INTERNATIONAL MONETARY FUND

Annual Report 1995

Purposes of the Fund

The purposes of the International Monetary Fund are:

(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
1995

Board of Governors, Executive Board, Interim Committee, and Development Committee

The *Board of Governors*, the highest decision-making organ in the Fund, consists of one governor and one alternate governor appointed by each member country. The governor is chosen by the member and is usually the minister of finance or the governor of the central bank. All powers of the Fund are vested in the Board of Governors. The Board of Governors may delegate to the Executive Board all except certain reserved powers. The Board of Governors normally meets once a year.

The *Executive Board* (the Board) is the Fund's permanent decision-making organ, currently composed of 24 Directors appointed or elected by member countries or by groups of countries. Chaired by the Managing Director, the Board usually meets several days a week to conduct the day-to-day business of the Fund. Decisions by the Executive Board are based on papers prepared by Fund management and staff. In 1994/95, the Board spent more than half of its time on member country matters (Article IV consultations and reviews and approvals of arrangements) and most of its remaining time on policy issues (such as the world economic outlook, developments in international capital markets, issues related to Fund facilities and program design, and international liquidity and the SDR mechanism).

The *Interim Committee* of the Board of Governors on the International Monetary System is an advisory body made up of 24 Fund governors, ministers, or other officials 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 Meeting of the Board of Governors in September or October. It advises and reports to the Board of Governors on issues regarding the management and adaptation of the international monetary system, including sudden disturbances that might threaten the international monetary system, and on proposals to amend the Articles of Agreement.

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) comprises 24 members—finance ministers or other officials of comparable rank—and generally meets at the same time as the Interim Committee. It advises and reports to the Boards of Governors of the World Bank and the Fund on all aspects of the transfer of real resources to developing countries.

Annual Report

of the

Executive Board

for the Financial Year

Ended

April 30, 1995

Washington, D.C.

The following conventions 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 (for example, 1993–94 or January–June) to indicate the years or months covered, including the beginning and ending years or months;

/ between years or months (for example, 1993/94) to indicate a fiscal or financial year.

"Billion" means a thousand million; "trillion" means a thousand billion.

"Basis points" refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to ¼ of 1 percentage point).

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

All references to dollars are to U.S. dollars unless otherwise noted; as of April 30, 1995, the U.S. dollar/SDR exchange rate was US$1 = SDR 0.635715, and the SDR/U.S. dollar exchange rate was SDR 1 = US$1.57303.

As used in this Report, the term "country" does not in all cases refer to a territorial entity that is a state as understood by international law and practice. As used here, the term also covers some territorial entities that are not states but for which statistical data are maintained on a separate and independent basis.

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Charts

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* Alphabetical listing.

April 30, 1995

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LETTER OF TRANSMITTAL TO THE BOARD OF GOVERNORS

July 21, 1995

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, 1995, 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, 1996 are presented in Appendix IX. The audited financial statements for the year ended April 30, 1995 of the General Department, the SDR Department, accounts administered by the Fund, and the Staff Retirement Plan and the Supplemental Retirement Benefit Plan, together with reports of the External Audit Committee thereon, are presented in Appendix X.

Yours sincerely,

Michel Camdessus
Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

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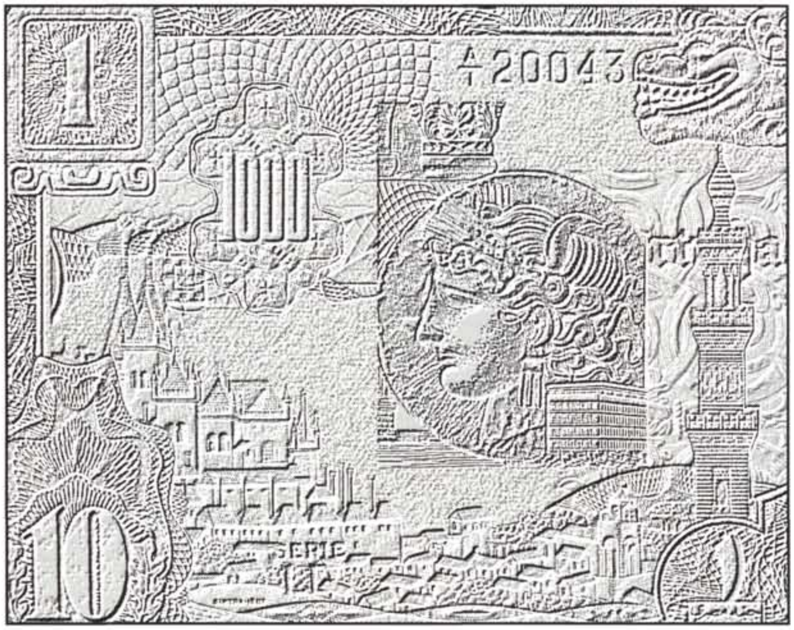

Overview

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Fiftieth Anniversary Marked by Response to Crisis, Rethinking of Fund's Role

The fiftieth anniversary of the Bretton Woods Conference that led to the foundation of the International Monetary Fund was marked by a considerable increase in all areas of the Fund's operations. The anniversary, coming as it did in a year of intense activity for the Fund, stimulated an assessment of changes in the international monetary system, a review of the implications of these developments for the Fund's future resource base, and reflections (from both within and outside the institution) on the ways in which the Fund should respond to them.

The financial crisis in Mexico, which was in many respects the dominant single event of the anniversary year, called forth a response from the Fund that was both swift and massive; the amount of financial support provided—in an initial amount of SDR 5.3 billion that could be augmented up to a total of SDR 12.1 billion (about $18 billion)—was the largest ever extended to a member country. But perhaps even more important for Fund operations over the medium term, the operation for Mexico also intensified a review of the role of the Fund—with a focus on surveillance and the adequacy of the Fund's resources—in a world characterized by integrated capital markets and highly sensitive investor behavior. The year also saw a further evolution in the Fund's role of assisting countries in the transition from command to market economies; the Fund approved substantial arrangements for Russia and Ukraine, totaling about SDR 6.0 billion. Beside these activities, the Fund provided additional assistance to Argentina and extended its financial support to a large number of developing countries, as well as increasing access to its resources for all members.

As was evident from the crisis in Mexico and other developments, the Fund's surveillance over members' exchange rate policies lies at the heart of its responsibilities. Surveillance is carried out through both regular consultations with individual member countries and by considering policy issues in a global setting, in particular through the semiannual World Economic Outlook exercise. This work was given added impetus by the "Madrid Declaration" adopted by the Interim Committee of the Board of Governors in October 1994. This *Declaration on Cooperation to Strengthen the Global Expansion* (see Appendix VI) welcomed the improved prospects for world economic growth and noted that global economic integration would be further enhanced through the entry into force of the Uruguay Round trade agreement. At the same time, the declaration cautioned that serious policy challenges remained. These were to sustain economic growth, reduce unemployment, and prevent a resurgence of inflation in the industrial countries; to maintain and extend growth through strong programs of adjustment and structural reform in developing countries; and to integrate the economies in transition into the world economy and to set them firmly on the path of sustainable growth. The recent success of many developing economies has illustrated once again the validity of a strategy based on steadfast implementation of strong programs of macroeconomic adjustment and structural reform. The Committee urged other countries to follow a similar bold strategy for sustained economic growth and domestic and external financial stability.

In its biennial review of surveillance in early 1995, the Executive Board[1] carried out a thorough examination of both the analytical and the operational aspects of surveillance. It revised its earlier guidelines on the principles and procedures of surveillance to take explicit account of the role of capital flows in the surveillance exercise. The Board also considered a report prepared by an outside expert on the background to the economic crisis that affected Mexico in December 1994 and discussed the lessons to be drawn from the crisis, and the manner in which it had been handled, for the Fund's practice of surveillance. These included a recognition of the importance of the prompt communication to the Fund of data from member countries; the need for a sustained effort to maintain economic policy dialogue with members, including following the conclusion of Fund-supported programs; and the desirability of a frank assessment in the Board of members' policies.

In the communiqué issued following its April 1995 meeting, the Interim Committee said that it had discussed the evolving role of the Fund in an environment of increased globalization and integration of markets for goods, services, and capital. After concluding that the new environment required stricter policy discipline from all members, the Committee agreed that Fund surveillance should be strengthened in a symmetrical manner and by taking account of the lessons to be drawn from the crisis in Mexico.

Following both the Board's review of surveillance and the Interim Committee's April 1995 meeting, the Fund is taking steps to improve the policy dialogue with its members and to enhance the effectiveness of surveillance. These comprise the following measures:

- establish a closer and more continuous policy dialogue with member countries, including candid assessments of possible risks attached to members' policies and recommendations for reducing these risks;

[1]In this Report, "Board" refers to the Executive Board of the Fund; references to the Board of Governors are stated fully.

- ensure that member countries provide data to the Fund on a timely basis, so that emerging tensions can be identified at an early stage;
- encourage the timely publication by members of comprehensive data to give greater transparency to their economic policies;
- in view of the risks of overreliance on easily reversible capital flows, give more attention to members' financial policies and the soundness of their financial sectors; and
- focus surveillance more sharply on those members for which economic disturbances or policies are likely to impinge broadly on the international community.

In its review of surveillance, the Board addressed the issue of openness, particularly the need to strike an appropriate balance between the confidential relationship between the Fund and its members and the desirability of encouraging more public transparency of Fund policies and operations. As part of this movement toward greater openness, the Board decided to make information contained in Recent Economic Developments reports and other background documents to Article IV consultations publicly available subject to the consent of the member country.

The call on the Fund to provide financial support for Mexico, and for other developing countries and economies in transition, led to exceptionally heavy demands on Fund resources. Total purchases from the Fund's General Resources Account (GRA) during 1994/95 amounted to SDR 10.6 billion, about twice the level of 1993/94. Of this total, SDR 7.6 billion was provided under stand-by arrangements, SDR 1.6 billion under extended arrangements, SDR 0.3 billion under the compensatory and contingency financing facility (CCFF), and SDR 1.1 billion under the systemic transformation facility (STF). In addition, SDR 0.6 billion in concessional assistance was disbursed under the structural adjustment facility (SAF) and the enhanced structural adjustment facility (ESAF).

In October 1994 the Board increased for three years the annual access limit for drawings in the GRA from 68 percent to 100 percent of a country's quota. The cumulative access limit was left unchanged at 300 percent of quota. These access limits may be exceeded in exceptional circumstances, as in the case of Mexico. The increase in annual access was designed to give confidence to members with potentially large financial needs that the Fund would be able to respond quickly and on an appropriate scale in support of strong economic adjustment programs.

The Fund's liquidity was generally adequate during the financial year, but it is projected to decline sharply over the next two years because of the continuing large demands on the Fund's financial resources. Although the Tenth General Review of Quotas was concluded in December 1994 without recommending an increase, the Fund's liquidity was to be kept under review; later developments heightened the importance of monitoring the Fund's liquidity position in the coming period. In connection with its review of the future role of the Fund, the Board will carry forward its work on the Eleventh General Quota Review.

