utilization of International Development Association (IDA) reflows for the benefit of IDA-only countries with outstanding IBRD debt. They encouraged the early use of the resources of the Bank's facility, financed from the Bank's net income, to assist eligible IDA-only countries to reduce their debt to commercial banks. Members noted that even with these arrangements and continued adjustment efforts, many of these countries have uncertain prospects for an early return to external viability with sustained growth. The Committee welcomed the request made to the Paris Club in the Houston Declaration to review the implementation of the existing options that apply to the poorest countries and encouraged the concerned creditors to complete this review in a timely manner. The Committee called for early consideration, through the Paris Club, of the proposals made at this meeting by some creditor countries, such as France, the Netherlands, and the United Kingdom, for further bilateral official debt relief to low-income countries implementing adjustment programs. It invited creditor countries to ensure that debt relief measures and official development assistance flows are designed on a case-by-case basis to assist a timely return to external viability with sustainable growth. Members also reiterated that their new commitments of assistance to the severely indebted low-income countries should be provided on highly concessional terms.

9. Members reiterated that it was also important to recognize the needs of a number of indebted countries which have not restructured their external debt obligations and which have been implementing sound macroeconomic policies. The Committee urged that efforts be made to maintain adequate financial flows to these countries, including multilateral flows, to support adjustment, development, and poverty reduction.

10. The Committee welcomed the increasing recognition in both developed and developing countries of the critical contribution of women to economic growth and development. Members agreed, however, that there was a need for a major effort and a strong commitment to concrete action to strengthen the economic role of women in development.

11. The Committee stressed that governments have the primary responsibility to promote women's economic potential within their own specific sociocultural context. It encouraged them to design women in development policies and strategies in consultation with relevant groups. Members noted that enabling women to raise their own productivity and income is the best way to help them and thereby to contribute effectively to other national development objectives, including poverty reduction. They emphasized that the

priorities are education, family planning, and maternal health care, agricultural services, provision of credit facilities, and access to labor markets. The Committee urged governments to remove constraints affecting women by adopting or revising legal codes and regulations, as may be required, in order to guarantee women equal rights including ownership and use of productive assets, and opportunities to take part in all sectors of the economy.

12. The Committee welcomed the initiatives taken so far to give women in development issues a higher priority. It encouraged governments and bilateral and multilateral development institutions to further integrate women in development objectives in their activities. While noting the encouraging progress made by the Bank, members urged it to increase further the resources it devotes to women in development activities and to strengthen its institutional capacity to integrate these issues more effectively into its country strategies, economic and sector work, policy dialogue, and actual lending operations. The Bank's action plan in this area should include guidelines for monitoring implementation and evaluating its results. The Committee requested the Bank to prepare a progress report on its women in development activities for the 1991 fall meeting.

13. The Committee welcomed the World Summit for Children initiative that will focus international attention on the survival, protection, and development of children. Noting the strong emphasis placed by the Bank on poverty reduction in its lending program and operations, members urged the Bank to play a central role in helping realize the objectives of this Summit, including through the further expansion of its programs in the areas of primary education and health care.

14. The Committee reviewed progress made in the implementation of the World Bank Group's private sector development action program in light of the need to promote growth, employment opportunities, and poverty reduction. It welcomed the growing emphasis given to market systems and the role of private initiative by member countries in their development strategies. It noted the need to stimulate private foreign and domestic investment and the return of flight capital so as to encourage non-debt creating private flows in the 1990s. Members welcomed the progress made to date under the Bank Group's action program to support the promotion of an enabling environment for private sector development, public sector restructuring including privatization, and the acceleration of the pace of financial sector reforms. They noted with satisfaction the important role of the International Finance Corporation (IFC) in providing financing and advice for new investment and the work of IFC and the Multilateral Investment Guarantee Agency (MIGA) in supporting the continued growth in the flow of resources to the private sector in developing countries. The Committee also stressed the role that the Bank Group can play in reaching small urban and rural private sector enterprises and encouraged it to increase its efforts to assist the development of indigenous entrepreneurship and a locally based private sector.

15. The Committee reiterated its call on the Bank Group to give a very high priority to private sector development in its operations and continue to expand the scope of its activities in this area, including new approaches and instruments as may be needed, as well as to assist developing countries' efforts to implement long-term institutional, regulatory, and legal reforms consistent with their socioeconomic situation. As the Bank Group implements and adapts its action program and strives to enhance further its catalytic im-

pact, members emphasized the need to keep under review the roles, policies, and lending programs of the Bank and its affiliates, the balance between their advisory and operational functions, and the need for systematic coordination within the Bank Group. The Committee requested the Bank to prepare a report on these issues and its efforts to strengthen further its activities in support of private sector development for consideration by its Board of Executive Directors.

16. Members recognized the important catalytic role of IFC in promoting sound private sector development. They underscored the need for the Corporation to have adequate resources to meet the growing demand for its services in a regionally balanced and financially prudent manner during the 1990s. In this context, the Committee urged the IFC Board of Executive Directors to complete by the end of the year its review of the operational policies and adequacy of the capital of the Corporation, including the modalities of subscription and payment.

17. Taking note of the recent events, the Committee urged all IMF member countries to take the necessary actions to ensure that the Fund quota increase and the associated third amendment of the Articles become effective without delay.

18. The Committee welcomed the Bank's first Annual Report on the Environment which it had requested at its Berlin meeting in September 1988. Members stressed that this comprehensive report clearly shows that the Bank is moving forward on a growing number of Bank-related environmental issues while improving the flow of information on these issues. They reiterated the importance of integrating environmental concerns into the Bank's operations, particularly environmental impact assessments and environmental action plans. They emphasized the importance of new initiatives to provide greater protection for tropical forests and promote energy efficiency and conservation in developed and developing countries. Members asked the Bank to increase its cooperation with governments making efforts in these two areas and to include an assessment of progress achieved in its second Annual Report on the Environment. The Committee also welcomed the creation of an Interim Multilateral Fund in support of the Montreal Protocol on the elimination of chlorofluorocarbons. The Committee welcomed the progress made toward the establishment of a program, including a funding mechanism, to address global environmental problems and urged the donors and the Bank, working in collaboration with UNEP and UNDP, to complete their work before the next Development Committee meeting.

19. The Committee emphasized that current developments and their economic impact make the strengthening of the international trading system more necessary than ever. Members heard from the Director General of the GATT that multilateral trade negotiations under the Uruguay Round were in their final phase and that the time had come for participants in the Round to reach basic agreements across the board, and in particular in such areas as agricul-

ture, textiles, and clothing, and tropical products which are of particular importance to developing countries. They urged all countries to roll back protectionist measures and to refrain from introducing new ones. The Committee reiterated its call on all parties concerned to agree on a global package by December 1990 in a way that would foster trade liberalization on the basis of uniform multilateral rules. The Committee further noted that successful completion of the negotiations was essential in order to support the reform programs in progress in a number of countries.

20. Despite an encouraging trend in the flow of foreign direct investment and nongovernmental organization grants, the Committee noted with concern that net resource flows, particularly to low-income Asian countries and the severely indebted middle-income countries, had declined in 1989. Members agreed on the need to continue to mobilize adequate financing in support of developing countries' reforms and development efforts. The Committee called on donor countries to indicate their levels of assistance to ensure the full financing of the second phase of the Special Program of Assistance for Sub-Saharan Africa. Members welcomed the outcome of the Maastricht Conference last July and the wide support expressed for measures which could stimulate external assistance for Sub-Saharan Africa's development efforts. They also welcomed the main conclusions of the Paris conference on the least developed countries.

21. The Committee agreed to focus at its spring 1991 meeting on two aspects of the broad issue of transfer of resources to developing countries: first, the financial implications of development policies aimed at poverty reduction in the light of an issues paper to be prepared by the Bank in consultation with the Fund; and second, the role of foreign direct investment in development with the assistance of a joint Bank-Fund issues paper. The Committee will also discuss the impact of industrial countries' trade, agricultural and industrial policies on developing countries on the basis of the joint Bank-Fund full report requested at its May 8, 1990 meeting. In addition, members requested a report on progress in the discussion of IFC's capital adequacy as well as a detailed progress report from the two institutions on the implementation of the debt strategy and its impact on the development prospects of all severely indebted countries.

22. Members expressed their deep appreciation for the dedicated services of its Chairman, the Honorable B.T.G. Chidzero, Senior Minister of Finance, Economic Planning and Development of Zimbabwe, over the last four years. They underlined the special contribution he has made to the strengthening of the Committee as it gears itself to meet the challenges of the 1990s and, in particular, the dignity, distinction, and judgment with which he had presided over the meetings of the Committee. They offered him their warmest good wishes for the future.

23. The Committee agreed to meet again in Washington, D.C. on April 30, 1991.

Fortieth Meeting, Washington, September 27, 1990

At its fortieth meeting on September 27, 1990, in Washington, D.C., the Development Committee selected His Excellency Alejandro Foxley, Minister of Finance of Chile, as Chairman.

Forty-First Meeting, Washington, April 30, 1991

1. The Development Committee met in Washington, D.C. on April 30, 1991 under the chairmanship of Mr. Alejandro Foxley, Minister of Finance of Chile.¹

2. In the context of its broad mandate for the transfer of resources to developing countries, the Committee discussed: (a) the financial implications of development policies aimed at poverty reduction; (b) the role of foreign direct investment in development; and (c) the impact of industrial countries' trade, agricultural and industrial policies on developing countries. The Committee also considered progress reports on the response of the World Bank and the International Monetary Fund to the Middle East crisis, the debt strategy and its impact on the development prospects of all severely indebted countries, the International Finance Corporation's capital adequacy, and the establishment of a Global Environment Facility.

The Middle East Crisis

3. The Committee welcomed the prompt response and ongoing efforts of the Bank and the Fund to assist the countries seriously affected by the Middle East crisis. The Committee urged the Bank and the Fund to continue analyzing the financial requirements of the countries in the region directly affected by the crisis and other affected developing countries. It also urged the two institutions to assist in the mobilization of resources from both the region and external sources. Members stressed that financial assistance to the affected developing countries in and outside the middle eastern region should seek to facilitate, rather than substitute for, the sustained implementation of sound economic policies and adjustment programs. The Committee underscored the importance of an appropriate and effective coordination arrangement to deal with reconstruction and the adjustment and longer-term development needs of the countries of the region.

Poverty Reduction

4. The Committee reiterated that the reduction of poverty in developing countries is the highest priority for the world development community. It reaffirmed its support for the strategy for reducing poverty presented in the 1990 World Development Report. The Committee noted that the achievement of the objective of poverty reduction would be facilitated by good governance in all countries, recognizing that their sovereignty must be respected. Members emphasized the special need for countries with a high level of poverty to maximize efficiency in the use of existing resources and to mobilize additional domestic savings and public revenues for poverty reduction purposes while increasing the access of the poor to such resources. They also emphasized the need to reexamine the possible reallocation of public expenditures, including excessive military expenditures, to increase their impact on poverty reduction. Members also noted the important role of private sector investment in generating income-earning opportunities for the poor.

¹ Mr. Barber B. Conable, President of the World Bank, Mr. Michel Camdessus, Managing Director of the International Monetary Fund, Mr. Yves L. Fortin, Executive Secretary of the Development Committee, and Mr. Rudolf Hommes, Chairman of the Group of Twenty-Four, participated in the meeting. Observers from Switzerland and a number of international and regional organizations also attended.

While mobilizing additional domestic resources to combat poverty is of prime importance, members recognized that this task is difficult particularly in low-income countries where the poor are concentrated and in some of the severely indebted countries. The Committee stressed, therefore, that adequate external resources, mainly of a concessional nature, are necessary to complement the efforts at poverty reduction in these low-income countries. It emphasized, however, that efforts to meet the external financial requirements of potential new claimants on concessional resources should not be at the expense of current recipients pursuing appropriate development policies including poverty reduction. In this connection, the Committee invited donor countries, particularly those with assistance levels below the 0.7 percent ODA/GDP target, to make further efforts to increase the transfer of resources to developing countries.

5. The Committee was of the view that any additional aid volume should be accompanied by a number of improvements in aid delivery. In this regard it stressed the importance of further efforts at meaningful untangling of bilateral aid; recurrent-cost financing, especially in the social sectors and infrastructure, for countries undertaking sound policies and over a defined transitional time period for progressively transferring responsibility to host governments; initiatives to enhance the effectiveness of technical assistance to meet the needs of those countries; and means to improve the coordination of concessional resources. The Committee also called upon the providers of concessional resources to examine the scope for reallocating their assistance toward poor countries implementing sound development policies and poverty alleviation strategies.

6. Members welcomed the policy paper on poverty, recently endorsed by the World Bank's Board of Executive Directors, which calls for reliance on rapid, broadly based economic growth and investments in human capital targeted at the poor. They also welcomed the intention of the Bank to implement a plan of action designed to translate the conclusions of the 1990 World Development Report into its operational practices and budgetary priorities. They expressed support for the Bank's objective of placing special emphasis on poverty considerations in the design of its country assistance strategies and in the allocation and composition of its lending resources in a manner consistent with the development strategies of the borrowing countries. They urged the Bank management, in consultation with the Board of Executive Directors, to complete rapidly its handbook and operational directive on poverty, which are now under preparation. The Committee requested a progress report for its spring 1992 meeting on the implementation of the Bank's plan of action for the reduction of poverty. Members noted the Fund's continued efforts to assist member countries in the pursuit of sound economic policies, while protecting the poor through appropriate measures, including the use of social safety nets. The Committee also urged the Bank, together with the relevant United Nations agencies, to strengthen further their cooperation in improving the data base on poverty, poverty monitoring, and the division of labor among their operational activities of a poverty-oriented nature. Members also underscored the need for the Fund to rely on this improved data base in its work on poverty issues.

Foreign Direct Investment and Development

7. The Committee reiterated its view that foreign direct investment (FDI) can make an important contribution to development

through the creation of employment, the development of skills, the transfer of technology, the improvement in competitiveness, and the expansion of markets. Members welcomed the recent increase in real terms in FDI flows to developing countries. They agreed that the prime responsibility for creating a climate of confidence and attracting FDI rested with the host countries. Members emphasized that adequate macroeconomic stability and growth in the context of adjustment efforts and the promotion of an efficient private sector, as well as adequate infrastructure and manpower skills, were crucial factors in this respect. The Committee noted that the policies of the industrial countries, particularly in the areas of macroeconomic policies, and the promotion of savings and tax policies, can impact on FDI flows, including those to developing countries given the increasing openness of the latter's economies. Members stressed that all countries should make further efforts to remove trade and investment barriers so as to allow freer flow of goods and capital. Recognizing that FDI would normally tend to flow to the more advanced and creditworthy developing countries, members stressed the need to explore ways to mobilize and increase FDI flows to low-income countries and lower middle-income countries, particularly in Sub-Saharan Africa. In view of the constraints on FDI flows to low-income countries, the Committee recognized that concessional flows would remain of critical importance to them. Moreover, in the case of low- and lower middle-income countries, members underscored that high priority should be given to the development of local entrepreneurial skills and an indigenous business sector.

8. Given the close relationship between a strong domestic private sector and FDI, the Committee stressed that both the Bank and the Fund should continue to strengthen their efforts to promote an environment favorable to a higher contribution by the private sector to development and increase the flows of FDI to developing countries. Multilateral institutions were also encouraged to assist the efforts of developing countries in maximizing the developmental impact and the most efficient use of FDI by promoting market-oriented policies and, as appropriate, a stronger legal and regulatory framework. The Committee recognized the need of an overall legal framework which would embody the essential legal principles so as to promote FDI; in this regard, it took note of some proposals, notably by France, and urged the MIGA to consult with other competent institutions and report to the next spring's Development Committee. Recalling their request to the World Bank Group at their September 1990 meeting to give a very high priority to the contribution of the private sector to development and to expand the scope of its activities in this area, members welcomed the recent steps undertaken in the Bank Group, particularly the working party set up by the President, to improve coordination within the Group. The Committee noted that the President of the Bank intends to put forward to the Board of Executive Directors for its consideration a comprehensive plan of action for the World Bank Group to strengthen its role in private sector development. The Committee called on the Bank Group to adopt, in the near future, such a plan of action involving a rigorous and integrated approach to the promotion of the private sector, including an even stronger role for IFC in the development of the Bank Group's policies.

9. The Committee reiterated its view that the work of IFC is of special relevance to the development of the private sector in the developing countries. The Committee emphasized that as part of a strengthened World Bank Group private sector focus, IFC should have adequate resources to meet the growing demand for its ser-

vices during the 1990s in a financially prudent and regionally balanced manner. In this connection, members agreed that there should be continued negotiations on an IFC capital increase and that a recommendation on its amount and modalities of subscription and payment should be made by the IFC Board of Directors for early consideration by the Board of Governors so that the Corporation could step up significantly its activities.

Impact of Industrial Countries' Policies on Development

10. The Committee took note of the findings of the joint Bank-Fund staff paper which underlines the adverse effects of some of the developed countries' trade, industrial, and agricultural policies on the economies of the developing countries. The Committee stressed that all countries, and in particular the developed countries, have a special responsibility to pursue sound macroeconomic, industrial, trade, and agricultural policies in order to promote a more open multilateral trade and payments system and to remove trade and investment barriers. The Committee encouraged developed countries to take steps to ensure greater transparency and awareness in their countries of the costs and distorting effects of trade restrictive measures. The Committee welcomed the market-oriented reforms and the trade liberalization measures implemented in recent years by an increasing number of developing countries and encouraged them to continue and broaden this progress and to increasingly integrate themselves into the multilateral trading system.

11. Members heard from the Director General of the General Agreement on Tariffs and Trade (GATT) on the prospects of the Uruguay Round of multilateral trade negotiations. The Committee reiterated the crucial importance it attaches to the trade liberalization and global trade expansion that would follow the successful outcome of these trade negotiations. Members expressed deep concern about the potentially serious negative impact that a failure would have for the global economy. They urged all participants, particularly the major developed countries, to increase their efforts to avoid further delay in reaching a successful conclusion of the Uruguay Round in areas such as agriculture, textiles and clothing, and tropical products which are of particular importance to developing countries and in strengthening GATT rules and in developing disciplines in new areas. Noting the emergence of an increasing number of regional trading arrangements, the Committee emphasized that such arrangements should be part of, rather than an alternative to, wider efforts at promoting multilateral trade liberalization based on the GATT's nondiscriminatory principles.

12. The Committee urged the Bank and the Fund to follow up and continue to evaluate closely developments in respect of trade, industrial, and agricultural policies and their impact on the development prospects of developing countries. The two institutions were encouraged to coordinate closely their work on these issues with the GATT. Members noted that the findings of the GATT's Trade Policy Reviews can provide valuable inputs for the reports prepared from time to time for the Committee on the impact of the industrial countries' trade policies on developing countries. The Committee agreed to keep international trade development issues under consideration at its forthcoming meetings.

The Debt Strategy and Its Impact on Development Prospects

13. The Committee reaffirmed its support for the strengthened debt strategy and welcomed the progress achieved so far. Members stressed that the situation of a number of debtors required further attention given the constraint that their debt burden, and in some cases current policies, continued to have on their budgetary positions and ability to attract FDI and the return of flight capital. They urged debtor countries and commercial banks to accelerate their negotiations and to reach agreements that will facilitate the return to normal debtor/creditor financial relations. The Committee encouraged the Bank and the Fund to continue to provide support with the necessary flexibility, under their established guidelines, for debt and debt service reduction packages negotiated between debtors and the commercial banks.

14. Members welcomed the adaptation of debt restructuring terms introduced recently by the Paris Club bilateral official creditors—including the lengthening of repayment terms and the option of debt swaps in reschedulings—to assist several severely indebted lower middle-income countries. The Committee noted that the debt problems of many of these countries remained very difficult and there was a need to monitor closely their progress toward resumption of normal financial relations with their creditors and economic growth.

15. Members expressed their concern that, notwithstanding the application of the Toronto terms, the prospects for external viability in many of the severely indebted low-income countries remained highly uncertain. The Committee therefore encouraged the Paris Club creditors to complete by mid-1991 their review of the implementation of the existing options and their consideration of additional debt relief measures which could be taken for the low-income countries in the light of proposals made by a number of creditor countries.

16. Members reiterated that it was also important to recognize the needs of a number of debtor countries which have been pursuing appropriate policies and which have not restructured their external debt obligations even under difficult circumstances. They were of the view that the efforts of those countries to maintain normal debtor/creditor financial relations should be encouraged and supported. The Committee urged that in response to the needs of those countries, special efforts be made to provide them with sufficient financial flows, including multilateral flows, to support adjustment programs, development, and poverty reduction.

Global Environmental Issues

17. Recalling its support for the establishment of a facility to address environmental problems which transcend national borders, the Committee welcomed the establishment of the joint World Bank, UNEP, and UNDP Global Environment Facility. The Committee underlined the role that this facility could play as the mechanism to provide additional assistance to developing countries in the framework of ongoing negotiations on the global environment. Members underscored the importance of this pilot facility and urged that relevant experience derived from its operations in dealing with

global environmental challenges be taken into consideration in the World Bank's regular operations. The Committee stressed the importance of open and transparent approaches to addressing environmental challenges. The Committee urged that these and other organizational issues be addressed early on to ensure that the facility achieves the objectives envisioned by participants.

18. Members noted the recent initiatives taken in the IMF toward greater awareness of environmental concerns in its work.

IMF Quota Increase

19. Taking account of the significant increase in the number of countries seeking Fund assistance, the Committee noted with satisfaction that a number of Fund member countries had already consented to the Fund quota increase and the associated Third Amendment of the Articles of Agreement. The Committee urged other members to move without delay toward consent and acceptance.

Future Work Program of the Committee

20. The Committee agreed to discuss at its next meeting: (a) the development priorities of the 1990s and their implications for the World Bank Group; and (b) the development of human resources in developing countries. It requested the Bank to prepare issues papers on these topics, in consultation with the Fund, drawing as appropriate on the 1991 World Development Report. In addition, members requested progress reports on the Bank's women in development activities and on the Bank Group's progress in expanding its private sector activities. They also called on the Bank and the Fund to prepare jointly, for their consideration at their next meeting, a detailed progress report on the implementation of the debt strategy and its impact on the development prospects of all severely indebted countries.