The Board continued to study the issue of a new SDR allocation and discussed the long-term global need to supplement international reserves, the economic and monetary effects of a new allocation, the future of the SDR as a reserve asset, and the need to address the situation of new members that had not participated in previous allocations. In its April 1995 communiqué, the Interim Committee noted that there was not a basis for agreement on an allocation but requested the Board to keep this matter under review. The Committee also requested the Fund to initiate a broad review, with the involvement of outside experts, of the role and functions of the SDR in the light of changes in the world financial system.

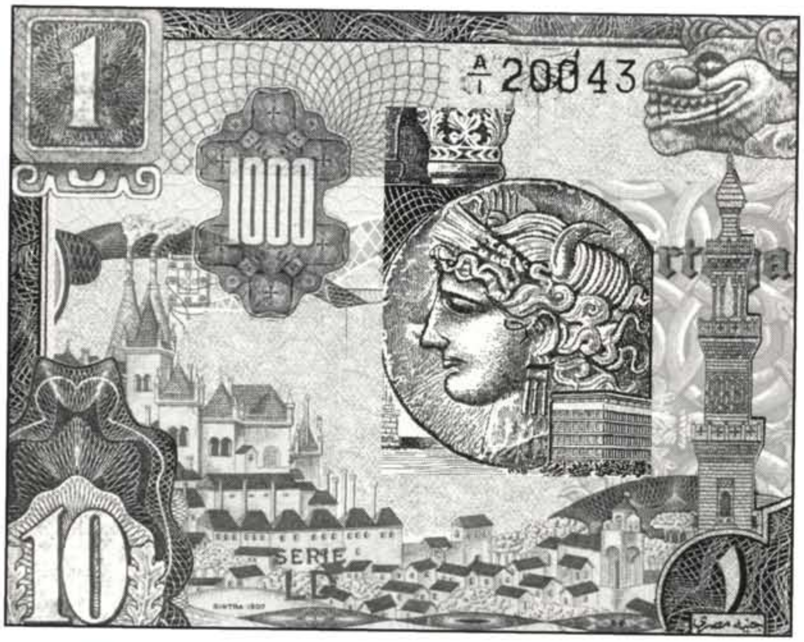
The Board will also examine the issues related to borrowing by the Fund from its members, and in particular the role of the General Arrangements to Borrow (GAB), under which 11 industrial countries or their central banks stand ready to lend up to SDR 17 billion to the Fund, with an additional SDR 1.5 billion under an associated arrangement with Saudi Arabia. Also, because of the importance of continuing concessional ESAF support for low-income countries, the Fund will study the options for continued financing and adaptation of the ESAF.

The number of countries with financial arrears to the Fund of six months or more decreased to eight during 1994/95, as Haiti eliminated its overdue obligations. The level of outstanding arrears rose slightly—to SDR 3.0 billion on April 30, 1995 from SDR 2.9 billion a year earlier—because of unpaid maturing obligations of some existing overdue members.

The growing movement toward market economies and the widespread implementation of structural adjustment policies have increased members' requirements for technical assistance from the Fund. Over the past five years, the Fund's technical assistance activities have increased by 75 percent, with more than half the total being allocated to Africa and the European and Asian countries in transition. In addition, during 1994/95 the Fund mounted coordinated efforts to provide prompt policy and operational advice to support the reconstruction of economies that have suffered major civil disruptions or political upheaval.

In early 1995 a decision was taken to hold the increase in the Fund's administrative expenses to a minimum. A policy of budgetary consolidation was adopted, including staffing reductions across the board, and will be continued in 1995/96. For the 1995/96 financial year, the Fund's Administrative Budget was reduced by 2.7 percent in nominal terms, and a cut of 40 positions was made in authorized staffing levels.

The membership of the Fund was 179 countries on April 30, 1995. As of that date, two countries of the former Socialist Federal Republic of Yugoslavia—the Federal Republic of Yugoslavia (Serbia/Montenegro) and the Republic of Bosnia and Herzegovina—had still to complete arrangements for succession to membership.



Global Economy

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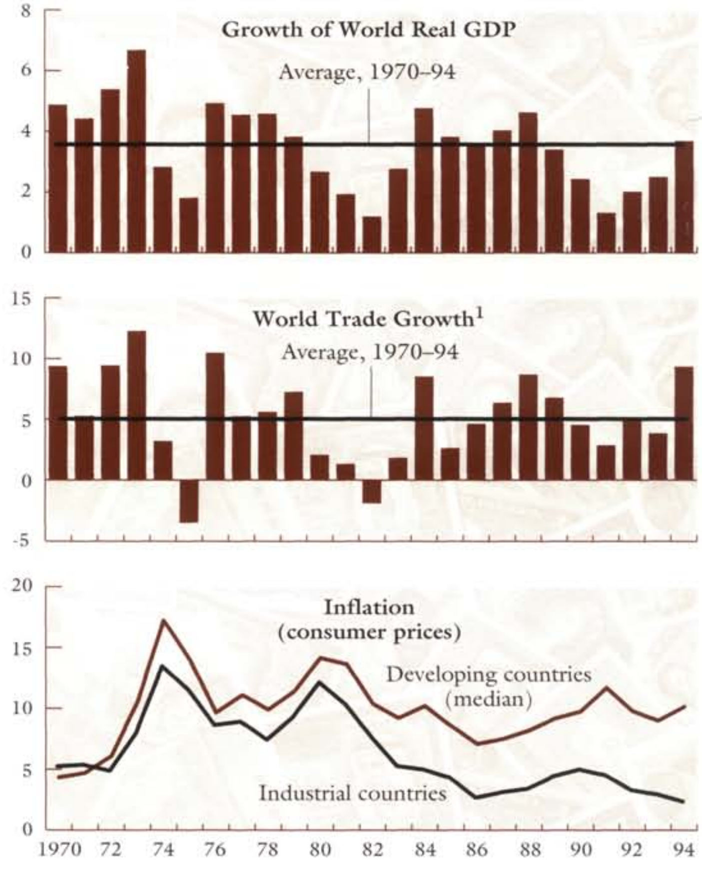
MAIN DEVELOPMENTS IN THE WORLD ECONOMY

The world economy rebounded strongly in 1994. Total output rose by 3¾ percent, in line with trend growth over the past two decades, and marking a significant improvement over the lackluster performance of 1990–93 (Chart 1). In addition to continued strong growth in much of the developing world, economic activity picked up in the industrial countries as expansions in North America and the United Kingdom gained further momentum and as recovery became firmly established in the continental European countries (Table 1).

Robust growth in industrial and developing countries and higher import demand in countries in transition led to a strong expansion in the volume of world trade of over 9 percent in 1994, well above the 5½ percent average growth rate of the past two decades. Trade among developing countries rose markedly, supported by trade liberalization and increased intraregional economic and financial ties. Although capital flows to developing countries remained at a very high level, on aggregate they subsided somewhat, owing largely to declines in flows to countries in the Western Hemisphere and the Middle East and Europe region. By the end of 1994, the Final Act of the Uruguay Round had been ratified by countries accounting for over 90 percent of international trade in goods and services; included among its provisions was the creation of the World Trade Organization (WTO).

Among the industrial countries, inflation eased further in 1994, and in many countries it was at levels closer to price stability than seen in three decades. Inflation rose somewhat in the developing countries, and it remained at high levels in many of the transition countries, although stabilization efforts progressed in a number of these countries and inflation for the group came down significantly from 1993 levels. Oil prices were lower on average, whereas nonfuel primary commodity prices registered a marked cyclical recovery that contributed to a small improvement in the terms of trade of nonfuel exporting developing countries.

Chart 1
WORLD INDICATORS
(In percent)



[1] Excluding trade among the Baltic countries, Russia, and the other countries of the former Soviet Union.

Table 1
OVERVIEW OF THE WORLD ECONOMY[1]
(Annual percent change unless otherwise noted)

	1991	1992	1993	1994
World output	1.4	2.1	2.5	3.7
Industrial countries	0.8	1.5	1.1	3.0
United States	–0.6	2.3	3.1	4.1
Japan	4.3	1.1	–0.2	0.5
Germany	2.8	2.2	–1.1	2.9
France	0.8	1.3	–1.5	2.8
Italy	1.2	0.7	–1.2	2.2
United Kingdom	–2.0	–0.5	2.2	3.8
Canada	–1.8	0.6	2.2	4.6
Seven countries above	0.8	1.6	1.3	3.1
Other industrial countries	1.0	1.0	0.2	2.8
Memorandum				
European Union[2]	1.1	1.0	–0.5	2.8
Developing countries	4.9	5.9	6.2	6.3
Africa	1.9	0.8	0.8	2.8
Asia	6.4	8.2	8.7	8.6
Middle East and Europe	3.1	5.5	3.8	0.6
Western Hemisphere	3.5	2.7	3.2	4.6
Output per capita				
Africa	–0.7	–1.7	–1.9	–0.2
Asia	4.7	6.5	7.0	6.9
Middle East and Europe	1.9	–0.4	1.5	–2.1
Western Hemisphere	1.5	0.7	1.3	2.6
Countries in transition	–11.4	–15.8	–9.6	–10.3
Central and eastern Europe	–10.7	–12.0	–6.8	–4.9
Excluding Belarus and Ukraine	–11.4	–9.9	–2.1	2.6
Russia	–13.0	–19.0	–12.0	–15.0
Transcaucasus and central Asia	–7.7	–17.6	–11.8	–14.9
World trade volume	2.9	5.2	3.9	9.2
Import volume				
Industrial countries[3]	2.3	4.3	1.5	10.3
Developing countries	9.9	12.4	10.4	8.8
Export volume				
Industrial countries[3]	2.8	4.2	1.5	8.6
Developing countries	7.1	9.6	9.0	10.4
Commodity prices				
Oil[4]	–17.0	–0.5	–11.5	–4.1
In U.S. dollars a barrel	18.30	18.22	16.13	15.47
Nonfuel[5]	–4.4	–0.2	–3.7	12.4
Consumer prices				
Industrial countries	4.5	3.3	3.0	2.4
Developing countries	33.3	35.9	42.9	48.1
Countries in transition	97.1	821.3	769.6	332.1
Six-month LIBOR (in percent)[6]				
On U.S. dollar deposits	6.1	3.9	3.4	5.1
On Japanese yen deposits	7.2	4.3	3.0	2.4
On deutsche mark deposits	9.4	9.4	7.0	5.4

Note: Data in the table are based on the latest information at the time of finalizing the Report. For this reason, data for individual countries may differ from the indicators provided in the section describing Article IV consultations with member countries.

[1]Composite data for country groups are averages of data for individual countries weighted by GDP valued at purchasing power parities (PPPs) as a share of total world or group GDP.