Other Business

21. The Committee appointed Mr. Peter Mountfield (United Kingdom) to succeed the Executive Secretary, Mr. Yves L. Fortin (Canada) for a three-year term with effect from July 1, 1991. Members placed on record their deep appreciation for Mr. Fortin's dedication and for the major contribution he has made in improving the functioning of the Committee and its policy orientation. Members also thanked the Government of Canada for making Mr. Fortin available to the Committee.

22. The Committee expressed its profound appreciation to the retiring President of the World Bank, Mr. Barber Conable, for the distinguished contribution he has made during his five-year term in office to the cause of development and the reduction of poverty in the developing world and for his support for the work of the Development Committee. Members wished him the very best in his future endeavors.

23. The Committee agreed to meet again in Bangkok, Thailand, on October 14, 1991.

Executive Directors and Voting Power on April 30, 1991

Director Alternate	Casting Votes of	Votes by Country	Total Votes ¹	Percent of Fund Total ²
APPOINTED				
Thomas C. Dawson II <i>Vacant</i>	United States	179,433	179,433 ³	18.89 ⁴
David Peretz <i>Paul Wright</i>	United Kingdom	62,190	62,190	6.55
Bernd Goos <i>Bernd Esdar</i>	Germany	54,287	54,287	5.71
Jean-Pierre Landau <i>Jean-François Cirelli</i>	France	45,078	45,078	4.74
Koji Yamazaki <i>Naoki Tabata</i>	Japan	42,483	42,483	4.47
Muhammad Al-Jasser <i>Abdulrahman Al-Tuwaijri</i>	Saudi Arabia	32,274	32,274	3.40
ELECTED				
Jacques de Groot (Belgium) <i>Johann Prader (Austria)</i>	Austria	8,006		
	Belgium	21,054		
	Czechoslovakia	6,150		
	Hungary	5,557		
	Luxembourg	1,020		
	Turkey	4,541	46,328	4.88
Renato Filosa (Italy) <i>Nikos Kyriazidis (Greece)</i>	Greece	4,249		
	Italy	29,341		
	Malta	701		
	Poland	7,050		
	Portugal	4,016	45,357	4.77
Angel Torres (Spain) <i>Roberto Marino (Mexico)</i>	Costa Rica	1,091		
	El Salvador	1,140		
	Guatemala	1,330		
	Honduras	928		
	Mexico	11,905		
	Nicaragua	932		
	Spain	13,110		
	Venezuela	13,965	44,401	4.67
G. A. Posthumus (Netherlands) <i>G. P. J. Hogeweg (Netherlands)</i>	Bulgaria	3,350		
	Cyprus	947		
	Israel	4,716		
	Netherlands	22,898		
	Romania	5,484		
	Yugoslavia	6,380	43,775	4.61
Mohamed Finaish (Libya) <i>Azizali F. Mohammed (Pakistan)</i>	Bahrain	739		
	Egypt	4,884		
	Iraq	5,290		
	Jordan	989		
	Kuwait	6,603		
	Lebanon	1,037		
	Libya	5,407		
	Maldives	270		

Director Alternate	Casting Votes of	Votes by Country	Total Votes ¹	Percent of Fund Total ²
ELECTED (continued)				
	Oman	881		
	Pakistan	5,713		
	Qatar	1,399		
	Somalia	692		
	Syrian Arab Republic	1,641		
	United Arab Emirates	2,276		
	Yemen, Republic of	1,455	39,276	4.13
C. Scott Clark (Canada)	Antigua and Barbuda	300		
Gabriel C. Noonan (Ireland)	Bahamas, The	914		
	Barbados	591		
	Belize	345		
	Canada	29,660		
	Dominica	290		
	Grenada	310		
	Ireland	3,684		
	Jamaica	1,705		
	St. Kitts and Nevis	295		
	St. Lucia	325		
	St. Vincent	290	38,709	4.07
E. A. Evans (Australia)	Australia	16,442		
Grant H. Spencer	Kiribati	275		
(New Zealand)	Korea	4,878		
	New Zealand	4,866		
	Papua New Guinea	909		
	Philippines	4,654		
	Seychelles	280		
	Solomon Islands	300		
	Vanuatu	340		
	Western Samoa	310	33,254	3.50
Markus Fogelholm (Finland)	Denmark	7,360		
Ingimundur Fridriksson	Finland	5,999		
(Iceland)	Iceland	846		
	Norway	7,240		
	Sweden	10,893	32,338	3.40
L.B. Monyake (Lesotho)	Angola	1,700		
L. J. Mwananshiku (Zambia)	Botswana	471		
	Burundi	677		
	Ethiopia	956		
	Gambia, The	421		
	Kenya	1,670		
	Lesotho	401		
	Liberia	963		
	Malawi	622		
	Mozambique	860		
	Namibia	950		
	Nigeria	8,745		
	Sierra Leone	829		
	Sudan	1,947		
	Swaziland	497		
	Tanzania	1,320		
	Uganda	1,246		

Director Alternate	Casting Votes of	Votes by Country	Total Votes ¹	Percent of Fund Total ²
ELECTED (continued)				
	Zambia	2,953		
	Zimbabwe	2,160	29,388	3.09
G. K. Arora (India)	Bangladesh	3,125		
L. Eustace N. Fernando	Bhutan	275		
(Sri Lanka)	India	22,327		
	Sri Lanka	2,481	28,208	2.97
Alexandre Kafka (Brazil)	Brazil	14,863		
Juan Carlos Jaramillo	Colombia	4,192		
(Colombia)	Dominican Republic	1,371		
	Ecuador	1,757		
	Guyana	742		
	Haiti	691		
	Panama	1,272		
	Suriname	743		
	Trinidad and Tobago	1,951	27,582	2.90
J. E. Ismael (Indonesia)	Fiji	615		
Tanya Sirivedhin (Thailand)	Indonesia	10,347		
	Lao People's Democratic Republic	543		
	Malaysia	5,756		
	Myanmar	1,620		
	Nepal	623		
	Singapore	1,174		
	Thailand	4,116		
	Tonga	282		
	Viet Nam	2,018	27,094	2.85
DAI Qianding (China)	China	24,159	24,159	2.54
ZHANG Zhixiang (China)				
Alejandro Végh (Uruguay)	Argentina	11,380		
A. Guillermo Zoccali	Bolivia	1,157		
(Argentina)	Chile	4,655		
	Paraguay	734		
	Peru	3,559		
	Uruguay	1,888	23,373	2.46
Abbas Mirakhor	Afghanistan	1,117		
(Islamic Republic of Iran)	Algeria	6,481		
Omar Kabbaj (Morocco)	Ghana	2,295		
	Iran, Islamic Republic of	6,850		
	Morocco	3,316		
	Tunisia	1,632	21,691	2.28
Corentino V. Santos	Benin	563		
(Cape Verde)	Burkina Faso	566		
Yves-Marie T. Koissy	Cameroon	1,177		
(Côte d'Ivoire)	Cape Verde	295		
	Central African Republic	554		
	Chad	556		
	Comoros	295		
	Congo	623		
	Côte d'Ivoire	1,905		

Director Alternate	Casting Votes of	Votes by Country	Total Votes ¹	Percent of Fund Total ²
ELECTED (concluded)				
	Djibouti	330		
	Equatorial Guinea	434		
	Gabon	981		
	Guinea	829		
	Guinea-Bissau	325		
	Madagascar	914		
	Mali	758		
	Mauritania	589		
	Mauritius	786		
	Niger	587		
	Rwanda	688		
	Sao Tome and Principe	290		
	Senegal	1,101		
	Togo	634		
	Zaire	3,160	18,940	1.99
			939,618 ³	98.90 ⁴

¹ Voting power varies on certain matters pertaining to the General Department with use of the Fund's resources in that department.

² Percentages of total votes (950,025) in the General Department and the SDR Department.

³ This total does not include the votes of Cambodia, Mongolia, and South Africa, which did not participate in the 1990 Regular Election of Executive Directors. The combined votes of those members total 10,407—1.10 percent of those in the General Department and SDR Department.

⁴ This figure may differ from the sum of the percentages shown for individual Directors because of rounding.

Changes in Membership of Executive Board

Changes in membership of the Executive Board between May 1, 1990 and April 30, 1991 were as follows:

Yusuf A. Nimatallah (Saudi Arabia) resigned as Executive Director for Saudi Arabia, effective June 30, 1990.

Muhammad Al-Jasser (Saudi Arabia), formerly Alternate Executive Director to Yusuf A. Nimatallah (Saudi Arabia), was appointed Executive Director for Saudi Arabia, effective July 1, 1990.

Charles Enoch (United Kingdom) resigned as Alternate Executive Director to Frank Cassell (United Kingdom), effective July 13, 1990.

Charles S. Warner (U.S.) resigned as Alternate Executive Director to Thomas C. Dawson (U.S.), effective July 14, 1990.

Paul Wright (United Kingdom) was appointed Alternate Executive Director to Frank Cassell (United Kingdom), effective July 14, 1990.

Frank Cassell (United Kingdom) resigned as Executive Director for United Kingdom, effective July 22, 1990.

David Peretz (United Kingdom) was appointed Executive Director for United Kingdom, effective July 23, 1990.

Paul Wright (United Kingdom), previously Alternate Executive Director to Frank Cassell (United Kingdom), was appointed Alternate Executive Director to David Peretz (United Kingdom), effective July 23, 1990.

Ricardo J. Lombardo (Uruguay) resigned as Alternate Executive Director to Ernesto V. Feldman (Argentina), effective September 29, 1990.

Miguel A. Fernández Ordóñez (Spain) resigned as Alternate Executive Director to Leonor Filardo (Venezuela), effective October 15, 1990.

El Tayeb El Kogali (Sudan) completed his term of service as Executive Director for Botswana, Burundi, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Nigeria, Sierra Leone, Sudan, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe, effective October 31, 1990.

Ernesto V. Feldman (Argentina) completed his term of service as Executive Director for Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay, effective October 31, 1990.

Leonor Filardo (Venezuela) completed her term of service as Executive Director for Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, and Venezuela, effective October 31, 1990.

Mohammad Reza Ghasimi (Islamic Republic of Iran) completed his term of service as Executive Director for Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Morocco, and Tunisia, effective October 31, 1990.

Seung-Woo Kwon (Korea) resigned as Alternate Executive Director to E.A. Evans (Australia), effective October 31, 1990.

MAWAKANI Samba (Zaire) completed his term of service as Executive Director for Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, Sao Tome and Principe, Senegal, Togo, and Zaire, effective October 31, 1990.

G.K. Arora (India) was re-elected Executive Director by Bangladesh, Bhutan, India, and Sri Lanka, effective November 1, 1990.

C. Scott Clark (Canada) was re-elected Executive Director by Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent, effective November 1, 1990.

DAI Qianding (China) was re-elected Executive Director by China, effective November 1, 1990.

Jacques de Groote (Belgium) was re-elected Executive Director by Austria, Belgium, Czechoslovakia, Hungary, Luxembourg, and Turkey, effective November 1, 1990.

E.A. Evans (Australia) was re-elected Executive Director by Australia, Kiribati, Korea, New Zealand, Papua New Guinea, Philippines, Seychelles, Solomon Islands, Vanuatu, and Western Samoa, effective November 1, 1990.

Renato Filosa (Italy) was re-elected Executive Director by Greece, Italy, Malta, Poland, and Portugal, effective November 1, 1990.

Mohamed Finaish (Libya) was re-elected Executive Director by Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Pakistan, Qatar, Somalia, Syrian Arab Republic, United Arab Emirates, and Republic of Yemen, effective November 1, 1990.

Markus Fogelholm (Finland) was re-elected Executive Director by Denmark, Finland, Iceland, Norway, and Sweden, effective November 1, 1990.

J.E. Ismael (Indonesia) was re-elected Executive Director by Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, and Viet Nam, effective November 1, 1990.

Omar Kabbaj (Morocco), previously Alternate Executive Director to Mohammad Reza Ghasimi (Islamic Republic of Iran), was appointed Alternate Executive Director to Abbas Mirakhor (Islamic Republic of Iran), effective November 1, 1990.

Alexandre Kafka (Brazil) was re-elected Executive Director by Brazil, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, and Trinidad and Tobago, effective November 1, 1990.

Yves-Marie T. Koissy (Côte d'Ivoire) was appointed Alternate Executive Director to Corentino V. Santos (Cape Verde), effective November 1, 1990.

Roberto Marino (Mexico) was appointed Alternate Executive Director to Angel Torres (Spain), effective November 1, 1990.

Abbas Mirakhor (Islamic Republic of Iran) was elected Executive Director by Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Morocco, and Tunisia, effective November 1, 1990.

L.B. Monyake (Lesotho), formerly Alternate Executive Director to El Tayeb El Kogali (Sudan), was elected Executive Director by Angola, Botswana, Burundi, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Sudan, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe, effective November 1, 1990.

L. J. Mwananshiku (Zambia) was appointed Alternate Executive Director to L. B. Monyake (Lesotho), effective November 1, 1990.

G.A. Posthumus (Netherlands) was re-elected Executive Director by Bulgaria, Cyprus, Israel, Netherlands, Romania, and Yugoslavia, effective November 1, 1990.

Corentino Santos (Cape Verde), formerly Alternate Executive Director to MAWAKANI Samba (Zaire), was elected Executive Director by Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, Sao Tome and Principe, Senegal, Togo, and Zaire, effective November 1, 1990.

Grant H. Spencer (New Zealand) was appointed Alternate Executive Director to E.A. Evans (Australia), effective November 1, 1990.

Angel Torres (Spain) was elected Executive Director by Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, and Venezuela, effective November 1, 1990.

Alejandro Végh (Uruguay) was elected Executive Director by Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay, effective November 1, 1990.

A. Guillermo Zoccali (Argentina) was appointed Alternate Executive Director to Alejandro Végh (Uruguay), effective November 1, 1990.

Guenter Grosche (Germany) resigned as Executive Director for Germany, effective December 9, 1990.

Bernd Goos (Germany), formerly Alternate Executive Director to Guenter Grosche (Germany), was appointed Executive Director for Germany, effective December 10, 1990.

Shinichi Yoshikuni (Japan) resigned as Alternate Executive Director to Koji Yamazaki (Japan), effective December 24, 1990.

Naoki Tabata (Japan) was appointed Alternate Executive Director to Koji Yamazaki (Japan), effective December 25, 1990.

Abdul Moneim Othman (Iraq) resigned as Alternate Executive Director to Mohamed Finaish (Libya), effective December 31, 1990.

Azizali F. Mohammed (Pakistan) was appointed Alternate Executive Director to Mohamed Finaish (Libya), effective January 2, 1991.

Bernd Esdar (Germany) was appointed Alternate Executive Director to Bernd Goos (Germany), effective February 1, 1991.

Abdulahman A. Al-Tuwajiri (Saudi Arabia) was appointed Alternate Executive Director to Muhammad Al-Jasser (Saudi Arabia), effective February 11, 1991.

Luis Manuel Piantini (Dominican Republic) resigned as Alternate Executive Director to Alexandre Kafka (Brazil), effective March 31, 1991.

Indridi H. Thorláksson (Iceland) resigned as Alternate Executive Director to Markus Fogelholm (Finland), effective March 31, 1991.

Ingimundur Fridriksson (Iceland) was appointed Alternate Executive Director to Markus Fogelholm (Finland), effective April 1, 1991.

Juan Carlos Jaramillo (Colombia) was appointed Alternate Executive Director to Alexandre Kafka (Brazil), effective April 1, 1991.

The following served at certain meetings of the Executive Board during 1990/91 as Temporary Alternate Executive Directors to the Executive Directors indicated:

Temporary Alternate Executive Director	Executive Director for Whom Temporary Alternate Served
John M. Abbott (<i>United States</i>)	Thomas C. Dawson (<i>United States</i>)
Burhanuddin Abdullah (<i>Indonesia</i>)	J. E. Ismael (<i>Indonesia</i>)
John O. Aderibigbe (<i>Nigeria</i>)	El Tayeb El Kogali (<i>Sudan</i>)
N. Adachi (<i>Japan</i>)	L. B. Monyake (<i>Lesotho</i>)
Felix Enrico R. Alfiler (<i>Philippines</i>)	Koji Yamazaki (<i>Japan</i>)
José Roberto Novaes de Almeida (<i>Brazil</i>)	E. A. Evans (<i>Australia</i>)
Meekal A. Ahmed (<i>Pakistan</i>)	Alexandre Kafka (<i>Brazil</i>)
T. S. Allouba (<i>Egypt</i>)	Mohamed Finaish (<i>Libya</i>)
Sandro Appetiti (<i>Italy</i>)	Mohamed Finaish (<i>Libya</i>)
Jerzy Basiuk (<i>Poland</i>)	Renato Filosa (<i>Italy</i>)
Taye Berrihun (<i>Ethiopia</i>)	Renato Filosa (<i>Italy</i>)
Hasan Sukru Binay (<i>Turkey</i>)	El Tayeb El Kogali (<i>Sudan</i>)
George Bindley-Taylor (<i>Trinidad and Tobago</i>)	L. B. Monyake (<i>Lesotho</i>)
Christer Björkhund (<i>Sweden</i>)	Jacques de Groote (<i>Belgium</i>)
Biagio Bossone (<i>Italy</i>)	Alexandre Kafka (<i>Brazil</i>)
Luis E. Breuer (<i>Paraguay</i>)	Markus Fogelholm (<i>Finland</i>)
Mohamed Bahaa Chatah (<i>Lebanon</i>)	Renato Filosa (<i>Italy</i>)
CHEN Mingqiang (<i>China</i>)	Alejandro Végh (<i>Uruguay</i>)
Bent A. Christiansen (<i>Denmark</i>)	Mohamed Finaish (<i>Libya</i>)
Harold E. Codrington (<i>Barbados</i>)	DAI Qianding (<i>China</i>)
Susan B. Creane (<i>United States</i>)	Markus Fogelholm (<i>Finland</i>)
	C. Scott Clark (<i>Canada</i>)
	Thomas C. Dawson (<i>United States</i>)

Temporary Alternate Executive Director	Executive Director for Whom Temporary Alternate Served
Cao Dac Cuong (<i>Viet Nam</i>)	J. E. Ismael (<i>Indonesia</i>)
Edgardo Carlos Demaestri (<i>Argentina</i>)	Ernesto V. Feldman (<i>Argentina</i>)
DO Tran Trong (<i>Viet Nam</i>)	J. E. Ismael (<i>Indonesia</i>)
Hubert Dognin (<i>France</i>)	Jean-Pierre Landau (<i>France</i>)
Abda Y. El Mahdi (<i>Sudan</i>)	El Tayeb El Kogali (<i>Sudan</i>)
Miki Eran (<i>Israel</i>)	G. A. Posthumus (<i>Netherlands</i>)
Nestor A. Espenilla (<i>Philippines</i>)	E. A. Evans (<i>Australia</i>)
Antonio Fanna (<i>Italy</i>)	Renato Filosa (<i>Italy</i>)
Salam K. Fayyad (<i>Jordan</i>)	Mohamed Finaish (<i>Libya</i>)
B. R. Fuleihan (<i>United Kingdom</i>)	Yusuf A. Nimatallah (<i>Saudi Arabia</i>)
	Muhammad Al-Jasser (<i>Saudi Arabia</i>)
M. Galan (<i>Mexico</i>)	Angel Torres (<i>Spain</i>)
Gustavo Garcia (<i>Venezuela</i>)	Leonor Filardo (<i>Venezuela</i>)
M. A. Ghavam (<i>Iran, Islamic Republic of</i>)	Mohammad Reza Ghasimi (<i>Iran, Islamic Republic of</i>)
	Abbas Mirakhor (<i>Iran, Islamic Republic of</i>)
Judith Gold (<i>Canada</i>)	C. Scott Clark (<i>Canada</i>)
Audun Gronn (<i>Norway</i>)	Markus Fogelholm (<i>Finland</i>)
S. Gurumurthi (<i>India</i>)	G. K. Arora (<i>India</i>)
Mohamed Ali Hammoudi (<i>Iran, Islamic Republic of</i>)	Mohammad Reza Ghasimi (<i>Iran, Islamic Republic of</i>)
	Abbas Mirakhor (<i>Iran, Islamic Republic of</i>)
Mary Elizabeth Hansen (<i>United States</i>)	Thomas C. Dawson (<i>United States</i>)
Asiah Hashim (<i>Malaysia</i>)	J. E. Ismael (<i>Indonesia</i>)
Margarita Hepp (<i>Chile</i>)	Ernesto V. Feldman (<i>Argentina</i>)
O. A. Himani (<i>Lebanon</i>)	Mohamed Finaish (<i>Libya</i>)
HON Chee-Won (<i>Singapore</i>)	J. E. Ismael (<i>Indonesia</i>)
Luc K. Hubloue (<i>Belgium</i>)	Jacques de Groote (<i>Belgium</i>)
Kenta Ichikawa (<i>Japan</i>)	Koji Yamazaki (<i>Japan</i>)
Zubair Iqbal (<i>Pakistan</i>)	Yusuf A. Nimatallah (<i>Saudi Arabia</i>)
	Muhammad Al-Jasser (<i>Saudi Arabia</i>)
Koichi Ishikura (<i>Japan</i>)	Koji Yamazaki (<i>Japan</i>)
Abdel Rehman Ismael (<i>Mauritius</i>)	MAWAKANI Samba (<i>Zaire</i>)
	Corentino V. Santos (<i>Cape Verde</i>)
Luis I. Jácome (<i>Ecuador</i>)	Alexandre Kafka (<i>Brazil</i>)
Christopher J. Jarvis (<i>United Kingdom</i>)	Frank Cassell (<i>United Kingdom</i>)
	David Peretz (<i>United Kingdom</i>)
J. Mills Jones (<i>Liberia</i>)	El Tayeb El Kogali (<i>Sudan</i>)
	L. B. Monyake (<i>Lesotho</i>)
Martin E.F. Jones (<i>United Kingdom</i>)	David Peretz (<i>United Kingdom</i>)
Prafulla Kumar Kafle (<i>Nepal</i>)	J. E. Ismael (<i>Indonesia</i>)
Karl-Heinz Kleine (<i>Germany</i>)	Guenter Grosche (<i>Germany</i>)
M. Kooymans (<i>Australia</i>)	E. A. Evans (<i>Australia</i>)
Kwassivi Kpetigo (<i>Togo</i>)	MAWAKANI Samba (<i>Zaire</i>)
	Corentino V. Santos (<i>Cape Verde</i>)
Vural Kural (<i>Turkey</i>)	Jacques de Groote (<i>Belgium</i>)
Seung-Woo Kwon (<i>Korea</i>)	E. A. Evans (<i>Australia</i>)
Wolfgang Laux (<i>Germany</i>)	Bernd Goos (<i>Germany</i>)
Christopher Y. Legg (<i>Australia</i>)	E. A. Evans (<i>Australia</i>)
Gillian Lindsay-Nanton (<i>St. Vincent and the Grenadines</i>)	C. Scott Clark (<i>Canada</i>)
J. Mafararikwa (<i>Zimbabwe</i>)	L. B. Monyake (<i>Lesotho</i>)
Roberto Marino (<i>Mexico</i>)	Leonor Filardo (<i>Venezuela</i>)
Jean-Luc Menda (<i>France</i>)	Jean-Pierre Landau (<i>France</i>)
Raphael Meron (<i>Israel</i>)	G. A. Posthumus (<i>Netherlands</i>)