[2]Fifteen current members of the European Union.

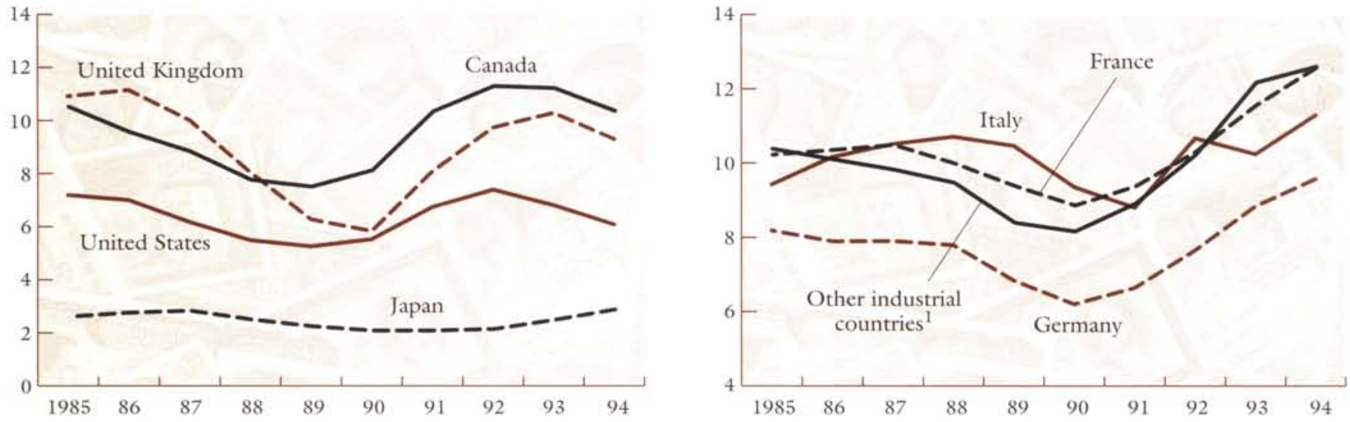
[3]Information on 1993 trade may understate trade volume because of reduced data coverage associated with the abandonment of customs clearance of trade within the European Union. Similarly, the strong rebound in trade volumes in 1994 may partly reflect improved data coverage.

[4]Simple average of the U.S. dollar spot prices of U.K. Brent, Dubai, and Alaska North Slope crude oil.

[5]Average, based on world commodity export weights, of U.S. dollar prices.

[6]London interbank offered rate, annual averages.

Chart 2
MAJOR INDUSTRIAL COUNTRIES: UNEMPLOYMENT RATES
(In percent of labor force)



[1] Aggregation based on labor force weights.

Long-term interest rates in the industrial countries rose significantly, particularly in the early part of the year, owing to improved growth prospects, inflationary expectations, and the increased demand for funds stemming from the pickup in global activity. In some countries, market concerns about inflation prospects, budgetary imbalances, and political uncertainties led to a sharp increase in interest rate risk premiums and exchange market pressures. With the overall decline in the level of capital flows to developing countries, there was a downward correction in many emerging stock markets; both of these developments intensified in the wake of the financial crisis in Mexico in December.

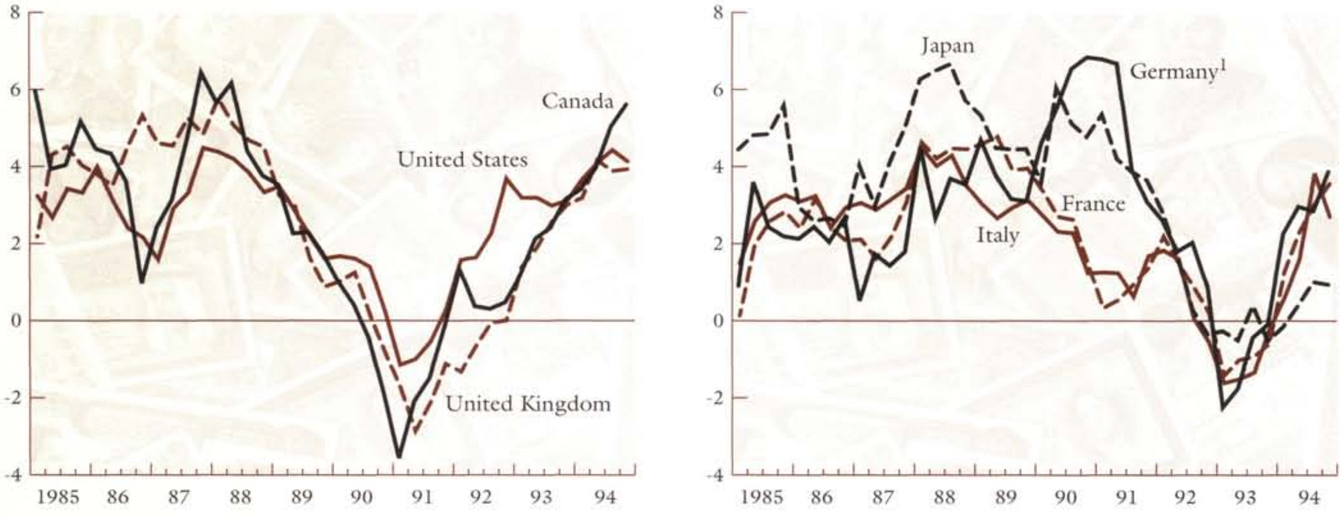
Economic Activity and Employment

The recovery of world economic activity became firmly established during 1994, following the 1990–93 global slowdown. Among the industrial countries, where growth averaged 3 percent, the recovery took hold in continental Europe, although margins of slack in product and labor markets were still significant by early 1995 in most countries (Chart 2). In the United States, Canada, the United Kingdom, Australia, and New Zealand, where the upswings had started earlier and expansions had progressed the most, the strength of activity led to further increases in rates of capacity utilization, and unemployment rates declined. With only a weak recovery, Japan experienced a further increase in economic slack (Chart 3).

In the United States, the broadly based, domestically driven expansion continued. Business investment was particularly buoyant in 1994 and more than offset a decline in net exports. Real GDP growth slowed in the first quarter of 1995, but unemployment fell to 5.5 percent, and capacity utilization reached the highest level since 1979. The recovery in Canada continued at a rapid pace as exporters benefited from strong external demand and the weakness of the Canadian dollar, while resource-based industries were helped by the rise in commodity prices. The pace of economic activity also picked up in the United Kingdom, as a surge in exports more than offset a slowdown in consumption growth in response to tax increases. In Australia and New Zealand, growth accelerated markedly on the strength of domestic demand.

The recovery was stronger than generally anticipated in continental Europe. In Germany, growth was initially export led, helped by the recovery of foreign demand and by improved competitiveness resulting from industrial restructuring and declining unit labor costs. The recovery became more broadly based as the year progressed, with business fixed investment strengthening in the latter part of 1994. Growth also firmed in France, as both domestic and foreign demand continued to strengthen, and unemployment began to decline toward the end of the year. In Italy, the economic recovery gathered momentum, with exports being boosted by the substantial depreciation of the lira and the recovery in partner countries, and with domestic demand gradually replacing net exports as the main contributor to growth; unemployment, however, remained high. Strong export growth also supported the recovery in the smaller industrial countries in Europe.

Chart 3
MAJOR INDUSTRIAL COUNTRIES: REAL GDP
(Percent change from four quarters earlier)



[1] Through 1991, west Germany only; thereafter, Fund staff estimates for unified Germany.

Japan's economic performance has been weak despite a supportive stance of monetary policy and significant fiscal stimulus, including high public investment spending, an income tax cut, and other measures. The recovery marked time in the fourth quarter of 1994 as domestic demand contracted and net exports declined as a result of the substantial real appreciation of the yen in recent years. Moreover, real GDP grew only marginally in the first quarter of 1995, partly as a result of the January earthquake, which temporarily disrupted production and transportation.

A particularly positive aspect of the world economic situation in the past few years has been the continued rapid expansion in many developing countries, particularly in Asia and in some Latin American countries. The strong performance of these countries has reflected determined efforts at economic reform and improved macroeconomic policies, as well as the impact of substantial net capital inflows. In 1994, average growth in the developing countries edged up to 6¼ percent from 6 percent in 1993. This strong overall performance, however, masks substantial disparities among the various regions (Chart 4).

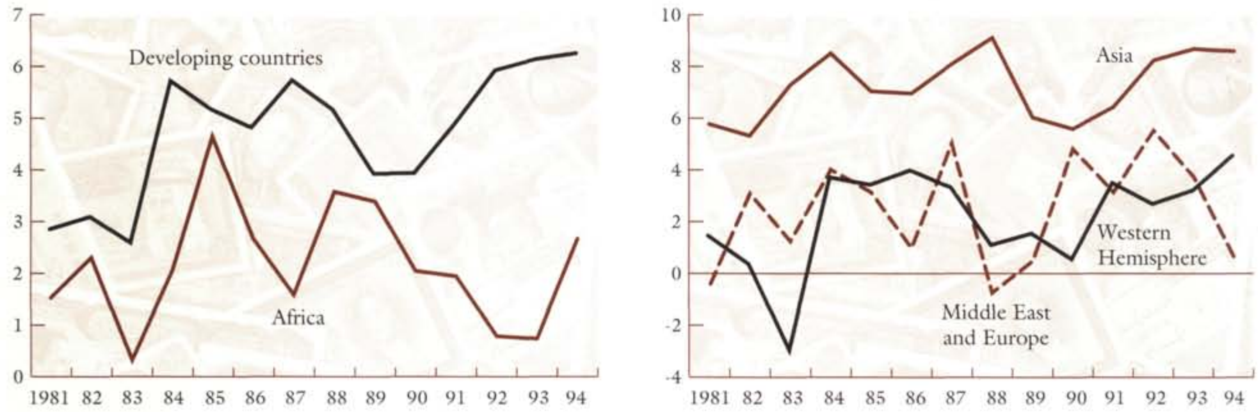
In Asia, the buoyant expansion continued, with over 8 percent growth for the third consecutive year. Strong investment demand boosted activity in Korea, Malaysia, the Philippines, and Thailand. In China, output continued to surge, and inflationary pressures intensified. Growth picked up in India and Pakistan, despite a cotton virus and drought in the latter country, and was sustained in Bangladesh.

Average growth in the developing countries of the Western Hemisphere rose to 4½ percent in 1994 from about 3 percent in 1993. Buoyant domestic demand, including investment, boosted activity in Argentina, Brazil, Peru, and Uruguay. In Mexico and Ecuador, activity recovered moderately, while growth slowed somewhat in Chile. In Venezuela, output contracted as the financial crisis adversely affected consumer and business confidence.