Temporary Alternate Executive Director	Executive Director for Whom Temporary Alternate Served
Mohammad Jafar Mojarad (<i>Iran, Islamic Republic of</i>)	Mohammad Reza Ghasimi (<i>Iran, Islamic Republic of</i>) Abbas Mirakhor (<i>Iran, Islamic Republic of</i>)
Gina Montiel (<i>Venezuela</i>)	Leonor Filardo (<i>Venezuela</i>)
Pedro O. Montórfano (<i>Paraguay</i>)	Ernesto V. Feldman (<i>Argentina</i>)
Frank Moss (<i>Belgium</i>)	Jacques de Groote (<i>Belgium</i>)
M. Mrakovcic (<i>Australia</i>)	E. A. Evans (<i>Australia</i>)
James A. K. Munthali (<i>Malawi</i>)	El Tayeb El Kogali (<i>Sudan</i>)
Makoto Nakagawa (<i>Japan</i>)	L. B. Monyake (<i>Lesotho</i>)
Analia Napky (<i>Honduras</i>)	Koji Yamazaki (<i>Japan</i>)
Barry C. Newman (<i>United States</i>)	Leonor Filardo (<i>Venezuela</i>)
Jean-Christian Obame (<i>Gabon</i>)	Angel Torres (<i>Spain</i>)
John Kobina Orleans-Lindsay (<i>Ghana</i>)	Thomas C. Dawson (<i>United States</i>)
Yasmin Patel (<i>Mozambique</i>)	MAWAKANI Samba (<i>Zaire</i>)
Dorothy Powell (<i>Canada</i>)	Corentino V. Santos (<i>Cape Verde</i>)
Pál Péterfalvy (<i>Hungary</i>)	MAWAKANI Samba (<i>Zaire</i>)
Felix Armando Quirós (<i>Panama</i>)	Corentino V. Santos (<i>Cape Verde</i>)
A. Raza (<i>India</i>)	El Tayeb El Kogali (<i>Sudan</i>)
Leonardo Rodriguez (<i>Spain</i>)	L. B. Monyake (<i>Lesotho</i>)
Sadok Rouai (<i>Tunisia</i>)	C. Scott Clark (<i>Canada</i>)
Patricio L. Rubianes (<i>Ecuador</i>)	Jacques de Groote (<i>Belgium</i>)
Daniel Saha (<i>Cameroon</i>)	Alexandre Kafka (<i>Brazil</i>)
Bassirou A. Sarr (<i>Mauritania</i>)	G. K. Arora (<i>India</i>)
H-J. Scheid (<i>Germany</i>)	Angel Torres (<i>Spain</i>)
Jean-Pierre Schoder (<i>Luxembourg</i>)	Mohammad Reza Ghasimi (<i>Iran, Islamic Republic of</i>)
Ciro Schioppa (<i>Italy</i>)	Abbas Mirakhor (<i>Iran, Islamic Republic of</i>)
Georges Serre (<i>France</i>)	Alexandre Kafka (<i>Brazil</i>)
M. J. Shaffrey (<i>New Zealand</i>)	MAWAKANI Samba (<i>Zaire</i>)
SHAO Zhengkang (<i>China</i>)	Corentino V. Santos (<i>Cape Verde</i>)
S. P. Shrestha (<i>Nepal</i>)	MAWAKANI Samba (<i>Zaire</i>)
Duncan Sparkes (<i>United Kingdom</i>)	Corentino V. Santos (<i>Cape Verde</i>)
Bea Szombati (<i>Hungary</i>)	Guenter Grosche (<i>Germany</i>)
Alexandru M. Tanase (<i>Romania</i>)	Bernd Goos (<i>Germany</i>)
Norbert Toé (<i>Burkina Faso</i>)	Jacques de Groote (<i>Belgium</i>)
Christopher M. Towe (<i>Canada</i>)	Renato Filosa (<i>Italy</i>)
Stephan von Stenglin (<i>Germany</i>)	Jean-Pierre Landau (<i>France</i>)
WANG J. (<i>China</i>)	E. A. Evans (<i>Australia</i>)
Jacobus C. Westerweel (<i>Netherlands</i>)	DAI Qianding (<i>China</i>)
YANG Jingping (<i>China</i>)	J. E. Ismael (<i>Indonesia</i>)
	David Peretz (<i>United Kingdom</i>)
	Jacques de Groote (<i>Belgium</i>)
	G. A. Posthumus (<i>Netherlands</i>)
	MAWAKANI Samba (<i>Zaire</i>)
	Corentino V. Santos (<i>Cape Verde</i>)
	C. Scott Clark (<i>Canada</i>)
	Bernd Goos (<i>Germany</i>)
	DAI Qianding (<i>China</i>)
	G. A. Posthumus (<i>Netherlands</i>)
	DAI Qianding (<i>China</i>)

Administrative and Capital Budgets

Administrative Budget as Approved by the Executive Board for the Financial Year Ending April 30, 1992 Compared with Actual Expenses for the Financial Years Ended April 30, 1990 and April 30, 1991; and Capital Budget as Approved by the Executive Board for Capital Projects Beginning in Financial Year 1992

(Values expressed in thousands of U.S. dollars)¹

	Financial Year Ended April 30, 1990	Financial Year Ended April 30, 1991	Financial Year Ending April 30, 1992
	Actual Expenses	Actual Expenses	Budget
ADMINISTRATIVE BUDGET			
I. Personnel Expenses			
Salaries	123,855	136,484	152,065
Other personnel expenses	60,671	59,349	81,060
Subtotal	184,526	195,833	233,125
II. Travel Expenses			
Business travel	20,989	23,725	28,955
Other travel	13,904	16,592	17,380
Subtotal	34,893	40,317	46,335
III. Other Administrative Expenses			
Communications	6,575	7,557	7,740
Building occupancy	17,311	18,760	21,985
Books and printing	4,809	5,221	6,575
Supplies and equipment	4,188	4,976	6,055
Data processing	13,090	14,384	16,415
Miscellaneous	4,300	4,896	5,540
Subtotal	50,273	55,794	64,310
IV. Reimbursements	(9,755)	(13,082)	(13,630)
TOTAL ADMINISTRATIVE BUDGET	259,937	278,862	330,140
Total Administrative Budget in SDRs	203,127	201,515	244,492
Less: Reimbursement for administering the SDR Department	(4,300)	(3,700)	(4,100)
Reimbursement for administering the SAF/ESAF	(13,100)	(11,900)	(14,200)
Net Administrative Budget Expenses in SDRs ²	185,727	185,915	226,192
Capital Projects Beginning in FY 1992			
CAPITAL BUDGET			
Building Space Facilities			
Headquarters			13,000
Other locations			3,800
			16,800
EDP Systems			
Network Controllers			1,200
TOTAL CAPITAL BUDGET			18,000
Total Capital Budget in SDRs			13,330

¹ Due to rounding, details may not add to total.

² Net administrative budget expenses exclude fixed property expenditures, which are approved in separate capital budgets and a valuation gain or loss on administrative currency holdings. For the financial year ended April 30, 1991, fixed property expenditures were SDR 3,054,130 and the valuation loss on administrative currency holdings was SDR 446,489.

Financial Statements

REPORT OF THE EXTERNAL AUDIT COMMITTEE

Washington, D.C.
June 27, 1991

Authority and Scope of the Audit

In accordance with Section 20(b) of the By-Laws of the International Monetary Fund we have audited the financial statements of the Fund covering the

- General Department for the year ended April 30, 1991,
- SDR Department for the year ended April 30, 1991, and
- Accounts administered by the Fund, which consist of the Supplementary Financing Facility Subsidy Account, the Trust Fund, the Enhanced Structural Adjustment Facility Trust, the Enhanced Structural Adjustment Facility Administered Accounts, the Administered Account—Japan, the Administered Account—Guyana, the Administered Technical Assistance Account—Japan, the Voluntary Contribution Account—Bolivia, for the year ended April 30, 1991 and the Voluntary Contribution Account—Costa Rica for the period May 15, 1990 to May 22, 1990.

Our audit was conducted in accordance with generally accepted auditing standards and included reviews of the accounting and internal control systems, and tests of the accounting records. We evaluated the extent and results of the work of the Independent Accountants as well as that of the Office of Internal Audit and Review and also used other audit procedures as deemed necessary.

Audit Opinion

In our opinion, the financial statements of the General Department (including the related supplemental schedules one through four), the SDR Department, and the Accounts administered by the Fund have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year (except in the case of the Voluntary Contribution Account—Costa Rica which was in operation for the period May 15, 1990 to May 22, 1990) and give a true and fair view of the respective financial positions and the allocations and holdings of SDRs as at April 30, 1991 (except in the case of the Voluntary Contribution Account—Costa Rica which was terminated on May 22, 1990), and of the financial results of operations and transactions during the respective periods.

In connection with our examination of the Voluntary Contribution Accounts, in our opinion the operation of the Account for Bolivia has been conducted in accordance with the Instrument establishing the Account.

EXTERNAL AUDIT COMMITTEE

/s/ Philippe Lacarriere, Chairman (*France*)
/s/ Michael J. Jacobs (*Australia*)
/s/ Jocelyn Thompson (*Trinidad and Tobago*)

GENERAL DEPARTMENT

BALANCE SHEET

as at April 30, 1991

(In thousands of SDRs)

(Note 1)

	1991	1990
ASSETS		
GENERAL RESOURCES ACCOUNT		
Currencies and securities (Notes 2 and 5)	92,153,834	90,936,410
SDR holdings (Note 3)	694,280	628,486
Gold holdings (Note 4)	3,620,396	3,620,396
Deferred charges receivable (Note 5)	1,078,252	960,666
Borrowed resources held in suspense	796,688	17
Charges receivable and accrued (Note 5)	465,334	511,335
Interest receivable on SDR holdings	13,792	21,681
Quota subscription receivable	25,000	—
Other assets	32,084	30,792
TOTAL GENERAL RESOURCES ACCOUNT	<u>98,879,660</u>	<u>96,709,783</u>
SPECIAL DISBURSEMENT ACCOUNT		
Currency deposits	36	14
Interest-earning deposits	831,520	844,899
Structural adjustment facility loans	1,728,488	1,548,619
Accrued income on investments and loans	35,136	40,009
TOTAL SPECIAL DISBURSEMENT ACCOUNT	<u>2,595,180</u>	<u>2,433,541</u>
TOTAL GENERAL DEPARTMENT	<u>101,474,840</u>	<u>99,143,324</u>
QUOTAS, RESERVES, LIABILITIES AND SPECIAL DISBURSEMENT ACCOUNT RESOURCES		
GENERAL RESOURCES ACCOUNT		
Quotas		
Subscriptions of Members	91,127,550	90,132,550
Reserves (Note 6)	1,466,826	1,396,977
Special Contingent Accounts (Note 5)	426,959	214,816
Liabilities		
Borrowing (Note 7)	4,300,000	3,514,162
Accrued remuneration payable (Note 5)	250,150	314,396
Accrued interest on borrowing	82,461	76,239
Other liabilities and deferred credits	147,462	99,977
	4,780,073	4,004,774
Deferred income from charges (Note 5)	1,078,252	960,666
TOTAL GENERAL RESOURCES ACCOUNT	<u>98,879,660</u>	<u>96,709,783</u>
SPECIAL DISBURSEMENT ACCOUNT		
Accumulated resources	2,594,838	2,433,312
Deferred income	342	229
TOTAL SPECIAL DISBURSEMENT ACCOUNT	<u>2,595,180</u>	<u>2,433,541</u>
TOTAL GENERAL DEPARTMENT	<u>101,474,840</u>	<u>99,143,324</u>

The accompanying notes and Schedules 1-4 are an integral part of the financial statements.

/s/ David Williams
Acting Treasurer/s/ M. Camdessus
Managing Director

GENERAL DEPARTMENT
STATEMENT OF INCOME AND EXPENSE
for the year ended April 30, 1991
(In thousands of SDRs)
(Note 1)

	1991	1990
GENERAL RESOURCES ACCOUNT		
OPERATIONAL INCOME (Note 5)		
Periodic charges	1,739,108	1,878,090
Addition to periodic charges	114,598	127,113
Special charges	85,519	64,283
Deduct: Income deferred, net	(114,510)	(244,429)
	<u>1,824,715</u>	<u>1,825,057</u>
Interest on SDR holdings (Note 3)	70,877	88,176
Service charges	31,240	22,201
Other	3,014	4,783
	<u>1,929,846</u>	<u>1,940,217</u>
OPERATIONAL EXPENSE		
Remuneration (Note 5)	1,314,095	1,383,323
Reduction of remuneration (Note 5)	173,597	127,146
	<u>1,140,498</u>	<u>1,256,177</u>
Interest on borrowing, net of income from temporary investments in Borrowed Resources Suspense Accounts (SDR 7,167 in 1991 and SDR 14,857 in 1990)	317,940	344,962
Allocation to the Special Contingent Accounts (Note 5)	212,143	65,000
	<u>1,670,581</u>	<u>1,666,139</u>
NET OPERATIONAL INCOME	<u>259,265</u>	<u>274,078</u>
ADMINISTRATIVE EXPENSE (Note 9)		
Personnel	140,439	141,610
Travel	28,760	26,866
Other, net (Note 1)	20,217	20,092
	<u>189,416</u>	<u>188,568</u>
NET INCOME OF GENERAL RESOURCES ACCOUNT	<u><u>69,849</u></u>	<u><u>85,510</u></u>
SPECIAL DISBURSEMENT ACCOUNT		
Investment income	74,746	73,770
Interest and special charges on loans	8,128	6,441
	<u>82,874</u>	<u>80,211</u>
Exchange valuation loss	221	63
Administrative expense (Note 9)	11,900	13,100
NET INCOME OF SPECIAL DISBURSEMENT ACCOUNT	<u><u>70,753</u></u>	<u><u>67,048</u></u>

The accompanying notes and Schedules 1-4 are an integral part of the financial statements.

GENERAL DEPARTMENT
STATEMENT OF CHANGES IN RESERVES AND RESOURCES
for the year ended April 30, 1991
(In thousands of SDRs)
(Note 1)

	<u>1991</u>	<u>1990</u>
RESERVES—GENERAL RESOURCES ACCOUNT		
SPECIAL RESERVE (Note 6)		
Balance at beginning of the year	1,031,397	945,887
Net income	<u>69,849</u>	<u>85,510</u>
Balance at end of the year	<u>1,101,246</u>	<u>1,031,397</u>
GENERAL RESERVE (Note 6)		
Balance at beginning and end of the year	<u>365,580</u>	<u>365,580</u>
TOTAL RESERVES OF THE GENERAL RESOURCES ACCOUNT	<u><u>1,466,826</u></u>	<u><u>1,396,977</u></u>
RESOURCES—SPECIAL DISBURSEMENT ACCOUNT		
Balance at beginning of the year	2,433,312	2,080,739
Transfers from Trust Fund	171,633	361,301
Transfers from SFF Subsidy Account	6,387	3,303
Transfers to ESAF Trust	<u>(87,247)</u>	<u>(79,079)</u>
	2,524,085	2,366,264
Net income	<u>70,753</u>	<u>67,048</u>
TOTAL RESOURCES OF THE SPECIAL DISBURSEMENT ACCOUNT	<u><u>2,594,838</u></u>	<u><u>2,433,312</u></u>

The accompanying notes and Schedules 1-4 are an integral part of the financial statements.

GENERAL DEPARTMENT

NOTES TO THE FINANCIAL STATEMENTS

Under the Articles of Agreement, the General Department consists of the General Resources Account, the Special Disbursement Account, and the Investment Account. The Investment Account had not been activated at April 30, 1991. The Executive Board also established in May 1981 the Borrowed Resources Suspense Accounts.

General Resources Account

Assets held in the General Resources Account comprise (i) currencies of the Fund's member countries (including securities), (ii) SDR holdings, and (iii) gold.

Each member has been required to pay to the Fund the amount of its initial quota and subsequent increases partly in the member's own currency and the remainder in the form of reserve assets, except that for the increases proposed in 1978, members were permitted to pay the entire increase in their own currencies. A member's quota cannot be increased until the member consents to the increase and pays the subscription.

The Fund makes its resources available to its members in accordance with policies on the use of its resources by selling to members, in exchange for their own currency, SDRs, or currencies of other members. Use of the Fund's resources by a member is dependent on the member having a balance of payments need.

When members make purchases, they incur an obligation to repurchase, within the periods specified by the Fund, the Fund's holdings of their currencies by the payment to the Fund of SDRs or the currencies of other members specified by the Fund. The Fund's policies on the use of its resources are intended to assure that use of its resources is temporary and will be reversed within time periods specified by the Fund.

The composition of the Fund's holdings of members' currencies changes as a result of the Fund's operations and transactions, including purchase and repurchase transactions in currencies as noted above. The caption "Currencies and securities" in the Balance Sheet reflects holdings of currencies of all members, including those of members that make use of the Fund's resources and those used to finance the Fund's operations and transactions.

A member has a reserve tranche in the Fund to the extent that the Fund's holdings of its currency, excluding holdings which reflect the member's use of Fund credit, are less than the member's quota. A member's reserve tranche is regarded as a part of the member's external reserves and a member may purchase up to the amount of its full reserve tranche at any time when the member represents that it has a need. Reserve tranche purchases are not regarded as a use of Fund credit.

Members may make use of Fund resources under various policies and the amount of such use is related to a member's quota in the Fund. Under the credit tranche policy, credit is at present made available to members in a range consisting of four tranches or segments each equal to 25 percent of a member's quota. A first credit tranche purchase is defined as one that raises the Fund's holdings of a member's currency in the credit tranche from 0 to 25 percent of quota. Subsequent purchases are referred to as upper credit tranche purchases. Higher conditionality accompanies the use of Fund credit in the upper tranches.

Members experiencing balance of payments difficulties may request stand-by arrangements from the Fund under which the Fund commits itself to provide resources to be made available over periods of up to three years from the date of the arrangements. Purchases under these arrangements in the upper credit tranches depend upon the member's meeting the performance criteria and other conditions included in the arrangements.

In addition to purchases under the Fund's credit tranche policies, members may make or have made use of the Fund's resources under decisions on:

- Compensatory and contingency financing facility—to assist members encountering payments difficulties produced by temporary export shortfalls, attributable to external circumstances, or an excess in the cost of cereal imports or caused by an excess in the cost of oil imports. The compensatory financing facility includes a mechanism for contingency financing to support adjustment programs supported by the Fund.
- Buffer stock financing facility—to assist members in connection with the financing of international buffer stocks of primary products.
- Extended Fund facility—to provide, through extended arrangements not exceeding three years (and where appropriate, at the request of a member, up to four years), medium-term assistance to members to make structural adjustments in their economies. Purchases under these arrangements depend upon the member's meeting the performance criteria included in the arrangements.
- Supplementary financing facility and the policy on enlarged access—to make resources available under stand-by and extended arrangements, in addition to those available in the credit tranches or under the extended Fund facility, to members facing serious payments imbalances that are large in relation to their quotas. These policies are temporary and may be utilized only in conjunction with the use of resources in the upper credit tranches.

Members that purchase resources from the Fund have an obligation to repurchase the Fund's holdings of their currencies by the payment to the Fund of SDRs or the currencies of other members specified by the Fund. Reserve tranche purchases made after April 1, 1978, are not subject to repurchase. Purchases in the credit tranches, purchases under the compensatory and contingency financing facility and under the buffer stock facility are to be repurchased in quarterly installments beginning three years and ending not later than five years after the date of purchase. Purchases under the supplementary financing facility or the enlarged access policy financed by borrowed resources (or "substituted" resources) are to be repurchased in semiannual installments beginning three and one-half years and ending not later than seven years after the date of purchase. Purchases under the extended Fund facility (other than purchases under the supplementary financing facility or policy on enlarged access) are to be repurchased in semiannual installments beginning four years and ending not later than ten years after the date of purchase. However, a member is entitled to repurchase at any time holdings of its currency on which the Fund levies charges, and is expected to make repurchases prior to the periods mentioned above as and when its balance of payments and reserve position improves.

Borrowed Resources Suspense Accounts

Borrowed Resources Suspense Accounts have been established in order to hold, transfer, convert and invest (i) currencies borrowed by the Fund before they are transferred to the General Resources Account for use in transactions or operations; and (ii) currencies received by the Fund in repurchases financed with borrowed resources before repayments to lenders can be made. Members are not obligated to maintain the SDR value of their currencies held by the Fund in the Borrowed Resources Suspense Accounts, and as far as practicable, the currencies are invested in SDR-denominated obligations.

At April 30, 1991, there was SDR 796 million in borrowed resources held in suspense (SDR 0.02 million at April 30, 1990).

Special Disbursement Account

The Fund administers a Trust Fund, established in 1976 to provide balance of payments assistance (loans) on concessional terms to certain members. The Special Disbursement Account was activated on June 30, 1981 to receive transfers from the Trust Fund (repayments of loans and interest) which is in the process of being wound up. The final Trust Fund loan installment was due March 31, 1991. Part of the amounts received into the Special Disbursement Account from the Trust Fund were transferred on a same-day pass-through to the Supplementary Financing Facility Subsidy Account, which was established for the purpose of reducing the cost to eligible members that used the Fund's resources under the supplementary financing facility. In July 1985, the Fund determined that the resources of the Supplementary Financing Facility Subsidy Account were sufficient to meet its estimated needs, and transfers to that account from the Special Disbursement Account were terminated. Amounts received from the Trust Fund are invested pending loan disbursements under structural adjustment facility and enhanced structural adjustment facility arrangements through the Special Disbursement Account.