Growth in the developing countries in the Middle East and Europe region declined to less than 1 percent in 1994, largely as a result of developments in Turkey, where a severe financial crisis in the first half of the year contributed to a decline of output. In the oil exporting countries in the region, economic activity remained subdued, reflecting the further fall in oil prices in 1994.

Economic conditions remained difficult in Africa despite the cyclical recovery of commodity prices. Output increased by less than 3 percent, allowing for marginal increases in per capita incomes in only relatively few countries. However, with further moves toward reform, most notably exchange market liberalization, conditions for stronger growth continued to improve in many African countries. The CFA franc countries began to benefit from the currency adjustment in early 1994 in terms of improved opportunities for investment and exports, and a resumption of private capital flows. Growth strengthened to 3½ percent in the African countries that had arrangements under the Fund's structural adjustment facility (SAF) or enhanced structural adjustment facility (ESAF) at

Chart 4
DEVELOPING COUNTRIES: REAL GDP
(Annual percent change)



the end of 1994. In South Africa, growth picked up slightly, and there were signs of increased stability and confidence. Output increased sharply in Morocco as production recovered from a two-year drought. In contrast, activity contracted further in Algeria as continued drought depressed agricultural production, and growth was adversely affected in Nigeria by political uncertainties and growing financial imbalances.

Economic conditions also improved in most of the transition countries in central and eastern Europe, including the Baltic countries, although the level of economic activity was still declining, albeit at a slower pace than in past years. The pace of expansion quickened in Poland, Romania, the Slovak Republic, and Slovenia and remained strong in Albania. Growth began in the Baltic countries and elsewhere in central and eastern Europe except for Belarus, Moldova, and Ukraine, where measured output contracted further. Apart from the Czech Republic and the Baltic countries, open unemployment has generally remained high—in the 10–20 percent range. Except for Armenia and Mongolia, the Transcaucasian and central Asian countries experienced continued output declines, and recorded GDP also contracted further in Russia. In all of these countries, however, the actual level of economic activity is probably higher than indicated by official statistics, which have not yet been fully adapted to capture the changing economic structure.

Consumer and Commodity Prices

A number of industrial countries recorded rates of inflation in 1994 that were consistent with reasonable price stability. In Japan, France, Canada, Denmark, Finland, Iceland, New Zealand, Norway, and Switzerland, consumer prices rose by less than 2 percent. In the United States, Germany, the United Kingdom, Australia, Austria, Belgium, Ireland, Luxembourg, the Netherlands, and Sweden, inflation was contained between 2 and 3 percent. The excellent inflation performance in the industrial countries constitutes the most successful aspect of the medium-term strategy pursued since the early 1980s. The strong anti-inflationary commitment of the monetary authorities was underscored by the pre-emptive tightening of monetary policy in 1994 in countries more advanced in the cycle. In countries in the early stages of recovery, significant margins of slack contributed to contain inflationary pressures.

Median inflation in the developing countries was 10 percent in 1994. Average inflation, which reflects very high levels of inflation in a relatively small number of countries, rose to 48 percent in 1994 from 43 percent in 1993. Although all regional groupings of developing countries experienced higher average rates of inflation, there were marked differences across and within regions. Average inflation in Africa increased to 34 percent, owing to a sharp rise to hyperinflation levels in Zaïre and higher rates of inflation in CFA franc countries stemming from the 50 percent devaluation of the CFA franc in January 1994. But in some countries, such as Kenya and Uganda, successful adjustment efforts resulted in considerably lower rates of inflation. Inflation in Asia rose to an average of 13 percent. The rise was widespread, but it was particularly marked in China and Viet Nam. In the Middle East and Europe region, inflation remained low in many countries, while it rose very sharply in Turkey and to a lesser extent in the Islamic Republic of Iran, pushing the average for the region to 32 percent. Inflation declined in most countries in the Western Hemisphere, reflecting a strengthening of adjustment policies. The notable exception was Venezuela, where inflation rose sharply in the wake of worsening financial conditions. In Brazil, inflation rose in the first half of 1994, but it dropped very steeply in the second half of the year following the implementation of the third stage of a stabilization plan with the introduction of a new currency, the real, on July 1.

Inflation also fell in a number of countries in transition. Progress has been most marked in countries with strong macroeconomic policies, including Albania, the Baltic countries, the Czech Republic, Mongolia, Poland, Romania, the Slovak Republic, and Slovenia. By the end of 1994 inflation was at or approaching single-digit levels on a 12-month basis in Croatia, the Czech Republic, and the Slovak Republic. Russia made substantial progress toward stabilization during the first half of 1994, but inflation rose substantially later in the year. Most of the other countries of the former Soviet Union, which initiated reforms more recently and less forcefully, continued to suffer from very high rates of inflation.

Prices of nonfuel commodities registered a marked recovery in 1994, reversing a five-year declining trend. Coffee prices rose sharply during the year, owing to adverse weather in Brazil, but dropped somewhat in December. Prices of copper, nickel, aluminum, and other metals were up markedly because of strong demand in a number of countries and limited increases, or reductions in some cases, in production. Prices of a number of agricultural raw materials, in particular natural rubber, also increased substantially on strong demand, especially from China. Oil prices declined in the second half of 1994, largely as the result of a significant increase in world production and a decline in purchases due to unseasonably warm weather in the Northern Hemisphere.

Financial and Foreign Exchange Markets

Interest rate developments in 1994 and early 1995 generally reflected differences in cyclical positions across countries and, more recently, exchange market tensions. For countries that entered the third or fourth year of recovery, including the United States, the United Kingdom, Canada, Australia, and New Zealand, monetary conditions were gradually tightened during 1994 and in early 1995. In the United States, monetary policy became progressively less accommodating in response to the rapid pace of economic growth. From February 1994 to March 1995, the federal funds rate was increased by 3 percentage points to 6 percent, and short-term market interest rates rose by a similar amount.

In Japan, short-term interest rates rose slightly in late summer of 1994 and remained relatively stable through early 1995, with three-month rates at about $2^1/_4$ percent. At the end of March, with the recovery still weak and the yen appreciating strongly, the Bank of Japan signaled an easing of monetary policy in the form of a reduction in the objective for overnight interest rates. Following further appreciation of the yen in the first half of April, the discount rate was cut by 75 basis points to 1 percent, a record low. Short-term interest rates in Germany continued to decline in the first half of 1994 and stabilized at 5 to $5^1/_4$ percent until the end of March 1995, when they declined by about 50 basis points following a similar reduction in the discount rate. Interest rates in other continental European countries broadly followed those in Germany during the past year, but in recent months currency pressures led to some divergences.

Long-term interest rates generally rose in the largest industrial countries during the past year. Much of the rise was attributable to the strengthening of growth prospects and to inflationary expectations. More recently, long-term interest rates in several of the larger countries have again declined, as expectations of inflation have fallen. However, long-term interest rates rose or remained very high in many countries where market sentiment has been adversely affected by large budgetary imbalances or political uncertainties.

In foreign exchange markets, the major development over the past year has been the sharp weakening of the U.S. dollar and many other currencies against the yen and the deutsche mark. Exchange rate movements were particularly marked in the early months of 1995, with the dollar reaching record lows against the other two major currencies. The weakening of the U.S. dollar against the yen and the deutsche mark contrasted with its strength against the currencies of some other trading partners, especially the Mexican peso and the Italian lira. Against the Canadian dollar, the U.S. dollar remained fairly stable in the first part of 1995, although it has appreciated significantly in recent years. Thus, whereas from December 1994 to April 1995 the U.S. dollar declined by $16^1/_2$ percent against the Japanese yen and by $12^1/_4$ percent against the deutsche mark, the dollar declined by only $5^1/_2$ percent on a broad effective basis (in both real and nominal terms). As a counterpart to the dollar's weakness, both the deutsche mark and the yen strengthened significantly in this period. In nominal effective terms, the yen appreciated by $15^3/_4$ percent, and the deutsche mark by $5^1/_2$ percent, from December 1994 to April 1995.

The appreciation of the deutsche mark reflected not only its rise against the dollar, but also increases against the pound sterling and several European currencies perceived to be affected by political uncertainties, fiscal difficulties, or both, including especially the Italian lira, the Spanish peseta, and the Swedish krona. The French franc also weakened somewhat against the deutsche mark, but it appreciated slightly in effective terms. Pressures among the currencies participating in the exchange rate mechanism (ERM) of the European Monetary System (EMS) resulted in the devaluation of the central parity of the peseta by 7 percent and of the escudo by 3½ percent during the first weekend of March 1995. In the week that followed, currency pressures were also reflected in increased official interest rates in a number of other European countries; some of these interest rate increases were subsequently reversed when exchange market tensions abated. During this period, the Japanese yen appreciated against a range of currencies, including the deutsche mark and Swiss franc.

Several factors seem to have contributed to the strength of the yen and the deutsche mark and the weakness of the dollar: Japan's large current account surpluses and concerns over recent and prospective U.S. current account deficits and their financing; uncertainties regarding the prospects of further reductions in the U.S. budget deficit; a growing perception in the market that U.S. short-term interest rates were near their cyclical peak; and the continuing economic crisis in Mexico and worries in the market about the situation in the rest of Latin America. In Europe, with several countries beset by political uncertainties and fiscal difficulties, the deutsche mark benefited considerably from increased demand from risk-conscious investors. General nervousness related to developments in several emerging market countries may also have played a role through flight-to-quality effects on both the deutsche mark and the Japanese yen.

External Balances, Financing, and Debt

Despite the weakness of the dollar against the yen and the deutsche mark, the U.S. current account deficit widened to $156 billion (2¼ percent of GDP) in 1994 from $104 billion (1½ percent of GDP) in 1993 as domestic demand strengthened. Canada and Australia had current account deficits equivalent to around 4 percent of GDP in 1993; the deficit declined by 1 percent of GDP in 1994 in Canada and widened slightly in Australia. In Japan, the current account surplus declined slightly in dollar terms from $131 billion to $129 billion despite rapid growth in import volumes. It declined relative to GDP by 0.3 of a percentage point, to 2.8 percent. By contrast, Germany's deficit increased by $8 billion to $23 billion (1 percent of GDP) in 1994 as a rise in the trade surplus was offset by an increased deficit in nonfactor services. The current account was in surplus in France, Italy, the Netherlands, Belgium and Luxembourg, Denmark, Ireland, Switzerland, and Norway in 1993; in several cases, the surpluses widened further in 1994, reflecting export-led recoveries in a number of countries. Relatively small current account deficits in 1993 were reduced in 1994 (the United Kingdom, Spain, and Greece), or changed to surplus (Sweden and Finland).

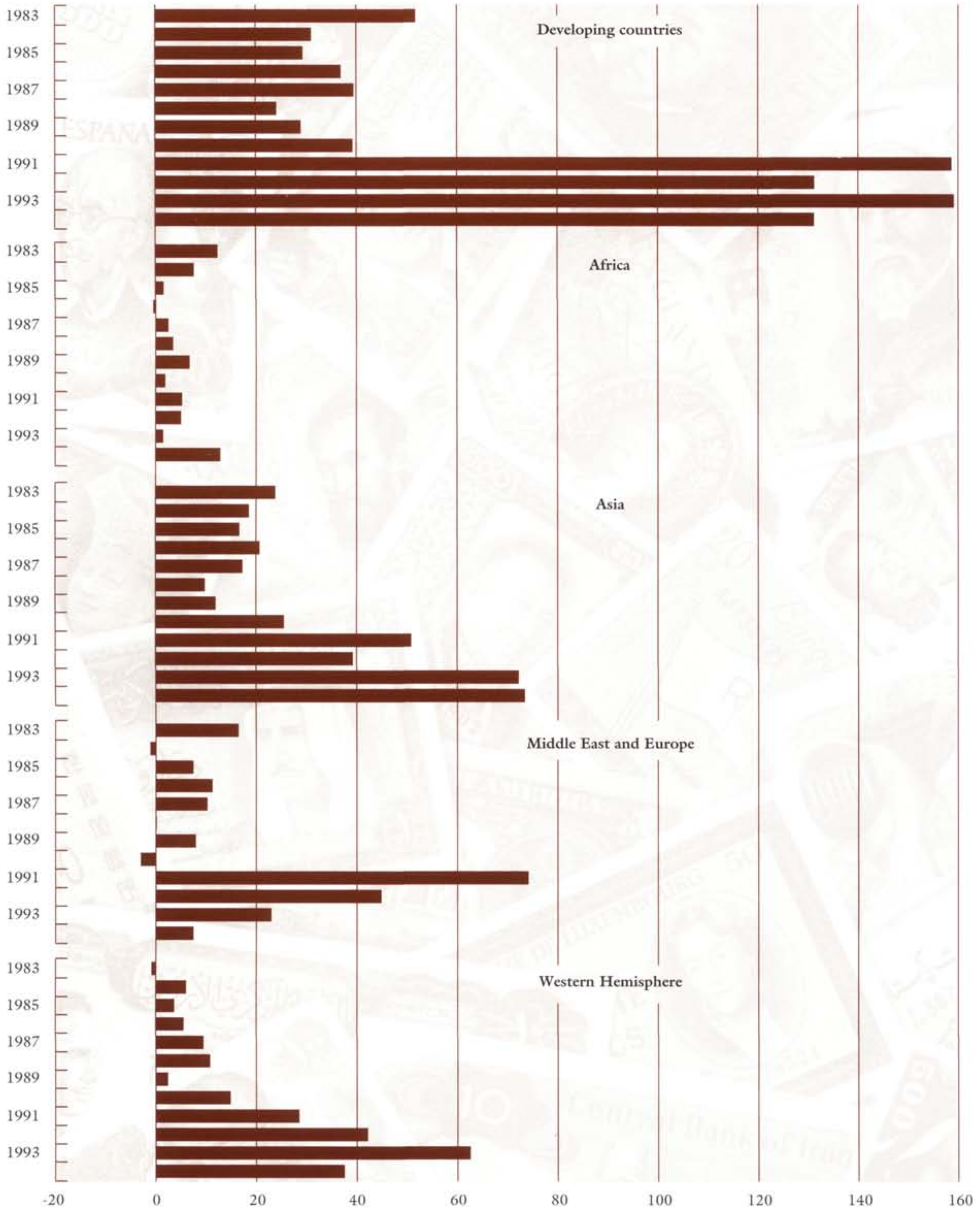
In the developing countries, the combined current account deficit remained in the range of $90–100 billion in 1994, the same as in 1993, after widening sharply in recent years as a result of surges of capital flows into many countries. However, there were indications of some decline in net capital inflows during 1994 to developing countries in the Western Hemisphere and in the Middle East and Europe region (Chart 5).

The change in sentiment of investors was most dramatic in Mexico. Concerns about the current account deficit, which reached 8 percent of GDP in 1994, and political developments contributed to substantial reserve losses at times during 1994, eventually leading to the devaluation of the new peso in December and triggering a severe crisis of confidence. Contagion effects were felt in other emerging market countries, primarily in Latin America, and also in some industrial countries as a result of a general reassessment of risk factors. In Mexico and Argentina, as well as in several other emerging market countries, the authorities responded to the crisis by taking measures to reduce macroeconomic imbalances and restore the confidence of domestic and foreign investors.

The aggregate external debt of developing countries, in percent of exports of goods and services, declined in 1994. However, the rise in interest rates during the year increased debt-service ratios for sub-Saharan Africa and for countries in the Middle East and Europe region (Chart 6). Debt and debt-service ratios for developing countries in the Western Hemisphere declined relatively more than in other regions, although they remained well above the developing country average. Average debt ratios in Africa rose further, and the disparities among parts of the continent widened. In 1994, the ratio of external debt to GDP in sub-Saharan Africa was 3½ times the developing country average and more than 1½ times the average for all of Africa.

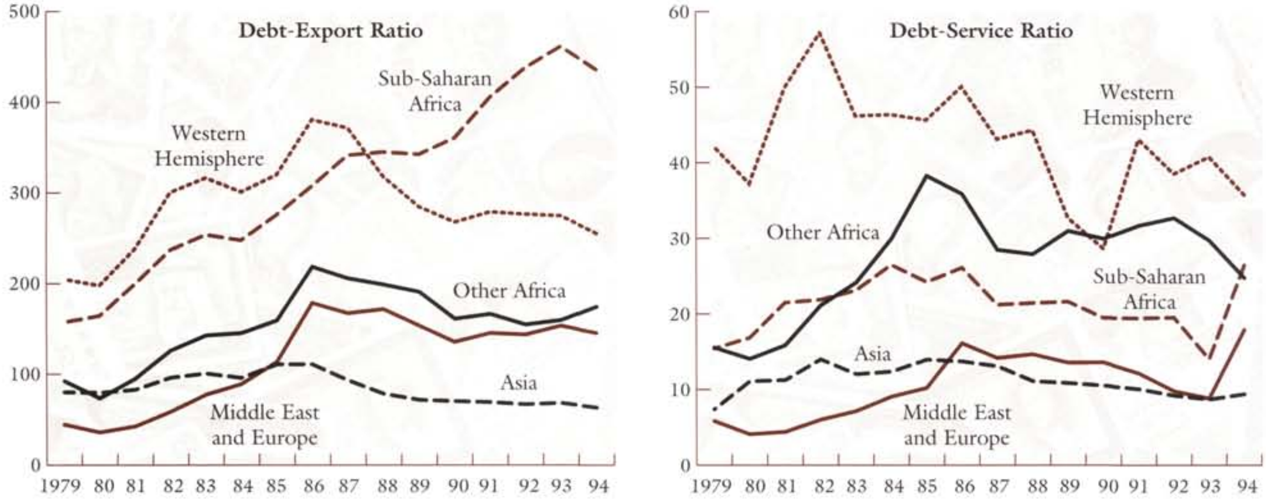
Progress continued to be made with debt-restructuring agreements in connection with both Paris and London Clubs and on a bilateral basis. In December 1994, Paris Club creditors agreed on new "Naples terms" providing for 67 percent reduction of eligible debt for most low-income rescheduling countries. In addition, for countries where a good track record under rescheduling agreements and Fund programs had been established and where there was sufficient confidence in the debtor's ability to respect the agreement, two new terms provided for concessional rescheduling of the stock of eligible debt (a stock-of-debt operation). By the end of April 1995, nine reschedulings had taken place under Naples terms, including a stock-of-debt operation for Uganda. In

Chart 5
DEVELOPING COUNTRIES: NET CAPITAL FLOWS[1]
(In billions of U.S. dollars)



[1] Net capital flows comprise net direct investment, net portfolio investment, and other long- and short-term net investment flows, including official and private borrowing.

Chart 6
DEVELOPING COUNTRIES: EXTERNAL DEBT AND DEBT SERVICE[1]
(In percent of exports of goods and services)



[1] Debt service refers to actual payments of interest on total debt plus actual amortization payments on long-term debt.

addition, between April and September 1994, Brazil, Bulgaria, and the Dominican Republic completed debt- and debt-service-reduction operations. Zambia concluded a debt buyback agreement under the aegis of a World Bank program to clear the debt of the world's poorest countries. Bolivia completed a debt-for-aid swap organized by the Debt for Development Coalition. In August 1994, the Islamic Republic of Iran rescheduled short-term commercial bank debt, and Saudi Arabia obtained partial agreement on a two-year deferral of repayment on commercial bank balance of payments loans. In October 1994 and February 1995, Poland and Ecuador concluded commercial bank restructuring agreements. Algeria was also negotiating with its bank creditors and has reached a debt-restructuring agreement with the United States. Haiti has settled its debt arrears to multilateral lenders, but arrears to the United States and other bilateral lenders remain to be cleared; and South Africa wrote off debt owed by Namibia. Negotiations are also continuing with Nigeria and Venezuela on arrears and the management of outstanding debt. Croatia reached agreement with Paris Club creditors in March 1995, and London Club discussions were held with Croatia and Slovenia. The distribution of the commercial bank debt of the former Socialist Federal Republic of Yugoslavia among the successor states is a major issue yet to be resolved.

World Economic Outlook

The Board and the Interim Committee regularly review global economic developments and policies, based on World Economic Outlook reports prepared by the staff. These reports contain comprehensive analyses of short-term and medium-term prospects for the world economy, as well as for individual countries and country groups. This exercise constitutes the basic framework for assessing the interaction of economic policies of individual member countries.

In the period covered by this *Annual Report*, the Executive Board held two discussions on the World Economic Outlook, in September 1994 and in April 1995. Both sessions covered a wide range of topics. In September 1994, Directors reviewed developments in the world economy and stressed that the challenges ahead called for sustained commitment to the cooperative strategy set out in the Interim Committee's declaration of April 1993.[2] In April 1995, the discussion of policy requirements to meet the objectives of sustained global expansion, set out in the Madrid Declaration, added an important new dimension to the continuing efforts to strengthen Fund surveillance. Directors agreed that it was difficult to assess progress, given the short time span since the Madrid meeting, since it would take time to develop the domestic consensus to support fundamental fiscal and structural policy changes. Directors strongly welcomed the ratification of the Uruguay Round agreement and the establishment of the WTO as major achievements that would help to strengthen the global expansion. In July 1994 the Board also discussed a paper on unproductive public expenditures, which was prepared as a background paper to the April World Economic Outlook discussion (Box 1).

[2] *Annual Report, 1993,* page 1.