Within the Special Disbursement Account a structural adjustment facility (SAF) was established in March 1986 to provide balance of payments assistance to qualifying low-income developing members. Upon approval by the Fund, resources are committed to qualifying members for a three-year period, in support of a macroeconomic and structural adjustment program presented by the member.

Loans disbursed under the structural adjustment facility are repayable in ten semiannual installments commencing not later than the end of the first six months of the sixth year, and to be completed at the end of the tenth year after the date of the disbursement. Interest is charged on the outstanding loan balances at the rate of $\frac{1}{2}$ of 1 percent per annum.

Members are not obligated to maintain the SDR value of their currency held by the Fund in the Special Disbursement Account. Pending their use, the resources held in the Special Disbursement Account are placed in SDR-denominated investments. Prior to an SDR-denominated investment, balances may be placed temporarily in U.S. dollar-denominated investments. Thus, there may be valuation gains and losses in terms of the SDR on these resources from the time they are received until they can be invested in SDR-denominated investments.

The Special Disbursement Account is a part of the General Department of the Fund. However, the assets of the account are to be held separate from other accounts of the General Department and the income of the account is placed in the Special Disbursement Account.

The Fund administers the Enhanced Structural Adjustment Facility Trust (ESAF Trust) which was established in December 1987 to provide loans on concessional terms to eligible members to support programs to strengthen substantially and in a sustainable manner their balance of payments position and to foster growth. The Special Disbursement Account transfers the following resources to the Reserve Account of the ESAF Trust: (i) all income received from the investment of the resources available for the structural adjustment facility; (ii) all interest received, including from special charges, on loans under the structural adjustment facility; (iii) all repayments of loans under the structural adjustment facility; and (iv) all the resources held in the Special Disbursement Account that are derived from the termination of the Trust Fund and that can no longer be used under the structural adjustment facility. Resources of the ESAF Trust Reserve Account which are determined to be in excess of its estimated needs are to be retransferred to the Special Disbursement Account. Upon liquidation of the ESAF Trust, the amounts remaining in the Reserve Account after the discharge of remaining liabilities shall be transferred to the Special Disbursement Account. Transfers to the ESAF Trust Reserve Account commenced in March 1988. For the year ended April 30, 1991, SDR 87 million (SDR 79 million at April 30, 1990) had been transferred from the Special Disbursement Account to the ESAF Trust Reserve Account.

1. Accounting Practices

Unit of Account

The accounts of the General Department are expressed in terms of the SDR. At present, the currency value of the SDR is determined by the Fund each day by summing the values in U.S. dollars, based on market exchange rates, of a basket of five specific currencies. The Fund's procedures require that the SDR valuation basket be reviewed every five years, and that the basket is to include the currencies of the members having the largest exports of goods and services during the five-year period ending one year prior to the date of the revisions. In accordance with these requirements, the SDR valuation basket was revised effective January 1, 1991. The currencies comprising the basket and their amounts in the basket during the year ended April 30, 1991 were as follows:

Currencies	Amounts	
	May 1– December 31, 1990	January 1– April 30, 1991
U.S. dollar	0.452	0.572
Deutsche mark	0.527	0.453
Japanese yen	33.4	31.8
French franc	1.02	0.800
Pound sterling	0.0893	0.0812

Members' currencies are valued in terms of the SDR on the basis of the representative rate of exchange determined in accordance with the Rules of the Fund. Gold held by the Fund is valued on the basis that one SDR is equivalent to 0.888671 gram of fine gold (see Note 4).

Basis of Accounting

The Fund maintains its accounts on an accrual basis and, accordingly, recognizes income as it is earned and records expenses as they are incurred except that income from charges from members that are overdue in their obligations to the Fund by six

months or more is deferred and is recognized as income only when paid unless the member has remained current in settling charges when due (see discussion of deferred charges in Note 5). It is the practice of the Fund to make all calculations on the basis of the exact number of days in the accounting period.

The established policy of the Fund is to charge as an expense of each accounting period the total costs incurred for fixed property, furniture and equipment purchases except for the cost of an acquisition of land, which is accumulated in an asset account pending completion of the extension of the building (SDR 13.5 million and SDR 12.1 million in 1991 and 1990, respectively). For the year ended April 30, 1991, the cost of building improvements and equipment in excess of \$100,000 amounted to SDR 4.0 million (SDR 2.5 million in 1990). The total accumulated cost of land and buildings, excluding the cost of the extension which is accumulated in other assets, amounts to SDR 102 million (SDR 99 million in 1990).

2. Currencies and Securities

Each member has the option to substitute nonnegotiable and non-interest-bearing securities for the amount of its currency held by the Fund in the General Resources Account that is in excess of $\frac{1}{4}$ of 1 percent of the member's quota. These securities, which are part of the Fund's currency holdings, are encashable by the Fund on demand.

Changes in the Fund's holdings of members' currencies and securities for the year ended April 30, 1991 were as follows:

	April 30, 1991	April 30, 1990	Net Change
<i>In millions of SDRs</i>			
Members' quotas	91,128	90,133	995
Less quota subscription receivable	25	—	(25)
	91,103	90,133	970
Members' use of Fund resources	22,906	22,098	808
Members' reserve tranche positions	(21,855)	(21,297)	(558)
Administrative currency balances	—	2	(2)
Currencies and securities	92,154	90,936	1,218

Each member is obligated to maintain the value of the balances of its currency held by the Fund in terms of the SDR except for holdings which may be held in Borrowed Resources Suspense Accounts, the Special Disbursement Account, and the Investment Account. Whenever the Fund revalues its holdings of a member's currency, an account receivable or an account payable is established for the amount of currency payable by or to the member in order to maintain the value of the Fund's holdings of the currency in terms of the SDR. The balances of the accounts receivable or payable are reflected in the Fund's total currency holdings. At April 30, 1991 accounts receivable to maintain SDR values of currency holdings amounted to SDR 14,383.8 million and accounts payable amounted to SDR 422.9 million (SDR 14,826.2 million and SDR 1,422.0 million, respectively at April 30, 1990). At June 17, 1991 the amounts receivable were SDR 9,117.3 million and the amounts payable were SDR 375.3 million.

The Fund's holdings of members' currencies at April 30, 1991 are shown in Schedule 1.

3. SDR Holdings

SDRs are reserve assets created by the Fund and allocated to members participating in the SDR Department. Although SDRs are

not allocated to the Fund, the Fund may acquire, hold and dispose of SDRs through the General Resources Account. SDRs held by the Fund are received from its members in the settlement of their financial obligations to the Fund and may be used by the Fund in transactions and operations between the Fund and its members (sold to members in purchases or transferred to members in the settlement of remuneration and interest on Fund borrowing). The Fund earns interest on its SDR holdings at the same rate as all other holders of SDRs.

4. Gold Holdings

At April 30, 1991 and 1990 the Fund held 3,217,341 kilograms of gold at designated depositories.

5. Fund Operations

For the year ended April 30, 1991, members' purchases amounted to SDR 6,955 million of which SDR 707 million were reserve tranche purchases. Over the same period, repurchases by members totaled SDR 5,440 million. Members' purchases subject to repurchase are shown in Schedule 2.

The outstanding use of Fund credit under various facilities and changes during the year ended April 30, 1991 were as follows:

	April 30, 1990	Purchases	Repurchases	April 30, 1991
<i>In millions of SDRs</i>				
Regular facilities	5,119	1,528	1,451	5,196
Compensatory and contingency financing	3,823	2,127	808	5,142
Extended Fund facility	5,472	1,423	1,072	5,823
Supplementary financing facility	475	—	206	269
Enlarged access	7,209	1,170	1,903	6,476
Total	22,098	6,248	5,440	22,906

Periodic Charges and Remuneration

The Fund levies charges, which are payable periodically, on its holdings of a member's currency that derive from the member's use of Fund credit. With effect from February 1, 1986, special charges are levied on holdings that are not repurchased when due and on charges that are not settled when due. These special charges are designed to recover the direct financial costs to the Fund arising from members' overdue financial obligations. A service charge is levied by the Fund on each purchase involving use of Fund resources other than reserve tranche purchases.

The Fund also charges a refundable stand-by fee under a stand-by or extended arrangement. This fee is refunded proportionally to purchases made under an arrangement. If the full amount of an arrangement is not drawn, the balance of the stand-by fee is taken into income by the Fund upon the expiration of the arrangement. Stand-by fees included in other income for the year ended April 30, 1991 amounted to SDR 3.0 million (SDR 4.8 million in 1990).

The Fund pays remuneration on a member's remunerated reserve tranche position. A remunerated reserve tranche position is the amount by which the Fund's holdings of a member's currency (excluding holdings that derive from the use of Fund credit) is below the norm. The norm is an amount equal to 75 percent of the member's quota on April 1, 1978 plus the total of subsequent increases in the member's quota. For members that joined the Fund after

April 1, 1978, the norm is determined by adding the proportion of the member's quota equal to the average of the norm of all other members on the date the member joined the Fund and the total of subsequent increases in the member's quota.

At April 30, 1991, the total holdings on which the Fund levied charges amounted to SDR 22,906 million (SDR 22,098 million in 1990) and total creditor positions on which the Fund paid remuneration amounted to SDR 16,269 million (SDR 15,486 million in 1990).

Overdue Obligations

At April 30, 1991, 9 members were six months or more overdue to the Fund (11 members in 1990). Credit outstanding to these members including SAF loans amounted to SDR 2,353 million as of April 30, 1991 (SDR 2,589 million as of April 30, 1990). Four of these members (Panama, Peru, Viet Nam, Zambia) are settling obligations as they fall due and are to varying degrees formulating and implementing economic adjustment programs which could lead to the settlement of their arrears. Overdue repurchases and charges of the members were as follows:

	Repurchases		Charges	
	1991	1990	1991	1990
<i>In millions of SDRs</i>				
Total overdue	2,165	2,140	1,006	879
Overdue for more than six months	2,111	2,009	921	765
Overdue for more than three years	1,339	828	391	238

The type and duration of the arrears of these members are as follows:

Member	Repurchases	Charges and SAF Interest	Total	Longest Overdue Obligation
<i>In millions of SDRs</i>				
Cambodia	18.8	11.5	30.3	March 1975
Liberia	198.8	117.7	316.5	January 1985
Panama	130.3	50.9	181.2	December 1987
Peru	449.6	175.0	624.6	December 1985
Sierra Leone	50.3	22.1	72.4	January 1987
Somalia	84.7	33.7	118.4	July 1987
Sudan	599.0	327.3	926.3	July 1984
Viet Nam	28.4	19.0	47.4	February 1984
Zambia	605.3	249.2	854.5	June 1986
Total	2,165.2	1,006.4	3,171.6	

Deferred Charges

It is the policy of the Fund to exclude from current income charges owed by members that are six months or more overdue in meeting payments to the Fund unless the member is current in the payment of charges. Charges subsequently accrued will also be excluded from income unless the member becomes current in the payment of charges. Charges excluded from income are recorded as deferred charges and deferred income. Charges due and accrued by members that are six months or more overdue and that have been deferred amounted to SDR 1,078 million (SDR 961 million as at 1990).

Effective May 1, 1986, the Fund adopted a policy under which debtor and creditor members share the financial consequences of overdue obligations ("burden sharing"). An amount equal to de-

ferred charges (excluding special charges) is generated each quarter by an adjustment of the rate of charge and the rate of remuneration. However, the average rate of remuneration is not to be reduced below 85 percent of the SDR interest rate. The amounts received in settlement of overdue charges are distributed to members that paid additional charges or received reduced remuneration when (and to the extent that) deferred charges that gave rise to adjustments are paid. The cumulative amount of deferred charges outstanding which have arisen subsequent to May 1, 1986, and have resulted in adjustments to charges and remuneration, amounts to SDR 808 million (SDR 729 million in 1990).

During the year ended April 30, 1991, new deferred charges increased by SDR 118 million (SDR 244 million in 1990), of which SDR 46 million (SDR 55 million in 1990) were deferred special charges. During the same period, settlements of deferred charges amounted to SDR 184 million (SDR 53 million in 1990). Including the adjustments described in the following paragraphs, an amount of SDR 288 million (SDR 254 million in 1990) was recorded as additional periodic charges and reduced remuneration during the same period.

Special Contingent Accounts

In view of the existence of protracted overdue obligations, the Fund accumulates precautionary balances, inter alia, in the Special Contingent Accounts. At April 30, 1991 these balances amounted to SDR 427.0 million and were held in two different Special Contingent Accounts (SCA-1 and SCA-2). A total of SDR 284.7 million was held in the SCA-1 (SDR 214.8 million in 1990) and SDR 142.3 million was held in the SCA-2 as of April 30, 1991.

In order to strengthen its financial position the Fund decided at the end of financial year 1987 to place SDR 26.5 million into a Special Contingent Account (SCA-1). Since then, precautionary balances held in this account have been further increased by additional quarterly adjustments to the rate of charge and the rate of remuneration under the burden sharing mechanism. An amount of SDR 69.9 million was generated through adjustments to the rate of charge and the rate of remuneration and allocated to this account in financial year 1991. Balances in the account are to be distributed to the members that shared the cost of financing it when there are no outstanding overdue charges and repurchases, or at such earlier time as the Fund may decide.

In the context of the strengthened arrears strategy, the Fund extended, effective July 1, 1990, the mechanisms for sharing the burden associated with overdue obligations among debtor and creditor members. This extension is designed to accumulate SDR 1 billion in an additional Special Contingent Account (SCA-2) over approximately five years, which will be financed by a further adjustment of 0.35 percent to the rate of charge and a further adjustment to the rate of remuneration to yield three times the amount generated by the further adjustment to the rate of charge, subject to the floor to the rate of remuneration of 80 percent of the SDR interest rate. The amounts thus accumulated are to safeguard purchases made under a successor arrangement after a rights accumulation program has been successfully completed by members with protracted arrears to the Fund at the end of 1989, while at the same time providing additional liquidity to assist in the financing of such purchases. This scheme provides for refunds of contributions upon full repayment to the Fund of the use of such credit or at such earlier date as the Fund may determine.

Strengthened Cooperative Strategy

In March 1990, the Fund agreed on a strengthened cooperative strategy aimed at resolving the issue of overdue obligations to the Fund. Three major elements form the basis of the cooperative strategy, namely, (i) preventative measures; (ii) remedial and deterrent measures; and (iii) intensified collaboration and the rights approach. The preventative measures help ensure that all members using Fund resources meet their obligations to the Fund as they fall due. As a complement to preventative measures, the deterrent element was strengthened through, *inter alia*, a tightening of the timing of procedures for dealing with members with overdue financial obligations. This timetable sets time limits between the date of emergence of arrears to the Fund and a declaration of ineligibility and makes explicit the timing of a declaration of noncooperation and initiation of the procedures for compulsory withdrawal. It also includes the possible use of the suspension of voting and related rights as a measure of deterrence once the Third Amendment of the Articles of Agreement, which would make a suspension possible, is ratified. Under the intensified collaborative approach, the Fund has developed the technique of Fund-monitored programs and rights accumulation programs, which permit a member with protracted arrears to the Fund to establish a track record of performance related to policy implementation and payments. A rights accumulation program allows the member to earn rights toward future financing through the implementation of a comprehensive economic program. Rights would be encashed through a disbursement under a successor arrangement after clearance of arrears and when all the requirements for that successor arrangement are met. At April 30, 1991, one member (Zambia) had adopted a rights accumulation program, while four other members with protracted arrears were adopting or following economic adjustment programs which could lead to a rights accumulation program.

6. Reserves

The Fund determines annually what part of its net income shall be placed to the General Reserve or to the Special Reserve, and what part, if any, shall be distributed. The Articles of Agreement permit the Fund to use the Special Reserve for any purpose for which it may use the General Reserve, except distribution. Any administrative deficit for any financial year must be charged first against the Special Reserve.

7. Borrowing

Outstanding borrowing by the Fund was as follows:

	April 30, 1990	Borrowing	Repayment	April 30, 1991
	<i>In millions of SDRs</i>			
Supplementary financing facility	124	—	124	—
Enlarged access	2,350	—	1,050	1,300
Other	1,040	1,960	—	3,000
Total	3,514	1,960	1,174	4,300

Scheduled repayments of outstanding borrowing by the Fund are shown in Schedule 3.

Supplementary Financing Facility

The supplementary financing facility became operational in May 1979. The Fund entered into borrowing agreements with 14 mem-

bers, or institutions within their territories, and with the Swiss National Bank under which the lenders agreed to make resources available to the Fund, at call, up to SDR 7,784 million through February 1984 to finance purchases by members under this facility. Borrowing by the Fund under these agreements was repaid in installments between three and one half to seven years after the date of borrowing. The last repayment took place in January 1991. Interest paid by the Fund on amounts borrowed under the borrowing agreements was based on the average yield on U.S. Government securities with a constant maturity of five years.

Enlarged Access

The policy on enlarged access became operational in May 1981. The Fund entered into borrowing agreements with seven members, or institutions within their territories, the Bank for International Settlements, and the Swiss National Bank under which the lenders agreed to make resources available to the Fund, up to SDR 13,475 million, to finance purchases by members under the policy. The maturities of borrowing by the Fund under these agreements vary from three months to seven years. Interest paid by the Fund on amounts borrowed under these agreements is at variable rates of interest which are established periodically, and are related to market interest rates, based on Eurocurrency deposit rates and weighted average yields of domestic instruments denominated in the five currencies in the SDR valuation basket. In September 1990, the Fund decided that once borrowed resources had been fully utilized, ordinary resources would be substituted to meet commitments of borrowed resources in financing purchases made under arrangements under the enlarged access policy, approved before the date the increase in quotas under the Ninth General Review of Quotas becomes effective, or December 31, 1991, whichever is earlier.

Bilateral Arrangements with Japan

In December 1986, the Fund and the Government of Japan agreed to an arrangement under which Japan has made available to the Fund SDR 3 billion, to help finance the Fund's support of adjustment programs of member countries. Calls under the agreement were made by the Fund over a period of four years ending March 31, 1991. At April 30, 1991, all available resources had been fully utilized and some resources were held in the Borrowed Resources Suspense Accounts pending their use in purchases. The final maturity of each call is five years from the initial date of the call. Interest on amounts borrowed under the arrangement is based on the weighted average of six-month domestic interest rates in the countries that make up the currency basket of the SDR.

General Arrangements to Borrow

Under the General Arrangements to Borrow (GAB) and an associated agreement with a nonparticipant to the GAB, the Fund may borrow up to SDR 18.5 billion when supplementary resources are needed to forestall or to cope with an impairment of the international monetary system. The GAB became effective from October 24, 1962 and has been renewed until December 25, 1993.

Borrowing Guidelines

The Fund has established guidelines for borrowing, which provide that the Fund will not allow the total of outstanding borrowing, plus unused credit lines, to exceed the range of 50 to

60 percent of the total of Fund quotas. Since all GAB lines of credit are unlikely to be called upon at the same time, the total of outstanding borrowing shall include either outstanding borrowing by the Fund under the GAB, or two thirds of the total credit lines under the GAB and associated agreements, whichever is the greater. The borrowing guidelines are subject to review by the Executive Board. Total outstanding borrowing and unused credit lines, calculated in accordance with these guidelines, at April 30, 1991 was equal to 18.3 percent of quotas (19.8 percent of quotas at April 30, 1990).

8. Arrangements Under the General Department

At April 30, 1991, forty arrangements were in effect and undrawn balances under these arrangements amounted to SDR 7,498 million. These arrangements are listed in Schedule 4.

9. Administrative Expenses

The Fund incurs administrative expenses, primarily for salaries, travel and other administrative needs, in accordance with an administrative budget approved by the Executive Board. The General Resources Account is reimbursed for expenses incurred in administering the SDR Department, the Special Disbursement Account and the Enhanced Structural Adjustment Facility Trust.

The Fund has certain commercial deposits and receivables relating to its administrative activities. These deposits and receivables are not subject to the maintenance of value obligations.

In addition to the payment of various allowances to or on behalf of Executive Directors and staff, the Fund has a contributory retire-

ment plan. All contributions to the Plan and all other assets, liabilities and income of the Plan are administered separately outside of the General Department and can be used only for the benefit of the participants in the Plan and their beneficiaries. Participants contribute a fixed percentage of pensionable remuneration. The Fund contributes the remainder of the cost of funding the Plan and pays certain administrative costs of the Plan.

The Fund uses the aggregate actuarial method for determining its pension cost and for funding the Plan. Under this method, the employer's contributions, including those for cost of living adjustments and for experience gains and losses, are spread over the expected future working lifetime of the active participants in the Plan and are determined annually as a percent of pensionable remuneration of the active participants. The funding and cost of the Plan for the year ended April 30, 1991 is based upon an actuarial valuation as at April 30, 1989.

The Fund also has established a Supplemental Retirement Benefit Plan (SRBP) for the purpose of paying certain benefits not payable from the Staff Retirement Plan. Payments to the SRBP are made from the Administrative Budget. The assets of the SRBP are maintained separately from other assets of the Fund and are held on behalf of the participants and beneficiaries entitled to these payments.

The Fund staff is entitled to accumulated annual leave, up to a maximum of 60 days, which may be commuted into a cash payment upon termination of employment. In addition, upon the completion of five years' service, each member of the staff is entitled to a termination grant, subject to maximum amounts based on years of service after July 1979. These amounts are accounted for as they are earned and entitlements have been accrued.

GENERAL DEPARTMENT
QUOTAS, FUND'S HOLDINGS OF CURRENCIES, MEMBERS' USE
OF FUND RESOURCES, AND RESERVE TRANCHE POSITIONS

as at April 30, 1991

(In thousands of SDRs)

	Quotas	Fund's Holdings of Currencies ¹		Use of Fund Resources	Reserve Tranche Positions
		Total	Percent of Quota		
Afghanistan	86,700	81,822	94.4	—	4,900
Algeria	623,100	1,093,999	175.6	470,900	3
Angola	145,000	145,145	100.1	—	—
Antigua and Barbuda	5,000	4,999	100.0	—	1
Argentina	1,113,000	2,992,591	268.9	1,879,566	—
Australia	1,619,200	1,373,984	84.9	—	245,250
Austria	775,600	482,616	62.2	—	292,984
Bahamas, The	66,400	58,867	88.7	—	7,537
Bahrain	48,900	20,482	41.9	—	28,419
Bangladesh	287,500	451,036	156.9	163,533	—
Barbados	34,100	32,165	94.3	244	2,180
Belgium	2,080,400	1,706,246	82.0	—	374,158
Belize	9,500	7,735	81.4	148	1,914
Benin	31,300	29,281	93.5	—	2,021
Bhutan	2,500	1,930	77.2	—	570
Bolivia	90,700	154,575	170.4	63,861	—
Botswana	22,100	6,717	30.4	—	15,384
Brazil	1,461,300	2,657,998	181.9	1,196,560	—
Bulgaria	310,000	448,100	144.5	138,100	5
Burkina Faso	31,600	24,401	77.2	—	7,201
Burundi	42,700	35,153	82.3	—	7,548
Cambodia	25,000	37,494	150.0	12,500	7
Cameroon	92,700	177,451	191.4	84,975	229
Canada	2,941,000	2,488,327	84.6	—	452,677
Cape Verde	4,500	4,499	100.0	—	1
Central African Republic	30,400	33,746	111.0	3,438	94
Chad	30,600	30,336	99.1	—	264
Chile	440,500	1,221,110	277.2	780,615	12
China	2,390,900	2,312,449	96.7	224,147	302,602
Colombia	394,200	394,201	100.0	—	—
Comoros	4,500	4,498	100.0	—	4
Congo	37,300	43,207	115.8	6,375	469
Costa Rica	84,100	146,455	174.1	62,343	—
Côte d'Ivoire	165,500	451,121	272.6	285,628	9
Cyprus	69,700	51,843	74.4	—	17,858
Czechoslovakia	590,000	1,125,725	190.8	535,720	—
Denmark	711,000	436,596	61.4	—	274,411
Djibouti	8,000	6,764	84.6	—	1,237
Dominica	4,000	4,963	124.1	971	9
Dominican Republic	112,100	136,007	121.3	23,906	—
Ecuador	150,700	308,076	204.4	157,347	—
Egypt	463,400	535,909	115.6	72,500	—
El Salvador	89,000	89,003	100.0	—	—
Equatorial Guinea	18,400	18,409	100.0	—	—
Ethiopia	70,600	70,612	100.0	—	—
Fiji	36,500	29,379	80.5	—	7,122
Finland	574,900	379,282	66.0	—	195,625
France	4,482,800	3,359,902	75.0	—	1,122,861
Gabon	73,100	166,651	228.0	93,593	42
Gambia, The	17,100	21,066	123.2	3,998	35

Schedule 1 (continued)

	Quotas	Fund's Holdings of Currencies ¹		Use of Fund Resources	Reserve Tranche Positions
		Total	Percent of Quota		
Germany	5,403,700	2,982,518	55.2	—	2,421,186
Ghana	204,500	405,788	198.4	201,284	—
Greece	399,900	325,182	81.3	—	74,719
Grenada	6,000	6,001	100.0	—	—
Guatemala	108,000	152,766	141.5	44,760	—
Guinea	57,900	62,410	107.8	4,500	—
Guinea-Bissau	7,500	7,500	100.0	—	²
Guyana	49,200	92,833	188.7	43,631	—
Haiti	44,100	59,931	135.9	15,875	45
Honduras	67,800	89,710	132.3	21,908	—
Hungary	530,700	1,133,625	213.6	602,921	—
Iceland	59,600	55,579	93.3	—	4,022
India	2,207,700	4,114,016	186.3	1,906,325	13
Indonesia	1,009,700	1,226,593	121.5	289,313	72,421
Iran, Islamic Republic of	660,000	660,007	100.0	—	—
Iraq	504,000	504,013	100.0	—	—
Ireland	343,400	227,345	66.2	—	116,074
Israel	446,600	446,606	100.0	—	—
Italy	2,909,100	1,458,261	50.1	—	1,450,838
Jamaica	145,500	415,695	285.7	270,129	—
Japan	4,223,300	1,742,118	41.3	—	2,481,185
Jordan	73,900	140,133	189.6	66,235	²
Kenya	142,000	252,451	177.8	122,656	12,218
Kiribati	2,500	2,501	100.0	—	—
Korea	462,800	213,711	46.2	—	249,104
Kuwait	635,300	516,067	81.2	—	119,243
Lao People's Democratic Republic	29,300	29,300	100.0	—	—
Lebanon	78,700	59,869	76.1	—	18,833
Lesotho	15,100	13,798	91.4	—	1,305
Liberia	71,300	272,836	382.7	201,554	28
Libyan Arab Jamahiriya	515,700	272,202	52.8	—	243,505
Luxembourg	77,000	64,749	84.1	—	12,252
Madagascar	66,400	106,457	160.3	40,055	—
Malawi	37,200	65,286	175.5	30,302	2,217
Malaysia	550,600	365,450	66.4	—	185,150
Maldives	2,000	1,996	99.8	—	4
Mali	50,800	63,954	125.9	21,840	8,688
Malta	45,100	24,229	53.7	—	20,898
Mauritania	33,900	46,122	136.1	12,213	—
Mauritius	53,600	57,866	108.0	4,313	47
Mexico	1,165,500	5,803,873	498.0	4,638,354	—
Mongolia	25,000	—	—	—	—
Morocco	306,600	791,996	258.3	485,427	33
Mozambique	61,000	61,000	100.0	—	7
Myanmar	137,000	137,003	100.0	—	—
Namibia	70,000	70,000	100.0	—	5
Nepal	37,300	35,274	94.6	3,675	5,707
Netherlands	2,264,800	1,652,646	73.0	—	612,397
New Zealand	461,600	403,170	87.3	—	58,432
Nicaragua	68,200	68,210	100.0	—	—
Niger	33,700	41,735	123.8	16,595	8,561
Nigeria	849,500	849,491	100.0	—	68
Norway	699,000	290,800	41.6	—	408,204
Oman	63,100	37,266	59.1	—	25,878
Pakistan	546,300	839,264	153.6	293,012	49
Panama	102,200	278,850	272.9	176,649	14
Papua New Guinea	65,900	108,753	165.0	42,835	—
Paraguay	48,400	37,388	77.2	—	11,015
Peru	330,900	855,124	258.4	524,192	—
Philippines	440,400	1,253,719	284.7	852,108	38,826

Schedule 1 (concluded)

	Quotas	Fund's Holdings of Currencies ¹		Use of Fund Resources	Reserve Tranche Positions
		Total	Percent of Quota		
Poland	680,000	1,276,602	187.7	596,600	—
Portugal	376,600	202,129	53.7	—	174,474
Qatar	114,900	97,074	84.5	—	17,827
Romania	523,400	902,005	172.3	378,600	—
Rwanda	43,800	37,367	85.3	—	6,438
St. Kitts and Nevis	4,500	4,488	99.7	—	15
St. Lucia	7,500	7,499	100.0	—	1
St. Vincent	4,000	4,000	100.0	—	—
Sao Tome and Principe	4,000	4,003	100.1	—	—
Saudi Arabia	3,202,400	2,825,340	88.2	—	377,068
Senegal	85,100	151,413	177.9	67,326	1,014
Seychelles	3,000	2,948	98.3	—	54
Sierra Leone	57,900	111,734	193.0	53,845	24
Singapore	92,400	27,713	30.0	—	64,704
Solomon Islands	5,000	4,788	95.8	313	528
Somalia	44,200	140,907	318.8	96,701	—
South Africa	915,700	915,662	100.0	—	41
Spain	1,286,000	520,460	40.5	—	765,542
Sri Lanka	223,100	350,655	157.2	127,600	47
Sudan	169,700	773,968	456.1	604,256	11
Suriname	49,300	49,301	100.0	—	—
Swaziland	24,700	24,682	99.9	—	21
Sweden	1,064,300	772,473	72.6	—	291,837
Syrian Arab Republic	139,100	139,103	100.0	—	5
Tanzania	107,000	123,842	115.7	16,828	—
Thailand	386,600	271,856	70.3	—	114,745
Togo	38,400	59,372	154.6	21,194	223
Tonga	3,250	2,512	77.3	—	738
Trinidad and Tobago	170,100	439,145	258.2	269,050	6
Tunisia	138,200	238,070	172.3	99,891	25
Turkey	429,100	396,828	92.5	—	32,275
Uganda	99,600	140,032	140.6	40,425	—
United Arab Emirates	202,600	65,656	32.4	—	136,945
United Kingdom	6,194,000	4,921,655	79.5	—	1,272,345
United States	17,918,300	11,349,850	63.3	—	6,567,626
Uruguay	163,800	224,711	137.2	60,904	—
Vanuatu	9,000	7,391	82.1	—	1,609
Venezuela	1,371,500	3,488,478	254.4	2,116,975	—
Viet Nam	176,800	205,195	116.1	28,395	5
Western Samoa	6,000	6,392	106.5	422	31
Yemen, Republic of	120,500	120,490	100.0	—	14
Yugoslavia	613,000	918,480	149.8	305,444	—
Zaire	291,000	483,385	166.1	192,384	—
Zambia	270,300	905,261	334.9	634,979	22
Zimbabwe	191,000	190,960	100.0	—	46
Total	91,127,550	92,153,834		22,905,758	21,855,141

¹Includes nonnegotiable, non-interest-bearing notes which members are entitled to issue in substitution for currency.²Less than SDR 500.

Schedule 2

GENERAL DEPARTMENT
SCHEDULED REPURCHASES AND REPAYMENTS OF LOANS

as at April 30, 1991

(In thousands of SDRs)

Financial Year Ending April 30	General Resources Account ¹			Special Disbursement Account
	Ordinary Resources	Borrowed Resources	Total	
1992	4,371,291	2,274,983	6,652,519 ²	1,874
1993	2,592,317	921,136	3,513,453	47,199
1994	2,411,182	1,022,702	3,433,884	124,216
1995	2,658,652	962,359	3,621,011	222,336
1996	1,952,238	659,158	2,611,396	321,992
1997	534,704	648,874	1,183,577	343,824
1998	517,690	255,752	773,442	298,499
1999	493,868	—	493,868	221,482
2000	405,746	—	405,746	123,361
2001	223,105	—	223,105	23,706
Total	<u>16,160,794</u>	<u>6,744,964</u>	<u>22,912,001</u>	<u>1,728,489</u>

¹A member is entitled to repurchase at any time holdings of its currency subject to charges and is expected to make repurchases as and when its balance of payments and reserve position improve.

²Includes reserve tranche purchases made prior to April 1, 1978 that are subject to repurchase (SDR 6.2 million).

Schedule 3

GENERAL DEPARTMENT
SCHEDULED REPAYMENTS OF FUND BORROWING

as at April 30, 1991

(In thousands of SDRs)

Periods of Repayment ¹ Financial Years Ending April 30	Enlarged Access Resources	Other	Total
1992	575,000	15,000	590,000
1993	350,000	—	350,000
1994	300,000	—	300,000
1995	75,000	1,025,374	1,100,374
1996	—	1,959,626	1,959,626
Total	<u>1,300,000</u>	<u>3,000,000</u>	<u>4,300,000</u>

¹Dates of repayment are the dates provided in the borrowing agreements between the Fund and lenders, including maximum periods of renewals which are at the Fund's option. The borrowing agreements also permit earlier repayments in certain circumstances.

GENERAL DEPARTMENT
STATUS OF ARRANGEMENTS

as at April 30, 1991

(In thousands of SDRs)

Member	Date of Arrangement	Expiration	Total Amount Agreed	Undrawn Balance
GENERAL RESOURCES ACCOUNT				
STAND-BY ARRANGEMENTS				
Bulgaria	March 15, 1991	March 14, 1992	279,000	201,500
Congo	August 27, 1990	May 26, 1992	27,975	23,975
Costa Rica	April 8, 1991	April 7, 1992	33,640	12,000
Czechoslovakia	January 7, 1991	March 6, 1992	619,500	398,250
El Salvador	August 27, 1990	August 26, 1991	35,600	35,600
Guyana	July 13, 1990	December 31, 1991	49,500	6,540
Honduras	July 27, 1990	August 15, 1991	30,500	9,250
Jamaica	March 23, 1990	May 31, 1991	82,000	20,400
Nigeria	January 9, 1991	April 8, 1992	319,000	319,000
Papua New Guinea	April 25, 1990	June 24, 1991	26,360	26,360
Philippines	February 20, 1991	August 19, 1992	264,200	235,888
Romania	April 11, 1991	April 10, 1992	380,500	249,600
Uruguay	December 12, 1990	March 15, 1992	94,800	85,800
Yugoslavia	March 16, 1990	September 15, 1991	460,000	394,300
			<u>2,702,575</u>	<u>2,018,463</u>
EXTENDED ARRANGEMENTS				
Hungary	February 20, 1991	February 19, 1994	1,114,000	954,790
Mexico	May 26, 1989	May 25, 1992	3,263,400	932,400
Poland	April 18, 1991	April 17, 1994	1,224,000	1,147,500
Tunisia	July 25, 1988	July 24, 1991	138,200	138,200
Venezuela	June 23, 1989	September 22, 1992	3,857,100	2,063,000
			<u>9,596,700</u>	<u>5,255,890</u>
TOTAL GENERAL RESOURCES ACCOUNT			<u>12,299,275</u>	<u>7,274,353</u>
SPECIAL DISBURSEMENT ACCOUNT				
STRUCTURAL ADJUSTMENT FACILITY				
Benin	June 16, 1989	June 15, 1992	21,910	15,650
Burkina Faso	March 13, 1991	March 12, 1994	22,120	15,800
Equatorial Guinea	December 7, 1988	December 6, 1991	12,880	9,200
Lao People's Democratic Republic	September 18, 1989	September 17, 1992	20,510	5,860
Lesotho	June 29, 1988	June 28, 1991	10,570	—
Mali	August 5, 1988	August 4, 1991	35,560	10,160
Pakistan	December 18, 1988	December 27, 1991	382,410	109,260
Rwanda	April 30, 1991	April 29, 1994	30,660	21,800
Sao Tome and Principe	June 2, 1989	June 1, 1992	2,800	2,000
			<u>539,420</u>	<u>189,830</u>

Schedule 4 (concluded)

Member	Date of Arrangement	Expiration	Total Amount Agreed	Undrawn Balance
SAF RESOURCES COMMITTED UNDER ESAF ARRANGEMENTS ¹				
Bolivia	July 27, 1988	July 26, 1991	45,350	—
Gambia, The	November 23, 1988	November 22, 1991	3,420	—
Ghana	November 9, 1988	November 8, 1991	102,250	—
Guyana	July 13, 1990	July 12, 1993	34,440	24,600
Kenya	May 15, 1989	May 14, 1992	71,000	—
Madagascar	May 15, 1989	May 14, 1992	33,200	—
Malawi	July 15, 1988	July 14, 1991	26,040	—
Mauritania	May 24, 1989	May 23, 1992	6,780	3,390
Niger	December 12, 1988	December 11, 1991	6,740	—
Senegal	November 21, 1988	November 20, 1991	17,020	5,532
Togo	May 31, 1989	May 30, 1992	19,200	—
Uganda	April 17, 1989	April 16, 1992	19,920	—
			<u>385,360</u>	<u>33,522</u>
TOTAL SPECIAL DISBURSEMENT ACCOUNT			<u>924,780</u>	<u>223,352</u>
TOTAL GENERAL DEPARTMENT			<u>13,224,055</u>	<u>7,497,705</u>

¹Resources under enhanced structural adjustment facility arrangements may be provided from the structural adjustment facility within the Special Disbursement Account and from the Enhanced Structural Adjustment Facility Trust.

SDR DEPARTMENT
STATEMENT OF ALLOCATIONS AND HOLDINGS
as at April 30, 1991
(In thousands of SDRs)

	<u>1991</u>	<u>1990</u>
ALLOCATIONS		
Net cumulative allocations of SDRs to participants	21,433,330	21,433,330
Charges due but not paid	<u>30,296</u>	<u>44,665</u>
	<u>21,463,626</u>	<u>21,477,995</u>
HOLDINGS		
Participants with holdings above allocations		
Allocations	11,386,889	11,408,282
Net receipt of SDRs	<u>5,817,978</u>	<u>5,891,031</u>
	<u>17,204,867</u>	<u>17,299,313</u>
Participants with holdings below allocations		
Allocations	10,046,441	10,025,048
Net use of SDRs	<u>6,493,893</u>	<u>6,494,137</u>
	<u>3,552,548</u>	<u>3,530,911</u>
Total holdings by participants	20,757,415	20,830,224
General Resources Account	694,280	628,486
Prescribed Holders	<u>11,931</u>	<u>19,285</u>
	<u>21,463,626</u>	<u>21,477,995</u>

The accompanying note is an integral part of the financial statements.

/s/ David Williams
Acting Treasurer

/s/ M. Camdessus
Managing Director

SDR DEPARTMENT
STATEMENT OF RECEIPT AND USE OF SDRs
for the year ended April 30, 1991
(In thousands of SDRs)

	Participants	General Resources Account	Prescribed Holders	Total	
				1991	1990
Total holdings at beginning of the year.....	20,830,224	628,486	19,285	21,477,995	21,468,730
Receipt of SDRs					
Transfers among participants and prescribed holders					
Transactions by agreement	5,183,810		82,519	5,266,329	6,776,605
Operations					
Loans	86,260			86,260	
Forward operations	72,000			72,000	123,000
Settlement of financial obligations	101,359		89,714	191,073	146,294
Transfer of interest under swaps					21,786
Fund-related operations					
Subsidy payments	2,064			2,064	14,473
SAF loans	28,040			28,040	104,551
SAF repayments and interest			2,926	2,926	2,668
Trust Fund repayments and interest			12,183	12,183	41,543
Special charges on SAF, ESAF, and Trust Fund			198	198	20
ESAF contributions and payments.....	1,351		83,289	84,640	47,381
ESAF repayments and interest			2,073	2,073	537
Net interest on SDRs	538,466		2,950	541,416	482,809
Transfers from participants to General Resources Account					
Repurchases		1,991,490		1,991,490	2,339,306
Charges		2,006,411		2,006,411	1,897,119
Quota payments		220,190		220,190	32,915
Interest on SDRs.....		78,765		78,765	86,399
Assessment on SDR allocation		3,686		3,686	4,270
Transfers from General Resources Account to participants and prescribed holders					
Purchases	1,333,747			1,333,747	944,823
Repayments of Fund borrowings	1,089,688			1,089,688	1,844,841
Interest on Fund borrowings	193,916		929	194,845	333,633
In exchange for currencies of other members					
Acquisitions to pay charges	363,894			363,894	363,815
Remuneration	1,172,145			1,172,145	1,196,200
Other					
Refunds and adjustments	80,429			80,429	24,162
Total receipts	10,247,169	4,300,542	276,781	14,824,492	16,829,150

SDR DEPARTMENT
STATEMENT OF RECEIPT AND USE OF SDRs
for the year ended April 30, 1991 (concluded)
(In thousands of SDRs)

	Participants	General Resources Account	Prescribed Holders	Total	
				1991	1990
Use of SDRs					
Transfers among participants and prescribed holders					
Transactions by agreement	5,100,611		165,718	5,266,329	6,776,605
Operations					
Loans	86,260			86,260	
Forward operations			72,000	72,000	123,000
Settlement of financial obligations	176,111		14,962	191,073	146,294
Transfer of interest under swaps					21,786
Fund-related operations					
Subsidy payments			2,064	2,064	14,473
SAF loans			28,040	28,040	104,551
SAF repayments and interest	2,926			2,926	2,668
Trust Fund repayments and interest	12,183			12,183	41,543
Special charges on SAF, ESAF, and Trust Fund	198			198	20
ESAF contributions and payments	83,289		1,351	84,640	47,381
ESAF repayments and interest	2,073			2,073	537
Transfers from participants to General Resources Account					
Repurchases	1,991,490			1,991,490	2,339,306
Charges	2,006,411			2,006,411	1,897,119
Quota payments	220,190			220,190	32,915
Assessment on SDR allocation	3,686			3,686	4,270
Transfers from General Resources Account to participants and prescribed holders					
Purchases		1,333,747		1,333,747	944,823
Repayments of Fund borrowings		1,089,688		1,089,688	1,844,841
Interest on Fund borrowings		194,845		194,845	333,633
In exchange for currencies of other members					
Acquisitions to pay charges		363,894		363,894	363,815
Remuneration		1,172,145		1,172,145	1,196,200
Other					
Refunds and adjustments		80,429		80,429	24,162
Charges paid in the SDR Department					
Net charges due	620,180			620,180	569,208
Charges not paid when due	(51,423)			(51,423)	(63,711)
Settlement of unpaid charges	65,793			65,793	54,446
Total uses	10,319,978	4,234,748	284,135	14,838,861	16,819,885
Total holdings at end of the year	20,757,415	694,280	11,931	21,463,626	21,477,995

The accompanying note is an integral part of the financial statements.

SDR DEPARTMENT
NOTE TO THE FINANCIAL STATEMENTS

SDR Department

All transactions and operations involving SDRs are conducted through the SDR Department. SDRs are allocated by the Fund to members that are participants in the SDR Department in proportion to their quotas in the Fund. Allocations were made in 1970, 1971, and 1972, totaling SDR 9.3 billion. Further allocations were made in 1979, 1980 and 1981, totaling SDR 12.1 billion. SDRs do not constitute claims by holders against the Fund to provide currency; however, in connection with the termination of participation or liquidation the Fund will provide to holders the currencies received from participants. The Fund is empowered to prescribe certain official entities as holders of SDRs: to date, 16 institutions have been prescribed as holders. These prescribed holders do not receive allocations and cannot use or receive SDRs in designation.

Uses of SDRs

Participants and prescribed holders can use and receive SDRs in operations and transactions by agreement among themselves. Participants can also use SDRs in operations and transactions involving the General Resources Account, such as the payment of charges and repurchases. In addition, the Fund ensures, by designating participants to provide freely usable currency in exchange for SDRs, that a participant can use its SDRs to obtain such currency if it has a need because of its balance of payments or its reserve position or developments in its reserves. A participant is not obliged to provide currency for SDRs beyond the point at which its holdings of SDRs in excess of its net cumulative allocation are equal to twice its net cumulative allocation. A participant may, however, provide currency in excess of the obligatory limit.