Global Situation

The fiftieth anniversary of the Bretton Woods Conference provided an appropriate occasion to reflect on the performance of the world economy over the previous five decades and to review the implications of recent developments for the Fund's role in the future. During its September 1994 discussions of global economic developments, the Board noted in particular the contribution to global prosperity of international policy cooperation, which was the hallmark of the Bretton Woods achievement. Trade grew significantly faster than output in almost all regions of the world, bringing about substantial and widespread benefits in terms of increased opportunities for specialization, greater incentives to invest, and more rapid technology transfer. Against the background of this favorable retrospective, however, several Directors pointed to the serious worsening of labor market conditions in many industrial countries, with rates of unemployment approaching levels not seen since the 1930s. They also stressed that not all regions had kept pace with the general increase in living standards and that in many developing countries per capita real GDP was lower than a decade or more ago.

Nevertheless, Directors were positive about longer-run trends in the world economy, citing improvements in economic policy and performance in a growing number of developing countries, improvements in economic management under way in transition economies, considerable progress toward price

Box 1

ECONOMIC IMPLICATIONS OF UNPRODUCTIVE PUBLIC EXPENDITURES

Economic implications of unproductive public expenditures and approaches to improving expenditure productivity were considered by the Board in July 1994. Directors agreed that the economic costs of unproductive expenditures were far reaching and that lowering or eliminating such expenditures could help not only to increase the overall productivity of public expenditures and reduce deficits, but also to free resources for social programs. Directors pointed out that an efficient and sustainable reduction in fiscal deficits required a sound mix of both revenue and expenditure policy measures.

Identifying Unproductive Expenditures

Directors concurred that, as a starting point, policymakers could make use of several rules of thumb, including the following:

- attempt to identify public sector outputs that can be provided or produced more efficiently by the private sector without compromising other possible objectives, such as an equitable distribution of income;
- examine if the primary objective of the project or program is being met in the most cost-effective way;
- attempt to identify unproductive projects or programs in both the recurrent and capital components of the budget by focusing on big-ticket items;
- note that the existence of generalized food subsidies or producer subsidies indicates there is potential for saving in expenditures;
- compare expenditure allocations with countries at the same level of development and in the same region;
- examine budgetary allocations for wage and nonwage expenditures for different ministries or sectors;
- analyze both overall and sectoral employment; and
- analyze the accounts of extrabudgetary funds or the central bank in its quasi-fiscal activities.

Directors felt that, despite the complicated technical work and political difficulties in establishing well-designed policies to reduce public expenditures, governments must inevitably implement such policies. In doing so, due consideration should be given to maintaining essential public services, protecting growth prospects, and pursuing an equitable distribution of income.

Potential Saving

From a global perspective, the Board noted that the potential increase in available resources through reducing unproductive public expenditures was large. International cooperation would help to achieve public expenditure efficiency in certain areas, such as export subsidies or military expenditures, that have important external effects on global resource allocation or world economic welfare. Furthermore, Directors agreed that all countries can increase public expenditure productivity by improving both the efficiency of public programs and the composition of public outlays. However, existing practices often fall short of this goal.

Directors encouraged the staff to strengthen efforts to obtain reliable statistical data and to extend its research and analysis on the efficiency and productivity of public expenditures so as to improve the design of Fund-supported adjustment programs.

stability in many countries, and growing recognition in industrial countries of the need to improve the functioning of labor markets and to strengthen the financial position of the public sector. Board members also stressed that the challenges ahead called for a sustained commitment to the cooperative strategy set out in the Interim Committee's declaration of April 1993 (see *Annual Report, 1993*, page 1). They emphasized that global economic performance (in terms of growth and efficiency) would be enhanced by the entry into force of the Uruguay Round trade agreement, by the deepening of regional integration, and by the welcome trend toward currency convertibility and liberalization of capital movements.

In their April 1995 discussions, Directors highlighted the relatively solid economic expansion in most of the world economy during the previous year, sharing the view that economic growth had proved stronger than previously expected. Continued expansion in most countries, with inflation contained in many countries, afforded governments an opportunity to take corrective action, as warranted.

Industrial Country Policies

During the September 1994 discussions, Directors agreed that recovery was finally under way in France, Germany, and other countries in continental Europe; that clearer signs of a turnaround were apparent in Japan; and that the expansion in the United States continued at a strong pace. In Canada, indicators were favorable, with strong growth through the second quarter of 1994, consumer prices essentially stable, and long-term interest rates declining. The expansion in the United Kingdom was also proceeding at a robust pace, with little immediate risk of rising inflation.

However, Directors stressed that a clearly warranted feeling of optimism about the period ahead should not lead to complacency over the medium term. Many policy challenges remained to be tackled to ensure a durable expansion, to avoid a repetition of past policy mistakes, and to take full account of important policy lessons from the 1980s. In this context, several Directors expressed concern about the sharp increases in long-term bond yields in the first

Box 2

ADEQUACY OF WORLD SAVING

Saving plays a central role in income determination, both in the short run through aggregate demand, and in the long run through capital formation and wealth accumulation. Currently, the prospect for aggregate saving is of particular relevance, in light of large potential future demands on world saving.

Determinants of Saving

Understanding the determinants of saving is necessary to assess the resources that will be available to finance investment, and the prospects for real interest rates. Many interrelated factors combine to generate observed saving behavior, two of which will be particularly important in the future. First, aging populations in the industrial countries are likely to put downward pressure on saving rates over the next few decades. Even if this decline in industrial country saving is offset by increases in saving in the developing world, this trend implies significant changes in the location and structure of world saving. Second, fiscal deficits also undermine both national and worldwide saving. The simplest and most direct way for governments to boost such saving is through reducing these imbalances.

Pressures on Global Saving

The April 1995 Board meeting on the World Economic Outlook included a discussion on the adequacy of world saving. Directors agreed that, although there were difficulties in measuring saving and real interest rates, strong pressures on the level of global saving were apparent. As evidence of a saving problem, several Directors pointed to the higher level of global real interest rates over the past decade, relative to previous decades. A likely explanation for the decline in the global saving rate and for the increase in the level of global real interest rates since 1980 was the decline in public saving, which fell to $^1/_2$ of 1 percent of GDP in 1981–93 from 4 percent of GDP in 1960–72. This decline provided all the more reason for governments to work harder to consolidate their fiscal positions.

Under conditions of limited capital mobility, increases in the stock of productive capital must be financed mainly by higher national saving. When capital is mobile, differences in saving and investment propensities may lead to large external imbalances. Referring to the staff's discussion of cases in which even successful countries encountered problems if capital inflows exceeded 4 to 6 percent of GDP a year, Directors noted countries' limited ability to rely on the saving of other countries, demonstrating, once more, the need to monitor carefully countries with persistently large current account deficits. Directors agreed, provided that most countries addressed their fiscal imbalances decisively, that prospects for world saving would be favorable over the long run.

Several Directors noted that shifting world demographic forces might not depress overall world saving. Some industrial countries would experience increasing dependency ratios as their population aged, thus contributing to a reduction in private saving rates. However, it was likely that this reduction would be offset by events in developing countries, where dependency ratios were projected to fall sharply as these countries' youth dependency ratios fell and the share of the working-age population increased. New sources of saving from rapidly developing countries, which were expected to become quite substantial over the next twenty to thirty years, could contribute greatly to meeting world financing requirements and would allow for the bulk of developing country investment to be funded domestically.

half of 1994, which were seen as a possible sign of underlying pressures in capital markets. Increased demand for funds in more strongly expanding industrial economies, combined with the ongoing need for investment capital in transition economies and in developing countries, pointed to a high level of private sector demand for capital in coming years. With private saving rates low or declining in many large countries, and with the considerable absorption of saving by the public sector, there was a risk of continued and perhaps increasing pressure on world real interest rates, which could constrain future growth (Box 2).

Most Directors reiterated their long-standing concern about the poor functioning of labor markets in Europe and the danger that the increase in cyclical unemployment might become structural and, hence, might persist. They underscored the urgent need for fundamental and far-reaching labor market reforms, as discussed in depth in the May 1994 *World Economic Outlook*. In many countries, further deregulation of labor, product, and capital markets would enhance economic dynamism and efficiency.

During the April 1995 discussions, Directors generally agreed with the staff's projection of continued healthy economic expansion among industrial countries, noting, nevertheless, significant differences in cyclical positions across countries. In the United States, Canada, the United Kingdom, Australia, and New Zealand, which had entered into the third or fourth year of expansion, growth was likely to moderate. For most of the continental European countries, where recovery was more recent, growth was expected to remain relatively strong. Finally, in Japan, growth was likely to pick up despite a relatively lackluster recovery, although the excessive strength of the yen constituted an important downside risk.

Concerns were more widespread with respect to structural reform and budgetary consolidation. The Madrid Declaration called for more forceful deficit-reduction measures, and Directors emphasized the need for most countries to adopt, and implement, more ambitious medium-term fiscal objectives. Several Directors felt that market concerns about the fiscal situation in several countries had contributed in important ways to exchange market pressures. Directors also noted that there had been little further progress in the area of structural reform and, in particular, that labor market, social security, and pension reform programs had been inadequate in most countries.

Monetary and Exchange Rate Policies

In September 1994, Directors emphasized the importance of safeguarding the progress made toward price stability in many countries as a critical condition for a durable expansion. Overall, they considered the prevailing stance of monetary policy to be appropriate in most countries and generally agreed that the actions undertaken by the United States to shift monetary policy away from its earlier expansionary stance had been appropriate and timely. With respect to Japan, most Directors considered that it would be advisable to see how the current expansion developed before taking any action to adjust monetary policy.

Directors expressed some concern about movements in the exchange rate between the dollar and the yen, and they saw a risk that the strength of the yen might delay the resumption of stronger growth in Japan. More generally, Directors emphasized the need for more effective Fund surveillance to help foster conditions that would be conducive to a greater stability of exchange rate relationships.

During the April 1995 discussions, many Directors stressed that, while monetary policy had a critical role to play in avoiding another boom-and-bust cycle among industrial countries, fiscal policy constrained the ability of the monetary authorities to safeguard price stability. Although the battle against inflation was never won, Directors expressed cautious optimism about the pre-emptive tightening of monetary conditions in several countries that were well advanced in the cycle. They noted the importance of a strong commitment to resist inflationary pressures, which the Madrid Declaration had emphasized as a key condition for sustaining medium-term growth.

Most Directors were concerned about the effects of exchange rate developments in the major industrial countries. They noted that such pressures posed a threat to the prospects for sustained noninflationary growth, with adverse implications for all countries. Many Directors agreed with the staff that there was a strong case for coordinated interest rate actions among the major industrial countries to restore greater stability to currency markets, and that such action would satisfy both domestic and international objectives. The cut in official interest rates in Germany at the end of March 1995 was welcomed as a way to help alleviate exchange market pressures and reduce the risk of a weaker recovery. Most Directors suggested that the strength of the yen and the sluggishness of the Japanese recovery argued for further monetary stimulus beyond the limited easing of monetary conditions at the end of March, as well as for further structural action to deregulate and open the economy. While economic indicators in the United States suggested that the growth of domestic demand had slowed to a more moderate pace, an upside risk to output and inflation remained, and the weakness of the dollar could contribute to increasing price pressures. A number of speakers therefore recommended a further tightening of monetary conditions in the United States.