Interest, Charges, and Assessment

Interest is paid to each holder on its holdings of SDRs. Charges are levied on each participant's net cumulative allocation plus any negative balance of the participant or unpaid charges. Interest on SDR holdings is paid and charges on net cumulative allocations are collected on a quarterly basis. Interest and charges are levied at the same rate and settled by crediting and debiting individual holdings

accounts on the first day of the subsequent quarter. The Fund is required to pay interest to each holder, whether or not sufficient SDRs are received in payment of charges. At April 30, 1991, five members (six members at April 30, 1990) were six months or more overdue to the SDR Department. The amount of unpaid charges of these members to the SDR Department was as follows:

	1991	1990
	<i>In millions of SDRs</i>	
Total overdue	26.9	43.1
Overdue for more than six months	21.8	36.3
Overdue for more than three years	8.3	7.6

The duration of arrears of these members are as follows:

Member	Total	Longest Overdue Obligation
	<i>In millions of SDRs</i>	
Cambodia	8.9	November 1984
Liberia	5.4	August 1988
Sierra Leone	2.9	May 1987
Sudan	3.3	August 1990
Viet Nam	6.4	February 1987
Total	26.9	

The SDR interest rate is determined by reference to a combined market interest rate, which is a weighted average of yields or rates on short-term instruments in the capital markets of France, Germany, Japan, the United Kingdom, and the United States. The combined market interest rate used to determine the SDR interest rate is calculated each Friday, using the yields or rates of that day. The SDR interest rate, which is set equal to the combined market interest rate, enters into effect on the following Monday and applies until the end of the following Sunday.

The expenses of conducting the business of the SDR Department are paid by the Fund from the General Resources Account, which is reimbursed in SDRs at the end of each financial year. For this purpose, the Fund levies an assessment, at the same rate for all participants, on their net cumulative allocation.

SUPPLEMENTARY FINANCING FACILITY

SUBSIDY ACCOUNT

BALANCE SHEET

as at April 30, 1991

(In thousands of SDRs)

(Note 1)

	1991	1990
ASSETS		
Interest-earning deposits (Note 2)	3,884	11,512
Accrued interest on deposits	133	452
Total	<u>4,017</u>	<u>11,964</u>
RESOURCES		
Resources—Account balance	<u>4,017</u>	<u>11,964</u>

The accompanying notes are an integral part of the financial statements.

/s/ David Williams
Acting Treasurer/s/ M. Camdessus
Managing Director

SUPPLEMENTARY FINANCING FACILITY

SUBSIDY ACCOUNT

STATEMENT OF CHANGES IN RESOURCES

for the year ended April 30, 1991

(In thousands of SDRs)

(Note 1)

	1991	1990
Balance at beginning of the year	11,964	28,426
Investment income	504	1,314
Transfers to the Special Disbursement Account	(6,387)	(3,303)
Balance before subsidy payments	6,081	26,437
Subsidy payments (Note 3)	2,064	14,473
Balance at end of the year	<u>4,017</u>	<u>11,964</u>

The accompanying notes are an integral part of the financial statements.

SUPPLEMENTARY FINANCING FACILITY

SUBSIDY ACCOUNT

NOTES TO THE FINANCIAL STATEMENTS

Purpose

The Supplementary Financing Facility Subsidy Account, which is administered by the Fund, was established in December 1980 to assist low-income developing members to meet the cost of using resources made available through the Fund's supplementary financing facility and under the policy on exceptional use. The assets of the Supplementary Financing Facility Subsidy Account are separate from the assets of all other accounts of, or administered by, the Fund and are not to be used to discharge liabilities or to meet losses incurred in the administration of other accounts. The Supplementary Financing Facility Subsidy Account became operational in May 1981 and the first subsidy payments were made in December of that year. The resources of the Account arise from contributions and loans from members, interest income earned on investments, and transfers of amounts received in interest and loan repayments from the Trust Fund through the Special Disbursement Account. Cumulative contributions from members to the Supplementary Financing Facility Subsidy Account at April 30, 1991 amounted to SDR 57.4 million. In July 1985, the Fund determined that the resources of the Supplementary Financing Facility Subsidy Account were sufficient to meet its estimated needs, and transfers of resources received from the Trust Fund by the Special Disbursement Account were terminated. Resources considered to be in excess of the estimated subsidy payments are transferred back to the Special Disbursement Account. As of April 30, 1991, the cumulative amount of transfers to the Special Disbursement Account from the Subsidy Account amounted to SDR 81.8 million (SDR 75.4 million at April 30, 1990).

1. Accounting Practices*Unit of Account*

The accounts of the Supplementary Financing Facility Subsidy Account are expressed in terms of the SDR. At present, the currency value of the SDR is determined by the Fund each day by summing the values in U.S. dollars, based on market exchange rates, of a basket of five specific currencies. The Fund's procedures require that the SDR valuation basket be reviewed every five years, and that the basket is to include the currencies of the members having the largest exports of goods and services during the five-year period ending one year prior to the date of the revisions. In

accordance with these requirements, the SDR valuation basket was revised effective January 1, 1991. The currencies comprising the basket and their amounts in the basket during the year ended April 30, 1991 were as follows:

Currencies	Amounts	
	May 1– December 31, 1990	January 1– April 30, 1991
U.S. dollar	0.452	0.572
Deutsche mark	0.527	0.453
Japanese yen	33.4	31.8
French franc	1.02	0.800
Pound sterling	0.0893	0.0812

Basis of Accounting

The accounts are maintained on an accrual basis and, accordingly, income is recognized as it is earned and expenses are recorded as they are incurred. It is the practice of the Fund to make all calculations on the basis of the exact number of days in the accounting period.

2. Interest-Earning Deposits

The assets of the Account, pending their disbursement, are held in the form of interest-earning time deposits denominated in SDRs.

3. Subsidy Payments

The amount of the subsidy is calculated as a percentage per annum of the average daily balances in each year of the Fund's holdings of recipient members' currencies subject to the schedule of charges applicable to the supplementary financing facility. The rate of subsidy to be paid is determined by the Fund in light of the resources available. The subsidy may not exceed the equivalent of 3 percent per annum of the currency holdings resulting from purchases under the supplementary financing facility nor reduce the effective rate on the use of credit under the supplementary financing facility below the rate of charge on the use of the Fund's ordinary resources. Subsidy payments are withheld from members that have not paid the charges to which the subsidy applies. At April 30, 1991, subsidy payments totaling SDR 2.5 million have not been made to four members (at April 30, 1990, SDR 3.7 million to five members).

TRUST FUND
BALANCE SHEET

as at April 30, 1991

(In thousands of SDRs)

(Note 1)

	1991	1990
ASSETS		
Loans (Note 2)	157,817	325,621
Interest and charges receivable and accrued (Note 3)	22,705	18,252
Investments, at cost (which approximates market value)	3,026	3,252
Accrued interest on investments	82	95
Total	<u>183,630</u>	<u>347,220</u>
TRUST RESOURCES AND LIABILITIES		
Trust resources	158,000	326,075
Liabilities		
Undistributed profits from sale of gold (Note 4)	2,977	3,064
Deferred income (Note 3)	22,653	17,891
Borrowing	—	189
Accrued interest on borrowing	—	1
Total	<u>183,630</u>	<u>347,220</u>

The accompanying notes are an integral part of the financial statements.

/s/ David Williams
Acting Treasurer

/s/ M. Camdessus
Managing Director

TRUST FUND
STATEMENT OF INCOME AND EXPENSE

for the year ended April 30, 1991

(In thousands of SDRs)

(Note 1)

	1991	1990
Income		
Interest and charges on loans (Note 2)	8,098	9,463
Deduct income deferred (Note 3)	<u>4,762</u>	<u>5,104</u>
	3,336	4,359
Investment income	<u>225</u>	<u>269</u>
	3,561	4,628
Expense		
Exchange valuation loss	3	27
Interest expense on borrowing	<u>—</u>	<u>1</u>
Net income	<u>3,558</u>	<u>4,600</u>

The accompanying notes are an integral part of the financial statements.

TRUST FUND
STATEMENT OF CHANGES IN TRUST RESOURCES

for the year ended April 30, 1991

(In thousands of SDRs)

(Note 1)

	1991	1990
Balance at beginning of the year	326,075	682,776
Net income	3,558	4,600
Balance before transfers to the Special Disbursement Account	329,633	687,376
Transfers to the Special Disbursement Account (Note 5)	171,633	361,301
Balance at end of the year	<u>158,000</u>	<u>326,075</u>

The accompanying notes are an integral part of the financial statements.

TRUST FUND
NOTES TO THE FINANCIAL STATEMENTS

Purpose

The Trust Fund, which is administered by the Fund as Trustee, was established in 1976 to provide balance of payments assistance on concessional terms to eligible members that qualify for assistance. In 1980, the Fund, as Trustee, decided that upon the completion of the final loan disbursements, the Trust Fund shall be terminated as of April 30, 1981. After that date, the activities of the Trust Fund have been confined to the completion of any unfinished business of the Trust Fund and the winding up of its affairs. The resources of the Trust Fund are separate from the assets of all other accounts of or administered by the Fund and cannot be used to discharge liabilities or to meet losses incurred in the administration of other accounts.

1. Accounting Practices

Unit of Account

The accounts of the Trust Fund are expressed in terms of the SDR. At present, the currency value of the SDR is determined by the Fund each day by summing the values in U.S. dollars, based on market exchange rates, of a basket of five specific currencies. The Fund's procedures require that the SDR valuation basket be reviewed every five years, and that the basket is to include the cur-

rencies of the members having the largest exports of goods and services during the five-year period ending one year prior to the date of the revisions. In accordance with these requirements, the SDR valuation basket was revised effective January 1, 1991. The currencies comprising the basket and their amounts in the basket during the year ended April 30, 1991 were as follows:

Currencies	Amounts	
	May 1– December 31, 1990	January 1– April 30, 1991
U.S. dollar	0.452	0.572
Deutsche mark	0.527	0.453
Japanese yen	33.4	31.8
French franc	1.02	0.800
Pound sterling	0.0893	0.0812

Basis of Accounting

The accounts are maintained on an accrual basis and, accordingly, income is recognized as it is earned and expenses are recorded as they are incurred except that income from interest from members that are overdue in their obligations to the Fund by six months or more is deferred and is recognized as income only when paid unless the member has remained current in settling charges

when due (see Note 3). The expenses of conducting the business of the Trust Fund that are paid from the General Resources Account of the Fund are reimbursable by the Trust Fund on the basis of an estimate of these expenses. Following the termination of the Trust Fund as of April 30, 1981, residual administrative costs have been absorbed by the General Resources Account. It is the practice of the Fund to make all calculations on the basis of the exact number of days in the accounting period.

2. Loans

Loans were made from the Trust Fund to those eligible members that qualified for assistance in accordance with the provisions of the Trust Fund Instrument. The final loan disbursements were made on March 31, 1981. Interest on the outstanding loan balances is charged at the rate of $\frac{1}{2}$ of 1 percent per annum, and special charges are levied on late payments of interest and principal.

3. Overdue Obligations

At April 30, 1991, six members with obligations to the Trust Fund were six months or more late in discharging their obligations to the Fund and were not current in settling interest (eight members at April 30, 1990). For these members the recognition of income from interest on the outstanding loans and special charges is being deferred. At April 30, 1991, the total amount of deferred income, reflected in the balance sheet as interest and charges receivable and accrued and as deferred income amounts to SDR 22.7 million (SDR 17.9 million at April 30, 1990). Overdue loan repayments and interest and special charges due from these members were as follows:

	Loans		Interest and Special Charges	
	1991	1990	1991	1990
	<i>In millions of SDRs</i>			
Total overdue	157.8	172.0	20.8	15.7
Overdue for more than six months	157.3	160.5	18.1	13.1
Overdue for more than three years	112.4	75.4	6.6	3.4

The type and duration of the arrears of these members at April 30, 1991 were as follows:

Member	Loans	Interest and Special Charges	Total	Longest Overdue Obligation
	<i>In millions of SDRs</i>			
Liberia	25.0	4.0	29.0	January 1985
Sierra Leone	9.2	1.1	10.3	January 1987
Somalia	6.5	0.6	7.1	July 1987
Sudan	67.4	10.9	78.3	July 1984
Viet Nam	43.1	3.5	46.6	February 1984
Zambia	6.6	0.7	7.3	April 1989
Total	157.8	20.8	178.6	

4. Direct Distribution of Profits

The Fund decided that the Trustee make, through the Trust Fund, the direct distribution of part of the profits from the sale of gold for the benefit of developing members. The share of each developing member in this direct distribution of profits was calculated on the basis of its share in total Fund quotas as at August 31, 1975 and on the basis of the actual profits realized in the gold auctions.

The direct distribution of profits has been completed, except that an amount of \$3,990,776, representing the share of Cambodia, will continue to be held in the Trust Fund until relations with that member have been restored.

5. Transfer of Resources

The resources of the Trust Fund held on the termination date or subsequently received by the Trustee have been employed to pay interest and principal when due on loan obligations and to make transfers to the Special Disbursement Account.

ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST

COMBINED BALANCE SHEET

as at April 30, 1991

(In thousands of SDRs)

(Note 1)

	Loan Account	Reserve Account	Subsidy Account	Combined 1991	Combined 1990
ASSETS					
Investments (Note 2)	91,459	381,831	458,273	931,563	708,235
Loans	810,957	—	—	810,957	415,986
Accrued interest receivable	2,393	16,127	22,840	41,360	19,100
Accrued account transfers	8,391	1,238	(9,629)	—	—
Currency	9	—	3	12	—
Total	<u>913,209</u>	<u>399,196</u>	<u>471,487</u>	<u>1,783,892</u>	<u>1,143,321</u>
LIABILITIES AND RESOURCES					
Resources	—	399,196	379,270	778,466	487,311
Borrowing (Note 4)	900,813	—	91,365	992,178	647,352
Accrued interest on borrowing	12,346	—	852	13,198	8,630
Other liabilities	50	—	—	50	28
Total	<u>913,209</u>	<u>399,196</u>	<u>471,487</u>	<u>1,783,892</u>	<u>1,143,321</u>

The accompanying notes and Schedules 1–4 are an integral part of the financial statements.

/s/ David Williams
Acting Treasurer/s/ M. Camdessus
Managing Director

ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST

COMBINED STATEMENT OF INCOME AND EXPENSE

for the year ended April 30, 1991

(In thousands of SDRs)

(Note 1)

	Loan Account	Reserve Account	Subsidy Account	Combined 1991	Combined 1990
Income					
Investment income	10,975	29,315	34,657	74,947	52,218
Interest on loans	2,980	—	—	2,980	1,422
Exchange valuation gain	(7)	(19)	258	232	67
	<u>13,948</u>	<u>29,296</u>	<u>34,915</u>	<u>78,159</u>	<u>53,707</u>
Expense					
Interest expense on borrowing	31,495	—	1,143	32,638	15,843
Other expenses	50	—	—	50	28
	<u>31,545</u>	<u>—</u>	<u>1,143</u>	<u>32,688</u>	<u>15,871</u>
Net income (loss)	<u>(17,597)</u>	<u>29,296</u>	<u>33,772</u>	<u>45,471</u>	<u>37,836</u>

The accompanying notes and Schedules 1–4 are an integral part of the financial statements.

ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST

COMBINED STATEMENT OF CHANGES IN RESOURCES

for the year ended April 30, 1991

(In thousands of SDRs)

(Note 1)

	Loan Account	Reserve Account	Subsidy Account	Combined 1991	Combined 1990
Balance at beginning of the year	—	272,577	214,734	487,311	245,083
Contributions (Note 3)	—	—	158,437	158,437	125,313
Transfers from Special Disbursement Account	—	87,247	—	87,247	79,079
Subsidy Account transfers	27,673	—	(27,673)	—	—
Loan Account transfers	(10,076)	10,076	—	—	—
Net income (loss)	(17,597)	29,296	33,772	45,471	37,836
Balance at end of the year	<u>—</u>	<u>399,196</u>	<u>379,270</u>	<u>778,466</u>	<u>487,311</u>

The accompanying notes and Schedules 1-4 are an integral part of the financial statements.

ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST

NOTES TO THE FINANCIAL STATEMENTS

Purpose

The Enhanced Structural Adjustment Facility Trust, which is administered by the Fund as Trustee, was established in December 1987 to provide loans on concessional terms to low-income developing members that qualify for assistance in order to support programs to strengthen substantially and in a sustainable manner their balance of payments position and to foster growth. The resources of the Enhanced Structural Adjustment Facility Trust are separate from the assets of all other accounts of, or administered by, the Fund and may not be used to discharge liabilities or to meet losses incurred in the administration of other accounts.

The operations and transactions of the Enhanced Structural Adjustment Facility Trust are conducted through a Loan Account, a Reserve Account, and a Subsidy Account.

Loan Account

The resources of the Loan Account consist of the proceeds of loans made to the Enhanced Structural Adjustment Facility Trust for the Loan Account, and payments of principal and interest on loans extended by the Enhanced Structural Adjustment Facility Trust. Resources of the Loan Account are committed to qualifying member countries for a three-year period, upon approval by the Trustee, in support of a three-year macroeconomic and structural adjustment program submitted by the member. Loans disbursed under the Enhanced Structural Adjustment Facility Trust are repayable in ten semiannual installments commencing not later than the end of the first six months of the sixth year, and are to be completed at the end of the tenth year after the date of disbursement.

Interest is charged on the outstanding loan balances and is currently set at the rate of $\frac{1}{2}$ of 1 percent per annum. At April 30, 1991, SDR 811.0 million in loans had been disbursed. (SDR 416.0 million at April 30, 1990).

Reserve Account

The resources of the Reserve Account consist of amounts transferred by the Fund from the Special Disbursement Account; net earnings from investment of resources held in the Reserve Account; net earnings from investment of any resources held in the Loan Account pending use of these resources in operations; payment of overdue principal or interest thereon under Loan Account loans; and payments of interest under Loan Account loans to the extent that payment has been made to a lender from the Reserve Account.

The resources held in the Reserve Account are to be used by the Trustee to make payments of principal and interest on its borrowings for the Loan Account to the extent that the amounts available from receipts of repayments and interest from borrowers under the Loan Account, together with the authorized interest subsidy, are insufficient to cover payments to lenders as they become due and payable.

Subsidy Account

The resources held in the Subsidy Account consist of the proceeds of donations made to the Trust for the Subsidy Account including transfers of net earnings on resources temporarily placed to administered accounts; the proceeds of loans made to the Trust for the Subsidy Account; and the net earnings from investment of donated or borrowed resources held in the Subsidy Account.

The resources available in the Subsidy Account are drawn by the Trustee to pay the difference, with respect to each interest period, between the interest due from the borrowers under the Enhanced Structural Adjustment Facility Trust and the interest due on resources borrowed for Loan Account loans.

1. Accounting Practices

Unit of Account

The accounts of the Enhanced Structural Adjustment Facility Trust are expressed in terms of the SDR. At present, the currency value of the SDR is determined by the Fund each day by summing the values in U.S. dollars, based on market exchange rates, of a basket of five specific currencies. The Fund's procedures require that the SDR valuation basket be reviewed every five years, and that the basket is to include the currencies of the members having the largest exports of goods and services during the five-year period ending one year prior to the date of the revisions. In accordance with these requirements, the SDR valuation basket was revised effective January 1, 1991. The currencies comprising the basket and their amounts in the basket during the year ended April 30, 1991 were as follows:

Currencies	Amounts	
	May 1– December 31, 1990	January 1– April 30, 1991
U.S. dollar	0.452	0.572
Deutsche mark	0.527	0.453
Japanese yen	33.4	31.8
French franc	1.02	0.800
Pound sterling	0.0893	0.0812

Members are not obligated to maintain the SDR value of their currency held by the Accounts of the Enhanced Structural Adjustment Facility Trust.

Basis of Accounting

The Accounts of the Enhanced Structural Adjustment Facility Trust are maintained on the accrual basis and, accordingly, income is recognized as it is earned and expenses are recorded as they are incurred. It is the practice of the Trustee to make all calculations on the basis of the exact number of days in the accounting period. The expenses of conducting the business of the Enhanced Structural Adjustment Facility Trust that are paid by the General Resources Account of the Fund are reimbursed on an annual basis by the Special Disbursement Account, and corresponding transfers from the Trust's Reserve Account may be made to the Special Disbursement Account, when and to the extent needed.

2. Investments

The resources of the Enhanced Structural Adjustment Facility Trust are invested pending their use in operations and transactions. Investments may be denominated in SDRs or in currency. Balances held in currency-denominated investments may give rise to valuation gains and losses. Pending their investment, resources may be temporarily held in currency, which also may give rise to valuation gains and losses.

3. Contributions

The Trustee accepts donations of resources for the Subsidy Account on such terms and conditions as agreed between the Trustee and the respective contributors. Cumulative contributions received as at April 30, 1991 amounted to SDR 362.3 million (SDR 203.9 million at April 30, 1990) and are listed in Schedule 1.

4. Borrowing

The Trustee borrows resources for the Loan Account and for the Subsidy Account on such terms and conditions as agreed between the Trustee and the respective lenders.

The following summarizes borrowing agreements concluded as at April 30, 1991 (in thousands of SDRs):

	Amounts Agreed	Amounts Borrowed	Amounts Available
Loan Account	4,945,000	900,813	4,044,187
Subsidy Account	101,365	91,365	10,000

At April 30, 1990 borrowing agreements had been concluded for the Loan Account and the Subsidy Account amounting to SDR 4,575 million and SDR 101 million, respectively. Amounts available under these agreements at April 30, 1990 were SDR 4,009 million for the Loan Account and SDR 20 million for the Subsidy Account.

Scheduled repayments of outstanding borrowing by the Trustee are shown in Schedule 2.

5. Commitments under Loan Arrangements

At April 30, 1991 resources of the Loan Account were committed to members under 14 loan arrangements and undrawn balances under those arrangements amounted to SDR 617 million. At April 30, 1990 undrawn balances under 11 loan arrangements amounted to SDR 621 million. Loan arrangements are listed in Schedule 3. Scheduled repayments of outstanding loans are shown in Schedule 4.

Schedule 1

ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST**CONTRIBUTIONS TO THE SUBSIDY ACCOUNT¹****as at April 30, 1991**

(In thousands of SDRs)

Contributor	Cumulative Contribution
Austria	9,448
Belgium	15,506
Canada	4,300
Denmark	22,521
Finland	22,684
Germany	8,985
Greece	5,372
Iceland	200
Italy	56,069
Japan	74,228
Korea	27,700
Luxembourg	1,506
Netherlands	10,480
Norway	11,468
Sweden	55,309
United Kingdom	34,361
United States	2,189
Total contributions received	<u>362,326</u>

¹The Subsidy Account also benefits from the net investment earnings of the proceeds of loans or investments, which amounted to SDR 91.4 million at April 30, 1991.