Fiscal Developments

In the September 1994 discussions, Directors were unanimous in their call for renewed commitments to containing and reducing fiscal deficits, as stressed in April 1993 by the Interim Committee. Such action was viewed as essential for alleviating pressures on long-term interest rates and to permit satisfactory rates of future economic growth and job creation. Efforts that went beyond the effects of automatic stabilizers were needed to place fiscal policy on a sound medium-term footing in virtually all countries. Directors underscored the need for decisive steps to improve the fiscal outlook in Italy and Sweden and noted that other countries should take advantage of the economic expansion to substantially reduce the public sector's absorption of private saving.

In April 1995, most Directors felt that there was little risk that more ambitious fiscal consolidation might weaken the global recovery. In fact, many speakers emphasized that more ambitious consolidation efforts could strengthen growth, even in the short run, by enhancing the credibility of policies, reducing risk premiums on interest rates, alleviating exchange market pressures, and improving confidence. On balance, most Directors agreed that a failure to step up the slow pace of fiscal consolidation in many countries would constitute a much larger threat to the global economic and financial outlook than the risks associated with fiscal tightening.

Developing Country Policies

In the September 1994 discussions, Directors were encouraged by the continued strong growth performance of many developing countries. However, they pointed out that the strong aggregate performance masked considerable diversity. In many countries, growth was weak, and standards of living had continued to stagnate or decline. Directors noted that such divergences in economic performance reflected the varying degrees of success in implementing appropriate macroeconomic stabilization policies and structural reforms, as well as differences in external conditions faced by individual countries.

In sub-Saharan Africa, despite indications of a brightening economic outlook in several countries, economic conditions remained particularly difficult. Critical to reversing the pattern of declining living standards were increased domestic saving, reduced inflation in some countries, and an enlarged scope for market mechanisms. As in other regions, it was also important to improve governance. Directors also emphasized that the beneficial effects on growth associated with the adjustment of the CFA franc, and other currencies, would depend on a steadfast implementation of the accompanying stabilization policies and structural reforms in the countries concerned.

In the Middle East and Europe region, inflation remained relatively high, and growth slowed somewhat as the temporary boost from reconstruction in some countries during 1992–93 dissipated. Directors welcomed the prospect of a lasting peace settlement in the Middle East because this would offer the opportunity to revitalize adjustment and reform efforts, reduce defense expenditures, and address important issues in the areas of infrastructure and regional cooperation. Directors were particularly encouraged by the marked improvement in economic performance of many developing countries in the Western Hemisphere in recent years and by the continuing impressive performance of many Asian countries.

Directors welcomed the substantial rise in private capital flows to many developing countries since the late 1980s and were particularly encouraged by the rising share of foreign direct investment, which also brought a transfer of technology and helped to increase exports. The moderation of capital flows in the first half of 1994 seemed mainly to reflect the strengthening of the recovery in the industrial countries and the associated firming of interest rates.

At the same time, Directors noted that capital flows to developing countries required careful monitoring, given the tenuous nature of certain types of capital flows and the potential for adverse domestic side-effects. A number of Directors were concerned that the rise in capital inflows was driven by the general enthusiasm for emerging financial markets, which might put these countries at risk to sudden changes in market sentiment. Directors also expressed concern about the sustainability of capital flows to some countries where the flows were related to high short-term interest rates owing to an inappropriate mix of lax fiscal policy and tight monetary policy. They pointed out that where capital inflows were primarily the result of policy changes, such as structural reform and fiscal adjustment, a real exchange rate appreciation was more likely to be the appropriate equilibrating response to improvements in productivity and profitability. In contrast, where capital inflows were caused by restrictive credit policies that raised short-term interest rates and were not supported by sustainable fiscal policies, an exchange rate appreciation may be more disruptive. Moreover, such countries may be more vulnerable to sudden reversals of capital flows.

Finally, Directors noted that many developing countries attempted to slow the inflow of capital by resorting to a variety of mechanisms, such as ceilings on foreign borrowing, minimum reserve requirements on foreign loans, and interest rate equalization taxes. They cautioned that capital controls should not be viewed as a substitute for correcting policy imbalances and that restrictions on capital flows were unlikely to be effective over the longer run and might distort investment decisions.

During the April 1995 discussions, Directors commended the growing trend toward economic liberalization, which had contributed to improvements in economic performance across a broad range of developing countries. They welcomed the strengthening of reform and adjustment efforts, particularly in many low-income countries, but noted that some early achievements still appeared to be fragile, and that there would be risks of setbacks if stabilization and reform efforts were relaxed. Moreover, changes in market sentiment underscored the need for vigilance to safeguard domestic and external financial stability and to sustain growth. In the aftermath of the Mexican financial crisis, Directors particularly stressed the need for a number of developing countries to implement corrective measures to restore and maintain macroeconomic stability, and to be on guard against the volatility of short-term portfolio inflows.

Overall, Directors noted that long-term growth prospects in developing countries remained promising. They did, however, concur with the staff's projections that growth in many of those countries would slow somewhat in 1995–96 under the influence of tighter policies to reduce the risk of overheating and the reliance on foreign saving. Developing countries in the Western Hemisphere were likely to experience a relatively pronounced slowdown, partly as a result of a marked decline in capital inflows. Many Asian countries were also expected to witness some moderation in the strong pace of economic expansion seen in recent years. By contrast, growth was expected to strengthen somewhat in Africa and the Middle East as a result of the intensification of adjustment and reform efforts, and the cyclical recovery of commodity prices.

Directors emphasized that a large number of countries, especially in sub-Saharan Africa, continued to experience declining real per capita incomes. Many of those countries were particularly vulnerable to fluctuations in their terms of trade. Diversification of production in line with comparative advantage should allow them to benefit fully from the liberalization of world trade resulting from the Uruguay Round agreement. Directors urged bilateral creditors to apply the new Naples terms flexibly, to provide the necessary debt relief for low-income countries that implement strong adjustment and reform programs.

The Board generally agreed with the staff's conclusion that the surge in capital flows to developing countries in recent years was explained in large part by open trade and investment regimes and improved long-term growth prospects brought about by strong adjustment and reform efforts, as evidenced by the strong inflows of foreign direct investment. Directors urged policymakers to ensure that capital inflows did not translate into higher consumption expenditures and become a substitute for domestic saving. They observed that, with the industrial economies rebounding, capital flows to developing countries were likely to be somewhat smaller over the next few years.

Directors felt that many developing countries needed to increase their vigilance over their financial markets. Concerns about the potential instability of capital flows, especially of portfolio investment, had led some countries to implement measures to deter short-term inflows while still maintaining convertibility for longer-term capital account transactions. Directors agreed that a reimposition of capital controls would be undesirable because it would entail longer-term efficiency costs.

Directors also emphasized the importance of prudential limits on the foreign exchange exposure of banking systems. They agreed that such controls should not be viewed as a substitute for efforts to address macroeconomic imbalances and correct unsustainable exchange rates. Several Directors called for further study of the advantages and possible drawbacks of different exchange rate regimes, in light of the difficulties experienced by some developing countries in "exiting" from an exchange rate peg that was no longer viable. While several Directors noted the difficulties of using the exchange rate as an anchor, except when fully supported by sound macroeconomic policies and strong economic fundamentals, others stressed that the potential benefits of an anchor should not be ignored.

Economies in Transition

In September 1994, Directors observed that those countries that went furthest in implementing financial adjustment and liberalization—including Albania, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Mongolia, Poland, the Slovak Republic, and Slovenia—demonstrated that macroeconomic stabilization and structural reforms were prerequisites for achieving economic growth and low inflation. In contrast, in Russia and many of the other transition countries, output continued to decline precipitously. A number of these countries made some progress toward stabilization and reform, but most had yet to reduce government budget deficits sufficiently or to bring inflation under control. Policy slippages exacerbated the decline in output associated with economic restructuring, jeopardized the credibility of the reform efforts, and created an uncertain investment climate. Directors emphasized that containment of government budget deficits was important in reducing inflationary pressures.

Directors recognized that budget deficits were difficult to keep within sustainable levels in all but a few of the countries in transition, and that in all countries the transformation process had profound implications for government revenues and expenditures. It was apparent that the budget deficits were to some extent a result of the transformation process, and this underscored the need to give high priority to reforming government fiscal systems. Directors attributed the persistence of budget deficits mainly to the sharp decrease in tax revenues resulting from the collapse in output and the inadequacy of tax systems, as well as to expenditure pressures related to the restructuring of state enterprises, the need to strengthen social safety nets, and the costs of support for aging populations.

Increases in unemployment were acknowledged to be largely unavoidable in the transformation to a market economy, which required large-scale enterprise restructuring and the reallocation of capital and labor. To protect the unemployed during the transition, Directors emphasized the need for well-targeted social safety nets that were accompanied by cuts in subsidies and unproductive expenditures. In addition, new labor market institutions should be established to promote flexibility and improve employment prospects. In addition to appropriate social safety nets, institutional efforts were required to establish sustainable social security systems.

Finally, Directors expressed concern that, although the problem of arrears among enterprises had receded in several transition economies, new problems had arisen in a number of cases. The increasing recognition by policymakers of the inflationary dangers of any bailout measures was welcomed, and it was agreed that continued progress with stabilization and structural reforms would help to reduce the scale and scope of interenterprise arrears.

In April 1995, Directors welcomed the improved outlook for many of the economies in transition. In most countries of central and eastern Europe, output was either increasing or likely to begin to recover. Inflation still remained too high in many transition countries, however, owing mainly to persistently large fiscal imbalances. The achievement of rapid growth over the medium term would require credible fiscal, monetary, and exchange rate policies, as well as further progress toward institutional and structural reform. Several Directors welcomed the decisive market-oriented reforms adopted by a number of countries in transition that, until recently, had been reluctant to move in this direction. Encouraging progress had already been achieved in several cases, but sustained adjustment efforts remained necessary to consolidate early gains.

Directors welcomed the agreements recently concluded, or under discussion, between the Fund and a number of transition countries, especially the new stabilization and reform programs in Russia and Ukraine (see sections on Article IV Consultations and Fund Support for Member Countries). Those programs were in accordance with the Madrid Declaration's call for bolder efforts at stabilization and structural reform. Although some of the transition countries had yet to adopt comprehensive adjustment programs, the Board commended the efforts of those countries that had embarked on broadly based reform strategies early in the transition; those countries were experiencing the benefits of early action.

INTERNATIONAL CAPITAL MARKETS

In June 1994, the Board conducted its annual comprehensive assessment of developments in global capital markets.[3] The turbulent events in the first quarter of 1994 and the ongoing structural changes in the financial landscape were reviewed. The policy issues these developments raised included the rapid opening up and growth of private financing for developing countries and the challenges posed by these events and others for supervisors—namely, possibilities for regulating derivatives and nonbanks and strengthening capital adequacy and the role of central banks. Last, developments in China's emerging equity markets were looked at as a case study with lessons for other economies in transition.