Schedule 2

ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST**SCHEDULE OF REPAYMENTS OF BORROWING****as at April 30, 1991**

(In thousands of SDRs)

Periods of Repayment Financial Years Ending April 30 ¹	Loan Account	Subsidy Account
1994	1,465	—
1995	56,739	—
1996	130,771	—
1997	180,163	—
1998	180,163	—
1999	178,698	60,000
2000	123,424	20,000
2001	49,392	10,000
2002	—	—
2003	—	1,365
Total	<u>900,813</u>	<u>91,365</u>

¹Dates of repayment are the dates provided in the borrowing agreements between the Trustee and lenders.

Schedule 3

ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST

STATUS OF LOAN ARRANGEMENTS¹

as at April 30, 1991

(In thousands of SDRs)

Member	Date of Arrangement	Expiration	Amount Agreed			Undrawn Balance		
			ESAF Loan Account	Structural adjustment facility	Total	ESAF Loan Account	Structural adjustment facility	Total
Bangladesh	Aug. 10, 1990	Aug. 9, 1993	258,750	—	258,750	215,625	—	215,625
Bolivia	July 27, 1988	July 26, 1991	90,700	45,350	136,050	45,350	—	45,350
Gambia, The	Nov. 23, 1988	Nov. 22, 1991	17,100	3,420	20,520	3,420	—	3,420
Ghana	Nov. 9, 1988	Nov. 8, 1991	286,300	102,250	388,550	48,000	—	48,000
Guyana	July 13, 1990	July 12, 1993	47,084	34,440	81,524	10,824	24,600	35,424
Kenya	May 15, 1989	May 14, 1992	170,400	71,000	241,400	60,467	—	60,467
Madagascar	May 15, 1989	May 14, 1992	43,700	33,200	76,900	25,633	—	25,633
Malawi	July 15, 1988	July 14, 1991	29,760	26,040	55,800	—	—	—
Mauritania	May 24, 1989	May 23, 1992	44,070	6,780	50,850	30,510	3,390	33,900
Mozambique	June 1, 1990	May 31, 1993	85,400	—	85,400	61,000	—	61,000
Niger	Dec. 12, 1988	Dec. 11, 1991	40,440	6,740	47,180	23,590	—	23,590
Senegal	Nov. 21, 1988	Nov. 20, 1991	127,650	17,020	144,670	37,019	5,532	42,550
Togo	May 31, 1989	May 30, 1992	26,880	19,200	46,080	15,360	—	15,360
Uganda	Apr. 17, 1989	Apr. 16, 1992	159,360	19,920	179,280	39,840	—	39,840
Total			<u>1,427,594</u>	<u>385,360</u>	<u>1,812,954</u>	<u>616,637</u>	<u>33,522</u>	<u>650,159</u>

¹Resources under enhanced structural adjustment facility arrangements may be provided from the structural adjustment facility within the Special Disbursement Account and from the Enhanced Structural Adjustment Facility Trust.

Schedule 4

ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST

SCHEDULE OF REPAYMENTS OF LOANS

as at April 30, 1991

(In thousands of SDRs)

Periods of Repayment Financial Years Ending April 30	Loan Account
1994	1,466
1995	40,534
1996	103,691
1997	162,191
1998	162,191
1999	160,726
2000	121,657
2001	<u>58,501</u>
Total	<u>810,957</u>

ENHANCED STRUCTURAL ADJUSTMENT FACILITY

ADMINISTERED ACCOUNTS

BALANCE SHEET

as at April 30, 1991

(In thousands of SDRs)

(Note 1)

	1991			1990		
	Austria	Belgium	Greece	Austria	Belgium	Greece
ASSETS						
Investments (Note 2)	60,000	100,009	35,000	60,000	100,000	35,000
Accrued interest receivable	1,721	2,666	1,149	1,750	2,714	1,133
Total	<u>61,721</u>	<u>102,675</u>	<u>36,149</u>	<u>61,750</u>	<u>102,714</u>	<u>36,133</u>
LIABILITIES AND RESOURCES						
Resources	1,621	2,522	1,084	1,650	2,563	1,067
Deposits (Note 3)	60,000	100,000	35,000	60,000	100,000	35,000
Accrued interest on deposits	100	153	65	100	151	66
Total	<u>61,721</u>	<u>102,675</u>	<u>36,149</u>	<u>61,750</u>	<u>102,714</u>	<u>36,133</u>

The accompanying notes are an integral part of the financial statements.

/s/ David Williams
Acting Treasurer/s/ M. Camdessus
Managing Director

ENHANCED STRUCTURAL ADJUSTMENT FACILITY

ADMINISTERED ACCOUNTS

STATEMENT OF INCOME AND EXPENSE

for the year ended April 30, 1991

(In thousands of SDRs)

(Note 1)

	1991			1990		
	Austria	Belgium	Greece	Austria	Belgium	Greece
Income						
Investment income	5,285	8,854	3,012	4,980	7,806	2,871
Deduct: Interest expense on deposits ..	300	500	175	300	471	175
Net income	<u>4,985</u>	<u>8,354</u>	<u>2,837</u>	<u>4,680</u>	<u>7,335</u>	<u>2,696</u>

The accompanying notes are an integral part of the financial statements.

ENHANCED STRUCTURAL ADJUSTMENT FACILITY

ADMINISTERED ACCOUNTS

STATEMENT OF CHANGES IN RESOURCES

for the year ended April 30, 1991

(In thousands of SDRs)

(Note 1)

	1991			1990		
	Austria	Belgium	Greece	Austria	Belgium	Greece
Balance at beginning of year	1,650	2,563	1,067	1,404	1,392	922
Net income.....	4,985	8,354	2,837	4,680	7,335	2,696
Transfers to Enhanced Structural Adjustment Facility Trust Subsidy Account	(5,014)	(8,395)	(2,820)	(4,434)	(6,164)	(2,551)
Balance at end of year	<u>1,621</u>	<u>2,522</u>	<u>1,084</u>	<u>1,650</u>	<u>2,563</u>	<u>1,067</u>

The accompanying notes are an integral part of the financial statements.

ENHANCED STRUCTURAL ADJUSTMENT FACILITY

ADMINISTERED ACCOUNTS

NOTES TO THE FINANCIAL STATEMENTS

Purpose

The Administered Accounts were established for the administration of resources deposited in the accounts. The difference, net of any investment cost, between interest earned by the Fund on the investment of resources and the interest on deposits due will be transferred to the Subsidy Account of the Enhanced Structural Adjustment Facility Trust.

The resources of each of the Administered Accounts are separate from the assets of all other accounts of, or administered by, the Fund and may not be used to discharge liabilities or to meet losses incurred in the administration of other accounts.

1. Accounting Practices

Unit of Account

The accounts of the Administered Accounts are expressed in terms of the SDR. At present, the currency value of the SDR is determined by the Fund each day by summing the values in U.S. dollars, based on market exchange rates, of a basket of five specific currencies. The Fund's procedures require that the SDR valuation basket be reviewed every five years, and that the basket is to include the currencies of the members having the largest exports of goods and services during the five-year period ending one year prior to the date of the revisions. In accordance with these requirements, the SDR valuation basket was revised effective January 1, 1991. The currencies comprising the basket and their amounts in the basket during the year ended April 30, 1991 were as follows:

Currencies	Amounts	
	May 1– December 31, 1990	January 1– April 30, 1991
U.S. dollar	0.452	0.572
Deutsche mark	0.527	0.453
Japanese yen	33.4	31.8
French franc	1.02	0.800
Pound sterling	0.0893	0.0812

Basis of Accounting

The accounts of the Administered Accounts are maintained on the accrual basis and, accordingly, income is recognized as it is earned and expenses are recorded as they are incurred. It is the practice of the Fund to make all calculations on the basis of the exact number of days in the accounting period.

2. Investments

The resources of the Administered Accounts are invested by the Fund in SDR-denominated deposits.

3. Deposits

The Administered Account Austria was established on December 27, 1988 for the administration of resources deposited in the account by the Austrian National Bank. The deposit totaling SDR 60 million will be repaid in ten equal semiannual installments which begin five and one half years after the date of the deposit and will be completed at the end of the tenth year after the date of the deposit. The deposit will bear interest at an annual rate of $\frac{1}{2}$ of 1 percent per annum.

The Administered Account Belgium was established July 27, 1988 for the administration of resources deposited in the account by the National Bank of Belgium. The deposits totaling SDR 100 million will each have an initial maturity of six months and will be renewable, at the option of the Fund, on the same basis. The final maturity of each deposit, including renewals, will be ten years from the initial date of the deposit. The deposits will bear interest at an annual rate of $\frac{1}{2}$ of 1 percent per annum.

The Administered Account Greece was established November 30, 1988 for the administration of resources deposited in the account by the Bank of Greece. The deposit totaling SDR 35 million will be repaid in ten equal semiannual installments which begin five and one half years after the date of deposit and will be completed at the end of the tenth year after the date of the deposit. The deposit will bear interest at an annual rate of $\frac{1}{2}$ of 1 percent per annum.

ADMINISTERED ACCOUNT—JAPAN

BALANCE SHEET

as at April 30, 1991

(In thousands of U.S. dollars)

(Note 1)

	<u>1991</u>	<u>1990</u>
ASSETS		
Investments (Note 2)	86,700	60,900
Currency deposit	11	—
Accrued interest receivable	—	97
Total	<u>86,711</u>	<u>60,997</u>
RESOURCES		
Resources—Account balance	<u>86,711</u>	<u>60,997</u>

The accompanying notes are an integral part of the financial statements.

/s/ David Williams
Acting Treasurer/s/ M. Camdessus
Managing Director

ADMINISTERED ACCOUNT—JAPAN

STATEMENT OF CHANGES IN RESOURCES

for the year ended April 30, 1991

(In thousands of U.S. dollars)

(Note 1)

	<u>1991</u>	<u>1990</u>
Balance at beginning of the year	60,997	43,852
Contribution received	29,750	16,260
Income earned on investments (Note 2)	<u>4,964</u>	<u>3,885</u>
	95,711	63,997
Payment to beneficiary	<u>9,000</u>	<u>3,000</u>
Balance at end of the year	<u>86,711</u>	<u>60,997</u>

The accompanying notes are an integral part of the financial statements.

ADMINISTERED ACCOUNT—JAPAN
NOTES TO THE FINANCIAL STATEMENTS

Purpose

At the request of Japan, the Fund established an account on March 3, 1989, to administer resources contributed by Japan that are to be used to assist certain members with overdue obligations to the Fund. The resources of the Administered Account are to be disbursed in amounts specified by Japan and only to members designated by Japan. The Fund performs financial services in the administration of the resources contributed, and the assets of the Account are separate from the assets of all other accounts of, or administered by, the Fund and are not to be used to discharge liabilities or to meet losses incurred in the administration of other accounts.

Contributions received by the Administered Account are held in temporary investment accounts pending the receipt of notification from Japan that resources should be disbursed. Cumulative contributions amount to \$89.7 million, of which \$12 million has been disbursed.

1. Accounting Practices

Unit of Account

The accounts of the Administered Account are expressed in U.S. dollars. All transactions and operations of the Administered Ac-

count, including the transfers to and by the Account, are denominated in U.S. dollars.

Basis of Accounting

The accounts of the Administered Account are maintained on the accrual basis and, accordingly, income is recognized as it is earned and expenses are recorded as they are incurred. It is the practice of the Fund to make all calculations on the basis of the exact number of days in the accounting period.

2. Investments

The assets of the Administered Account, pending their disbursement, are held in the form of repurchase agreements. Interest received on these assets varies and is market related.

3. Account Termination

The Administered Account can be terminated by the Fund or by Japan. Any resources in the account at termination are to be returned promptly to Japan.

ADMINISTERED ACCOUNT—GUYANA

BALANCE SHEET

as at April 30, 1991

(In thousands of U.S. dollars)

(Note 1)

	<u>1991</u>	<u>1990</u>
ASSETS		
Investments (Note 2)	321	6,218
Accrued interest receivable	—	58
	<u>321</u>	<u>6,276</u>
RESOURCES		
Resources—Account balance	<u>321</u>	<u>6,276</u>

The accompanying notes are an integral part of the financial statements.

/s/ David Williams
Acting Treasurer

/s/ M. Camdessus
Managing Director

ADMINISTERED ACCOUNT—GUYANA

STATEMENT OF CHANGES IN RESOURCES

for the year ended April 30, 1991

(In thousands of U.S. dollars)

(Note 1)

	<u>1991</u>	<u>1990</u>
Balance at beginning of year	6,276	—
Contributions received	235,458	7,925
Income earned on investments (Note 2)	417	127
	<u>242,151</u>	<u>8,052</u>
Payments to beneficiary	241,854	1,700
Net exchange valuation gain (loss)	24	(76)
Balance at end of the year	<u>321</u>	<u>6,276</u>

The accompanying notes are an integral part of the financial statements.

ADMINISTERED ACCOUNT—GUYANA
NOTES TO THE FINANCIAL STATEMENTS

Purpose

At the request of Guyana, the Fund established an account on April 5, 1989, to administer resources made available by various contributors in connection with Guyana's adjustment effort. The Fund administers this Account and performs financial services at the request of Guyana. The resources of the Administered Account are separate from the assets of all other accounts of, or administered by, the Fund and are not to be used to discharge liabilities or to meet losses incurred in the administration of other accounts.

Contributions received by the Account are temporarily invested pending the receipt of notification that resources, including investment income, are to be disbursed. Cumulative contributions amount to \$244.4 million, and an amount of \$244.6 million including interest earned on contributions has been disbursed.

1. Accounting Practices

Unit of Account

The accounts of the Administered Account are expressed and denominated in U.S. dollars. All transfers to and by the Account are denominated in U.S. dollars or in other freely usable currencies.

Basis of Accounting

The accounts of the Administered Account are maintained on the accrual basis and, accordingly, income is recognized as it is earned and expenses are recorded as they are incurred. It is the practice of the Fund to make all calculations on the basis of the exact number of days in the accounting period.

2. Investments

The assets of the Administered Account, pending their disbursement, are held in the form of repurchase agreements or in the form of interest-earning deposits. Account resources have been temporarily invested in SDR-denominated obligations in anticipation of Guyana's settlement of obligations denominated in SDR. Interest received on these assets varies and is market related.

3. Account Termination

The Administered Account can be terminated by the Fund, by Guyana, or by the Chairman of the Support Group for Guyana. Otherwise, the Administered Account shall be terminated on December 31, 1991, or such later date as may be agreed. Any proceeds that remain in the Account at termination shall be returned to the transferors, unless otherwise indicated by them.

ADMINISTERED TECHNICAL ASSISTANCE ACCOUNT—JAPAN

BALANCE SHEET

as at April 30, 1991

(In thousands of U.S. dollars)

(Note 1)

	1991	1990
ASSETS		
Investments (Note 2)	<u>1,059</u>	<u>290</u>
RESOURCES		
Resources—Account balance	<u>1,059</u>	<u>290</u>

The accompanying notes are an integral part of the financial statements.

/s/ David Williams
Acting Treasurer/s/ M. Camdessus
Managing Director

ADMINISTERED TECHNICAL ASSISTANCE ACCOUNT—JAPAN

STATEMENT OF CHANGES IN RESOURCES

for the year ended April 30, 1991

(In thousands of U.S. dollars)

(Note 1)

	1991	1990
Balance at beginning of the year	290	—
Contributions received	2,206	288
Income earned on investments (Note 2)	<u>74</u>	<u>2</u>
	2,570	290
Payments to beneficiaries	<u>1,511</u>	—
Balance at end of the year	<u>1,059</u>	<u>290</u>

The accompanying notes are an integral part of the financial statements.

ADMINISTERED TECHNICAL ASSISTANCE ACCOUNT—JAPAN

NOTES TO THE FINANCIAL STATEMENTS

Purpose

At the request of Japan, the Fund established an account on March 19, 1990, to administer resources contributed by Japan that are to be used to finance technical assistance to member countries. Resources of the Administered Technical Assistance Account are to be used with the approval of Japan, to assist members in strengthening their administrative capacity and their capacity to formulate, implement, and maintain macroeconomic programs and structural adjustment programs aimed, inter alia, at helping to resolve or to avoid debt-related difficulties. Disbursements can also be made from the Administered Technical Assistance Account to the Fund's General Resources Account to reimburse the Fund for qualifying technical assistance projects.

The assets of the Account are accounted for separately from the assets of all other accounts of, or administered by, the Fund and are not to be used to discharge liabilities or to meet losses incurred in the administration of other accounts. Contributions received by the Administered Technical Assistance Account are invested by the Fund pending disbursement. Net investment earnings of the Account accrue and are available for the purposes of the Account. Cumulative contributions amount to \$2.5 million, of which \$1.5 million has been disbursed.

1. Accounting Practices*Unit of Account*

The accounts of the Administered Technical Assistance Account are expressed in U.S. dollars. All transactions and operations

of the Administered Technical Assistance Account, including the transfers to and by the Account, are denominated in U.S. dollars.

Basis of Accounting

The accounts of the Administered Technical Assistance Account are maintained on the accrual basis and, accordingly, income is recognized as it is earned and expenses are recorded as they are incurred. It is the practice of the Fund to make all calculations on the basis of the exact number of days in the accounting period.

2. Investments

The assets of the Administered Technical Assistance Account, pending their disbursement, are invested. Interest received on these investments varies and is market related.

3. Account Termination

The Administered Technical Assistance Account can be terminated by the Fund or by Japan. Any resources that may remain in the Administered Technical Assistance Account at termination, net of accrued liabilities under Technical Assistance Projects, are to be returned to Japan.

VOLUNTARY CONTRIBUTION ACCOUNT—BOLIVIA

BALANCE SHEET

as at April 30, 1991

(In thousands of U.S. dollars)

(Note 1)

	<u>1991</u>	<u>1990</u>
ASSETS		
Investments (Note 2)	<u>2,004</u>	<u>8,284</u>
RESOURCES		
Resources—Account balance	<u>2,004</u>	<u>8,284</u>

The accompanying notes are an integral part of the financial statements.

/s/ David Williams
Acting Treasurer

/s/ M. Camdessus
Managing Director

VOLUNTARY CONTRIBUTION ACCOUNT—BOLIVIA

STATEMENT OF CHANGES IN RESOURCES

for the year ended April 30, 1991

(In thousands of U.S. dollars)

(Note 1)

	<u>1991</u>	<u>1990</u>
Balance at beginning of the year	8,284	73
Contributions received	—	14,537
Income earned on investments (Note 2)	<u>266</u>	<u>322</u>
	8,550	14,932
Payments to beneficiary	<u>6,546</u>	<u>6,648</u>
Balance at end of the year	<u>2,004</u>	<u>8,284</u>

The accompanying notes are an integral part of the financial statements.

VOLUNTARY CONTRIBUTION ACCOUNT—BOLIVIA**NOTES TO THE FINANCIAL STATEMENTS****Purpose**

At the request of Bolivia, the Fund established an account on October 21, 1987, to administer contributions to assist Bolivia in discharging a portion of the external indebtedness owed or guaranteed by it to nonofficial creditors. The Fund administers the Voluntary Contribution Account, performs financial services at the request of Bolivia, and makes disbursements from the Account as instructed by Bolivia. The resources of the Account are separate from the assets of all other accounts of, or administered by, the Fund and are not available to discharge liabilities or to meet losses incurred in the administration of other accounts.

Contributions received by the Voluntary Contribution Account are invested pending the receipt of notification of their disbursement. Cumulative contributions amount to \$50.4 million, of which \$49.9 million has been disbursed.

1. Accounting Practices*Unit of Account*

The accounts of the Voluntary Contribution Account are expressed in U.S. dollars. All transactions and operations of the Vol-

untary Contribution Account, including the transfers to and by the Account, are denominated in U.S. dollars.

Basis of Accounting

The accounts of the Voluntary Contribution Account are maintained on the accrual basis and, accordingly, income is recognized as it is earned and expenses are recorded as they are incurred. It is the practice of the Fund to make all calculations on the basis of the exact number of days in the accounting period.

2. Investments

The assets of the Account, pending their disbursement, are held in the form of repurchase agreements or in the form of interest-earning deposits. Interest paid on these assets varies and is market related.

3. Account Termination

The Voluntary Contribution Account can be terminated by the Fund or Bolivia. Any resources in the Voluntary Contribution Account at its termination are to be returned to those that transferred assets to the Account or, in accordance with their instructions, to Bolivia.

VOLUNTARY CONTRIBUTION ACCOUNT—COSTA RICA

STATEMENT OF CHANGES IN RESOURCES

for the period May 15, 1990 to May 22, 1990

(In thousands of U.S. dollars)

(Note 1)

Contributions received	253,452
Income earned on investments (Note 2)	104
	<u>253,556</u>
Payments to beneficiary	<u>253,556</u>
Balance, May 22, 1990	<u>—</u>

The accompanying notes are an integral part of the financial statement.

/s/ David Williams
Acting Treasurer/s/ M. Camdessus
Managing Director

VOLUNTARY CONTRIBUTION ACCOUNT—COSTA RICA

NOTES TO THE FINANCIAL STATEMENTS

Purpose

At the request of Costa Rica, the Fund established an account on April 25, 1990, to administer resources to finance Costa Rica's debt and debt-service reduction and refinancing operations. Resources were used for operations relating to external indebtedness owed or guaranteed by the Republic of Costa Rica, its Central Bank, or any other governmental agency to nonofficial creditors. The Fund administered this Account and performed financial services at the request of Costa Rica. The resources of the Voluntary Contribution Account were separate from the assets of all other accounts of or administered by the Fund and could not be used to discharge liabilities or to meet losses incurred in the administration of other accounts.

Cumulative contributions during the operation of the Voluntary Contribution Account amounted to \$253.5 million, and these contributions and investment income equal to \$253.6 million have been disbursed. Resources received by the Account were temporarily invested until the Fund was notified that resources, including investment income, were to be disbursed.

1. Accounting Practices*Unit of Account*

The accounts of the Voluntary Contribution Account were expressed and denominated in U.S. dollars. All transfers to and disbursements from the Account were denominated in U.S. dollars.

Basis of Accounting

The accounts of the Voluntary Contribution Account were maintained on the accrual basis and, accordingly, income was recognized as it was earned. It is the practice of the Fund to make all calculations on the basis of the exact number of days in the accounting period.

2. Investments

The assets of the Voluntary Contribution Account, before their disbursement, were held in the form of repurchase agreements. Interest received on these assets varied and was market related.

3. Account Termination

At the instruction of Costa Rica, the Voluntary Contribution Account was terminated by the Fund on May 22, 1990.

REPORT OF THE EXTERNAL AUDIT COMMITTEE
STAFF RETIREMENT PLAN

Washington, D.C.
June 27, 1991

Authority and Scope of the Audit

In accordance with Section 20(b) of the By-Laws of the International Monetary Fund, we have audited the financial statements of the Staff Retirement Plan for the year ended April 30, 1991.

Our audit was conducted in accordance with generally accepted auditing standards and included reviews of the accounting and internal control systems, and tests of the accounting records. We evaluated the extent and results of the work of the Independent Accountants as well as that of the Office of Internal Audit and Review and also used other audit procedures as deemed necessary.

Audit Opinion

In our opinion, the financial statements of the Staff Retirement Plan have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, and give a true and fair view of the financial status of the Staff Retirement Plan as at April 30, 1991 and of the changes in financial status for the year then ended.

EXTERNAL AUDIT COMMITTEE

/s/ Philippe Lacarriere, Chairman (*France*)
/s/ Michael J. Jacobs (*Australia*)
/s/ Jocelyn Thompson (*Trinidad and Tobago*)

STAFF RETIREMENT PLAN
STATEMENT OF ACCUMULATED PLAN BENEFITS
AND NET ASSETS AVAILABLE FOR BENEFITS

as at April 30, 1991

(In thousands of U.S. dollars)

(Note 1)

	<u>1991</u>	<u>1990</u>
Accumulated Plan Benefits		
Actuarial present value of accumulated Plan benefits		
Vested benefits		
Retired participants	341,100	286,800
Active participants	266,900	211,600
Nonvested benefits	<u>429,400</u>	<u>308,300</u>
Total actuarial present value of accumulated Plan benefits ..	<u>1,037,400</u>	<u>806,700</u>
Net Assets Available for Benefits		
Investments, at current value (Note 3)		
Portfolio denominated in U.S. dollars	959,203	860,297
Portfolio denominated in other currencies	<u>398,721</u>	<u>366,033</u>
	<u>1,357,924</u>	<u>1,226,330</u>
Receivables		
Contributions	283	318
Accrued interest and dividends	8,718	9,201
Other	<u>41</u>	<u>1,904</u>
	<u>9,042</u>	<u>11,423</u>
Cash at banks	<u>94</u>	<u>43</u>
Total assets	<u>1,367,060</u>	<u>1,237,796</u>
Liabilities		
Accounts payable	<u>2,586</u>	<u>1,669</u>
Net assets available for benefits	<u>1,364,474</u>	<u>1,236,127</u>
Excess of net assets available for benefits over actuarial present value of accumulated Plan benefits (Note 2)	<u>327,074</u>	<u>429,427</u>

The accompanying notes are an integral part of the financial statements.

/s/ David Williams
Acting Treasurer

/s/ M. Camdessus
Managing Director

STAFF RETIREMENT PLAN
STATEMENT OF CHANGES IN ACCUMULATED PLAN BENEFITS
for the year ended April 30, 1991
(In thousands of U.S. dollars)
(Note 1)

	<u>1991</u>	<u>1990</u>
Actuarial present value of accumulated Plan benefits at beginning of the year	806,700	726,400
Increase (decrease) during the year attributable to		
Benefits accumulated (Note 1)	183,119	43,399
Increase for interest due to decrease in discount period	76,100	60,700
Benefits paid	<u>(28,519)</u>	<u>(23,799)</u>
Net increase	<u>230,700</u>	<u>80,300</u>
Actuarial present value of accumulated Plan benefits at end of the year	<u><u>1,037,400</u></u>	<u><u>806,700</u></u>

The accompanying notes are an integral part of the financial statements.

STAFF RETIREMENT PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
for the year ended April 30, 1991
(In thousands of U.S. dollars)
(Note 1)

	1991	1990
Investment Income		
Net gain in current value of investments (Note 3)	76,725	23,491
Interest and dividends	68,304	71,100
	<u>145,029</u>	<u>94,591</u>
Contributions (Note 2)		
International Monetary Fund	6,289	15,141
Participants	12,038	12,555
Participants restored to service	343	117
Net transfers to retirement plans of other international organizations	(11)	(350)
	<u>18,659</u>	<u>27,463</u>
Total additions	<u>163,688</u>	<u>122,054</u>
Benefits		
Pension	23,348	20,687
Withdrawal	2,485	1,866
Commutation	2,256	1,118
Death	430	128
	<u>28,519</u>	<u>23,799</u>
Investment Fees		
Custodian	824	814
Manager	5,998	6,298
	<u>6,822</u>	<u>7,112</u>
Total payments	<u>35,341</u>	<u>30,911</u>
Net additions	<u>128,347</u>	<u>91,143</u>
Net Assets Available for Benefits at		
Beginning of year	<u>1,236,127</u>	<u>1,144,984</u>
End of year	<u>1,364,474</u>	<u>1,236,127</u>

The accompanying notes are an integral part of the financial statements.

STAFF RETIREMENT PLAN

NOTES TO THE FINANCIAL STATEMENTS

Description of the Plan

General

The Staff Retirement Plan (Plan) is a defined benefit pension plan covering nearly all staff members of the International Monetary Fund (Employer). All assets and income of the Plan are the property of the Employer and are held and administered by it separately from all its other property and assets and are to be used solely for the benefit of participants, retired participants, and their beneficiaries.

Benefits

The Plan was amended twice in 1990. The first amendment, which limits the compensation on which benefits may be based, had an effective date of May 1, 1989. The second amendment, which makes the changes referred to below as the new Plan provisions, had an effective date of May 1, 1990.

Annual Pension

Participants are entitled to an unreduced pension beginning at normal retirement age of 62 (65 under the old Plan provisions). The amount of the pension is based on the number of years of service, age at retirement, and highest average gross remuneration. Beginning May 1, 1989 the gross remuneration on which pensions from the Plan are based is limited to a predetermined amount which is periodically adjusted. Pension benefits attributable to gross remuneration in excess of this amount are paid from the Supplemental Retirement Benefit Plan. The provisions determining gross remuneration have been amended under the new Plan.

The accrual rate of benefits under the old Plan was 2 percent of gross remuneration for each year of service, while the accrual rate under the new Plan is 2.2 percent for the first 25 years of service and 1.8 percent for the next 10 years of service. Transitional arrangements provide that the pensions of participants hired before May 1, 1990 will be based on a prorated combination of the old and new Plan provisions, using the time period of service before and after May 1, 1990.

Under the new Plan, a grandfathering option allows certain participants to receive pension benefits based on the larger of old Plan benefits or transitional benefits. Those electing the grandfathering option will continue to make contributions on the basis of the higher gross remuneration determined in accordance with the provisions of the old Plan.

Participants between the ages of 50 and 55 may retire with a reduced pension if their age and years of service total at least 75. Participants age 55 and older may retire with an unreduced pension if the sum of their age and years of service equals 85 or more (90 under the old Plan). Early retirement pensions are based on normal pensions, determined under the old Plan provisions or the transitional rules discussed above, whichever is applicable.

Cost of Living Adjustment

Whenever the cost of living increases during a financial year, pensions shall be augmented by a pension supplement which, ex-

pressed in percentage terms, shall be equal to the increase in the cost of living for the financial year. If the cost of living increase for a financial year should exceed 3 percent, the Employer has the right, for good cause, to reduce prospectively the additional supplement to not less than 3 percent. Deferred pensions become subject to cost of living adjustments when the sum of a former participant's age and years of service is at least 50 (55 under the old Plan).

Withdrawal Benefit

Upon termination a participant with at least three years of eligible service may elect to receive either a withdrawal benefit or a deferred pension to commence after the participant has reached the age of 50 (if age and years of service add to 75) or age 55 with shorter service. Under the old Plan the withdrawal benefit was equal to the sum of the accumulated contributions of the participant and a percentage of such accumulated contributions, the percentage being based on the number of months of eligible service. Under the new Plan the withdrawal benefit is a percentage of the participant's highest average gross remuneration. However, the withdrawal benefit under the new Plan is guaranteed to be at least what it would have been under the old Plan provisions, but based on a participant's actual contributions.

Commutation

A pensioner entitled to receive a normal, early retirement, or deferred pension may elect to commute up to one third of his or her pension, and receive a lump-sum amount at retirement in lieu of the amount of pension commuted. A participant entitled to receive a disability pension may elect to commute one third of the early retirement pension that would otherwise have been applicable.

Disability Pensions, Death Benefits, and Survivor Benefits

The Plan also provides for disability pensions, death benefits, and benefits to surviving spouses and children of deceased participants. Under the old Plan, surviving spouses and children of pensioners receive benefits only if certain age and eligible service requirements had been met by the deceased retiree. Under the new Plan these benefits are paid without regard to age and eligible service.

Currency of Pension Payments

A participant may elect to have his pension paid in the currency of the country in which he has established permanent residence. Under the new Plan participants may receive their pensions in a combination of two currencies—the U.S. dollar and the currency of the country in which the participant is a permanent resident. As a result of an amendment to the Plan that became effective on May 1, 1991, the additional cost of paying pensions in local currency, formerly paid by the administrative budget, is now paid by the Plan.

Contributions

Participants

As a condition of employment, regular staff members are required to participate in and to contribute to the Plan. The contribution rate is presently 7 percent of the participant's gross remuneration. Certain other categories of staff members may elect to participate in the Plan. Contributions of participants electing the grandfathering option are based on the grossing-up formula in effect on April 30, 1990.

Employer

The employer meets certain administrative costs of the Plan, such as the actuary's fees, and contributes any additional amount not provided by the contribution of participants to pay costs and expenses of the Plan not otherwise covered. In financial year 1991 the administrative costs met by the Employer were approximately \$0.2 million (\$0.7 million in 1990).

Plan Termination

In the event of the termination of the Plan by the Employer, the assets of the Plan shall be used to satisfy all liabilities to participants, retired participants and their beneficiaries, and all other liabilities of the Plan. Any remaining balance of the assets shall be returned to the Employer.

1. Accounting Practices

Accumulated Plan Benefits

The actuarial value of vested benefits is presented for two categories. For retired participants, the amount presented equals the present value of the benefits expected to be paid over the future lifetime of the pensioner, and, if applicable, the surviving spouse of the pensioner. For active participants, the amount presented equals the present value of the deferred pension earned to the valuation date for a participant, or, if greater, the value of the withdrawal benefit for that participant, summed over all participants. For the purpose of determining the actuarial value of the vested benefits at the end of the Plan year, it is assumed that the Plan will continue to exist and that salaries will continue to rise, but that participants will not earn pension benefits beyond the date of the calculation.

The amount of nonvested benefits represents the total of the withdrawal benefits of all participants with less than three years of eligible service together with the estimated effect of projected salary increases on benefits expected to be paid.

In contrast to the actuarial valuation for funding purposes, the actuarial valuation used for the financial statements represents the portion of the benefit obligation which had been accumulated by April 30, 1991. It reflects only the service to that date and does not take into account the fact that the value of accumulated benefits, which are the Plan's liabilities, are expected to increase each year. Nor does it take into account the fact that the market value of investments may fluctuate from year to year, which is significant because the employer's liability is the excess of the present value of accumulated benefits over the value

of the assets. Accordingly, the financial statements do not measure the amount which the Employer will be required to fund in the future.

The increase during financial year 1991 in accumulated benefits referred to in the Statement of Changes in Accumulated Plan Benefits, equal to \$183.1 million, includes an amount equal to \$45.3 million relating to changes in actuarial assumptions and an amount equal to \$57.1 million resulting from Plan amendments.

Valuation of Investments

Investments in securities listed on stock exchanges are valued at the last reported market sales price on the last business day of the accounting period. Over-the-counter securities are valued at their bid price on the last business day of the accounting period. Investments in real estate are valued at the last reported appraisal value. Purchases and sales made by U.S. investment managers are recorded on the settlement date basis, and transactions made by the international investment managers are recorded on the trade date basis.

Investment Income

Dividend and interest income from investments are recorded as earned.

2. Actuarial Valuation and Funding Policy

Under the actuarial valuation used for funding calculations, it is assumed that the Plan will continue to exist and that active participants will continue to earn pension benefits beyond the date of the valuation until the date of withdrawal, disability, death, or retirement, but that no new participant will join the Plan (the "closed method").

Funding by the Employer is based upon a valuation method, known as the "aggregate method," which expresses liabilities and contribution requirements as single consolidated figures which include provision for experience gains and losses and cost of living increases. Required Employer contributions are expressed as a percentage to be applied to the gross remuneration of participants and are based upon the valuation completed 12 months previously. For the financial year which began on May 1, 1989 this rate was 8.45 percent and was 3.91 percent for the year which began on May 1, 1990 based upon the valuation at April 30, 1989. The proposed rate for the year beginning May 1, 1991 is 10.46 percent of the new gross remuneration.

The actuarial assumptions used in the valuation to determine the employer contribution in recent years include (a) life expectancy based upon the 1980 and 1982 United Nations mortality tables for men and women, respectively, (b) withdrawal or retirement of a certain percentage of staff at each age, differentiated by sex, (c) an average rate of return on investments of 8.5 percent per annum, (d) an average inflation rate of 5 percent per annum, (e) salary increase percentages which vary with age, and (f) valuation of assets using a five-year moving average method. The April 30, 1990 valuation was based upon the new Plan and its transitional provisions because this valuation projects the cost of future benefits.

Several of the actuarial assumptions used to determine the employer contribution have been changed for years beginning after April 30, 1991. The changes include (1) basing life expectancies on the 1984 and 1982 United Nations mortality tables for men and women, respectively, with each table set back one year and (2) increasing the liabilities of the Plan by 1 percent to reflect the May 1, 1991 incorporation into the Plan of the Pension Parity Adjustment System.

The results of the April 30, 1990 and 1989 valuations are:

	1990	1989
	<i>In millions of U.S. dollars</i>	
Present value of benefits payable	1,373	1,193
Less: Assets for valuation purposes	<u>1,155</u>	<u>999</u>
Required future funding	218	194
Less: Present value of prospective contributions from participants (7 percent of gross remuneration)	<u>127</u>	<u>129</u>
Present value of future funding required from the Employer	<u>91</u>	<u>65</u>

3. Investments

A summary of investments at market values is as follows:

	1991	1990
	<i>In thousands of U.S. dollars</i>	
Portfolio denominated in U.S. dollars		
U.S. Government securities	174,085	140,676
Corporate bonds and debentures	82,550	72,949
Common and preferred stock	613,570	503,121
Mortgage	2,639	—
Real estate	46,735	46,523
Venture capital	1,535	4,063
Short-term investments	<u>38,089</u>	<u>92,975</u>
	959,203	860,297
Portfolio denominated in other currencies	<u>398,721</u>	<u>366,033</u>
	<u>1,357,924</u>	<u>1,226,330</u>

The net gain in the current value of investments represents the gains (and losses) realized during the year from the sale of investments, the unrealized appreciation (and depreciation) of the market value of investments, and, for investments denominated in currencies other than U.S. dollars, valuation differences arising from exchange rate changes of other currencies against the U.S. dollar.

REPORT OF THE EXTERNAL AUDIT COMMITTEE
SUPPLEMENTAL RETIREMENT BENEFIT PLAN

Washington, D.C.
June 27, 1991

Authority and Scope of the Audit

In accordance with Section 20(b) of the By-Laws of the International Monetary Fund, we have audited the financial statements of the Supplemental Retirement Benefit Plan for the year ended April 30, 1991.

Our audit was conducted in accordance with generally accepted auditing standards and included reviews of the accounting and internal control systems, and tests of the accounting records. We evaluated the extent and results of the work of the Independent Accountants as well as that of the Office of Internal Audit and Review and also used other audit procedures as deemed necessary.

Audit Opinion

In our opinion, the financial statements of the Supplemental Retirement Benefit Plan have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, and give a true and fair view of the financial status of the Supplemental Retirement Benefit Plan as at April 30, 1991 and of the changes in financial status for the year then ended.

EXTERNAL AUDIT COMMITTEE

/s/ Philippe Lacarriere, Chairman (*France*)

/s/ Michael J. Jacobs (*Australia*)

/s/ Jocelyn Thompson (*Trinidad and Tobago*)

SUPPLEMENTAL RETIREMENT BENEFIT PLAN
STATEMENT OF ACCUMULATED PLAN BENEFITS
AND ASSETS AVAILABLE FOR BENEFITS

as at April 30, 1991

(In thousands of U.S. dollars)

(Note 1)

	1991	1990
Accumulated Plan Benefits		
Actuarial present value of accumulated Plan benefits		
Vested benefits	1,700	900
Nonvested benefits	100	100
Total actuarial present value of accumulated Plan benefits	<u>1,800</u>	<u>1,000</u>
Assets Available for Benefits		
Receivable		
Contributions	—	1
Other	15	—
	<u>15</u>	<u>1</u>
Cash at bank (Note 3)	461	166
Assets available for benefits	<u>476</u>	<u>167</u>
Excess of actuarial present value of accumulated Plan benefits over assets available for benefits	<u>1,324</u>	<u>833</u>

The accompanying notes are an integral part of the financial statements.

/s/ David Williams
Acting Treasurer

/s/ M. Camdessus
Managing Director

SUPPLEMENTAL RETIREMENT BENEFIT PLAN
STATEMENT OF CHANGES IN ACCUMULATED PLAN BENEFITS

for the year ended April 30, 1991

(In thousands of U.S. dollars)

(Note 1)

	1991	1990
Actuarial present value of accumulated Plan benefits at the beginning of the year	1,000	800
Increase (decrease) during the period attributable to		
Benefits accumulated	846	197
Increase for interest due to decrease in discount period	100	100
Benefits paid	(146)	(97)
Net increase	<u>800</u>	<u>200</u>
Actuarial present value of accumulated Plan benefits at the end of the year	<u>1,800</u>	<u>1,000</u>

The accompanying notes are an integral part of the financial statements.

SUPPLEMENTAL RETIREMENT BENEFIT PLAN
STATEMENT OF CHANGES IN ASSETS AVAILABLE FOR BENEFITS
for year ended April 30, 1991
(In thousands of U.S. dollars)
(Note 1)

	<u>1991</u>	<u>1990</u>
Interest income	20	5
Contributions		
International Monetary Fund	393	62
Participants	42	71
	<u>435</u>	<u>133</u>
Total additions	<u>455</u>	<u>138</u>
Benefits		
Pension	108	97
Commutation	38	—
Total payments	<u>146</u>	<u>97</u>
Net additions	309	41
Net Assets Available for Benefits at		
Beginning of the year	<u>167</u>	<u>126</u>
End of the year	<u>476</u>	<u>167</u>

The accompanying notes are an integral part of the financial statements.

SUPPLEMENTAL RETIREMENT BENEFIT PLAN

NOTES TO THE FINANCIAL STATEMENTS

Description of Supplemental Retirement Benefit Plan

General

The Supplemental Retirement Benefit Plan (SRBP) is a defined benefit pension plan covering all participants of the Staff Retirement Plan of the International Monetary Fund (Employer) and operates as an adjunct to that Plan. All assets and income of the SRBP are the property of the Employer and are held and administered by it separately from all its other property and assets and are to be used solely for the benefit of participants and retired participants and their beneficiaries.

Benefits

The Staff Retirement Plan has adopted limits to pensions payable from that plan. The SRBP provides for the payment of any benefit which would otherwise have been payable if these limits had not been adopted.

In financial year 1991, 15 pensioners received benefits from the SRBP (ten in 1990).

Contributions

Before financial year 1990 the SRBP was entirely funded by the Employer. Beginning May 1, 1989, participants with gross remuneration exceeding a predetermined limit are required to contribute 7 percent of their gross remuneration in excess of this limit to the SRBP. The Employer meets administrative costs of the SRBP and contributes any additional amounts not provided by the contributions of participants to pay costs and expenses of the SRBP not otherwise covered.

The Employer makes regular contributions in relation to non-U.S. citizens whose calculated gross remuneration exceeds the predetermined limit, as adjusted. There is also a partial prefunding by the Employer, just prior to retirement, when non-U.S. citizens retire in the United States, so that the taxable income of the participant is approximately equal to, but not more than, such income that would have accrued if the entire benefit had been payable from any of the prefunded assets of the Staff Retirement Plan. The contributions of participants and the prefunded amounts are used to pay any of the benefits payable, whether for U.S. or non-U.S. staff. Should the assets of the SRBP be exhausted, benefits will be paid from current contributions by the Employer.

Termination

In the event of the termination of the SRBP by the Employer, the assets of the SRBP shall be used to satisfy all liabilities to participants, retired participants and their beneficiaries, and all other liabilities of the SRBP.

1. Accounting Practices

Accumulated Plan Benefits

The actuarial present value of accumulated Plan benefits is stated as at the date of the most recent actuarial valuation, which was April 30, 1991. The actuarial value of benefits is presented for two categories. The vested benefits relate to retired participants and the amount presented equals the present value of the benefits expected to be paid over the future lifetime of the pensioner, and, if applicable, the surviving spouse of the pensioner.

The nonvested benefits relate to active participants and the amount presented equals the present value of the supplemental deferred pension earned to the valuation date for a participant, taking into account the estimated effect of projected salary increases. For the purpose of determining the actuarial value of the benefits at the end of the period, it is assumed that the SRBP will continue to exist but that participants will not accumulate further contributory service beyond the date of the calculation.

Interest Income

Interest income is recorded as earned.

2. Actuarial Valuation

The actuarial assumptions used in the valuation to determine the employer contribution in recent years include (a) life expectancy based upon the 1980 and 1982 United Nations mortality tables for men and women, respectively, (b) withdrawal or retirement of a certain percentage of staff at each age, differentiated by sex, (c) an average rate of return on investments of 8.5 percent per annum, (d) an average inflation rate of 5 percent per annum, (e) salary increase percentages which vary with age, and (f) valuation of assets using a five-year moving average method. The April 30, 1990 valuation was based upon the new Plan and its transitional provisions because this valuation projects the costs of future benefits.

Several of the actuarial assumptions used to determine the employer contribution have been changed for years beginning after April 30, 1991. The changes include (1) basing life expectancies on the 1984 and 1982 United Nations mortality tables for men and women, respectively, with each table set back one year and (2) increasing the liabilities of the Plan by one percent to reflect the May 1, 1991 incorporation into the Plan of the Pension Parity Adjustment System.

3. Assets

Cash balances are maintained in a money market account.