Later, in October 1994, the Interim Committee in its communiqué requested the Fund to continue its work on capital markets as a part of the ongoing effort to enhance the Fund's role in the international monetary system and its ability to serve its members.

Turbulence in Government Bond Markets

Financial markets suffered a shock in February and March 1994 when a long-running (since 1990) bond market rally reversed abruptly. In their annual review of developments in international capital markets, Directors generally agreed that the turnaround was prompted, among other factors, by a large revision of expectations about economic performance and the future path of interest and exchange rates. The revised outlook led to an unwinding of the large positions in government securities built up during the preceding year.

Directors credited various events with triggering the revision, including a slower-than-expected fall in European interest rates, stronger-than-expected growth in the United States, the timing of the upward adjustment in U.S. interest rates, and other factors. Several Directors commented that, although financial markets may have overreacted to some extent, the extent of this should not be overstated.

Directors observed that the bond market turbulence had spread to a wide range of countries, including the emerging market countries. The spillover, however, had not been uniform. The disparities resulted in part from differences in growth, inflation, and the fiscal outlook across countries, and the uneven credibility of the anti-inflationary commitment of monetary policy. The Board concluded that the experience again highlighted the importance of credible anti-inflationary strategies and the pursuit of medium-term fiscal consolidation programs. It was also noted that cross-border capital flows merited greater attention in the Board's periodic discussions of exchange rate developments in the context of its sessions on world economic and market developments. More generally, in the Board's view, the implications of these developments and experience for the conduct of domestic monetary policy warranted further study.

In their evaluation of the bond market turbulence, Directors noted that markets and institutions had withstood the stress without seizing up through illiquidity or inefficient payments and settlement systems, nor was there a systemic crisis. A number of Directors, however, warned against complacency about the

[3]Subsequently published as *International Capital Markets: Developments, Prospects, and Policy Issues* (September 1994), in the Fund's World Economic and Financial Surveys series.

resilience of the financial system. They cautioned that the large leveraged positions in bond markets held by institutional investors could pose a problem relative to the size and liquidity of all but the largest bond markets and that, as a result, price volatility might be greatly increased when these investors enter and exit markets.

Government Debt Markets in Industrial Countries

Looking beyond the early 1994 bond market turbulence to the longer term, Directors considered trends toward internationalization and reform in government bond markets in the industrial countries. These developments reflected efforts by national authorities to minimize the cost of placing and servicing their debt, which for the major industrial countries had risen from a debt-to-GDP ratio of 43 percent in 1980 to about 68 percent in 1994.

In their evaluation of internationalization, most Directors supported the view that the advantages conferred by participating in global capital markets made it worthwhile for countries to subject themselves to the rules and discipline of the marketplace. Cross-border investment in government security markets, they agreed, improved the efficiency of national market mechanisms and disciplined domestic policies.

As regards reforms, Directors welcomed the related progress that had been made in improving issuing techniques, enhancing secondary market liquidity, broadening the investor base, making settlement and clearing systems more efficient, and streamlining the administration of withholding taxes.

Financing Flows to Developing Countries

For private financing to developing countries, 1993 was a boom year, with a sharp increase in the volume of flows, a further improvement in the terms of borrowing, strong increases in equity prices, and a significant broadening of the investor base. However, in the first four months of 1994, the increase in U.S. interest rates, as well as the political uncertainty in Mexico, helped to bring bond and equity flows down sharply from their peaks of the last quarter in 1993.

Directors were encouraged that private financing continued to mature in 1993, noting that emerging markets had now become an integrated part of the global financial market, with the advantages and constraints that entailed. For example, along with the benefits of increased market access, developing countries were prompted to improve their disclosure standards and the regulatory and legal framework of their domestic financial markets.

The discussion, however, focused on Directors' concerns about the volatility of the flows and the associated costs. The sources of this volatility, it was noted, were numerous, including changes in the pace and scope of economic policy reform in developing countries, but also factors beyond the control of recipients, such as variations in interest rates in the source countries. Several Directors stressed that such factors could add to volatility even when the recipient countries followed sound economic policies.

Moreover, Directors noted, the pools of funds managed by the major financial institutions dwarfed the capitalization of developing country stock markets. Consequently, they warned, even fairly small changes in investor sentiment could have a significant impact, especially if investors acted as a group. Directors agreed that the prospect of continuing volatility in these flows was yet another reason for developing countries to implement strong macroeconomic and structural policies, helping to create an environment in which these financing flows could be used efficiently and effectively.

Derivatives and Supervisory Issues

The Board looked at three pressing issues in financial market regulation: the supervision of nonbanks (that is, securities houses and institutional investors, including mutual and pension funds, insurance companies, and hedge funds), proposals to strengthen capital requirements, and the role of central banks in financial market supervision.

Regulating Derivatives and Supervising Nonbanks

Several Directors noted that the market turbulence in early 1994 had occurred against the backdrop of an impressive growth in the use of derivatives. While derivatives clearly play a useful role in managing risk, the absence of adequate reporting standards and the complexities of such financial instruments left the financial system less transparent. In addition, the rapid growth of derivatives might be transmitting disturbances across markets and institutions.

Directors stressed that the first line of defense against market turbulence was sound macroeconomic policies that minimize investor uncertainty. It was agreed that hedge funds and derivatives should not be singled out for special requirements. Nevertheless, Directors acknowledged the clear need for collective prudential and regulatory rules and stressed the importance of self-regulation and self-discipline based on robust and prudent in-house risk-management systems. Some speakers suggested that the financial industry might need to rely more on self-regulation than on governmental oversight to avoid moral hazard problems and maintain soundness.

A number of Directors pointed out that the current regulatory environment was in many cases unprepared to deal with the growth of nonbank financial institutions. For example, hedge funds and unregulated derivative subsidiaries of U.S. investment houses, although they sometimes took enormous speculative positions, fell outside the purview of both securities and bank regulators. Other Directors noted that experience had demonstrated that a troubled nonbank could be handled with much less systemic consequence than was the case for a troubled bank or depository institution.

Strengthening Capital Adequacy

The growth of the derivatives markets and the role of wholesale banks in these markets had moved the industry itself and its supervisors to assess the benefits and potential systemic risks associated with continuing development. Two important proposals—both featuring capital requirements for market risk and a recognition of netting—were put forward in 1993 and in 1994: one, for banks, by the Basle Committee on Banking Supervision, and the second, for both banks and securities houses, in the European Union's directive on capital adequacy.

A number of Directors supported a differentiated approach to implementing these new capital standards. In particular, they supported the proposal by the Basle Committee, subsequently published in July 1994, that wholesale banks with sophisticated risk-management systems could be allowed to rely on their proprietary systems, rather than on strictly standardized measures to determine the minimum amount of capital, provided that their regulators were convinced that their models' key assumptions were prudent.

Role of Central Banks

In light of the events in financial markets, Directors reviewed what role, if any, a central bank should play in the supervision and regulation of financial markets and institutions. The Board concluded that the optimal arrangement depended on a country's particular characteristics and institutional framework and that there was no clear-cut preferred formula. Some Directors contended that a central bank should remain free of regulatory responsibility because such a concentration of responsibility could undermine its ability to conduct monetary policy independently. Others believed that only the central bank had the hands-on, up-to-the-minute knowledge of the financial system that was needed to supervise adequately and fulfill the function of lender of last resort. All agreed, however, that the one essential element of any arrangement was close cooperation between the monetary and supervisory authorities.

Developments in Trade Policy

At the outset of their August 1994 discussion on global trade issues, Directors emphasized the benefits of an outward-oriented strategy and liberal trade in fostering economic progress. Trade issues were increasingly relevant to the Fund's work in promoting economic efficiency and high-quality growth. Delays in concluding the Uruguay Round had created uncertainties in the multilateral trading system in recent years, but there had also been a number of positive developments. In particular, many developing countries and transition economies had implemented outward-oriented exchange and trade reforms, often in connection with programs supported by the Fund and the World Bank. Several industrial countries had also engaged in trade liberalization, especially in a regional context. The most notable positive trade development had been the conclusion of the Uruguay Round toward the end of 1993. Ratification of the agreement allowed implementation to proceed promptly and fortified the existing basis for productive trade relations, multilateral cooperation, and global prosperity.[4] The conclusion of the Uruguay Round was followed, at the beginning of 1995, by the establishment of the WTO. The relationship between the Fund and the WTO was discussed in October 1994 and again in January 1995.

[4]The papers on which the Board based its discussion were subsequently published as *International Trade Policies: The Uruguay Round and Beyond* (1994), in the Fund's World Economic and Financial Surveys series.

Implications of the Uruguay Round

In assessing the implications of the Uruguay Round agreement, Directors considered that the improvements in market access would directly benefit consumers, encourage a more efficient global allocation of resources, and enhance the prospects for sustainable world growth. The inclusion of new areas—services and trade-related intellectual property rights—as well as traditionally sensitive sectors (agriculture, textiles and clothing) would broaden the advantages of a rules-based global trading system. Important benefits were also to be had from the clarification and strengthening of rules and institutional structures, particularly the enhanced dispute-settlement procedures, which should ease resort to unilateral actions in trade disputes. Directors noted that the benefits of the Uruguay Round in terms of increased economic efficiency would, in most cases, make up for the transitional costs in previously protected or subsidized sectors. Directors also considered, however, that some developing countries might suffer from an erosion of preferences and from possible higher food prices.

The new issues emerging in the post–Uruguay Round era—including trade-related competition and investment policies, and environmental and labor standards—were complex, and their direct ramifications had yet to be fully studied. Environmental and labor standards were important social concerns but were best addressed directly through appropriate domestic policies, rather than indirectly through trade measures, since the latter risked being captured by protectionists.

Trade Policy and the Role of the Fund

Given the key role of open markets in sustainable growth, Directors considered that the Fund should continue its current practice of paying close attention to trade policy issues in connection with its surveillance and lending activities, without challenging the primacy of the General Agreement on Tariffs and

Box 3

TRADE POLICY IN FUND-SUPPORTED PROGRAMS

The trade policy content of Fund-supported programs approved between 1990 and 1993 was analyzed in a staff report to the Board. The survey found substantial progress in trade reforms among all 59 economies covered, with the most progress having been made in economies in transition in eastern Europe and the Baltic countries, where state involvement in trade was cut sharply, and in program countries in the Western Hemisphere.

Issues in Trade Reform

A reduction in reliance on quantitative restrictions, which began in the 1980s, sped up in the early 1990s. Progress in tariff reform was slower, partly because of continued reliance on international trade taxes as a source of budgetary revenue. However, with the general decline in quantitative restrictions, tariff reform in coordination with domestic tax reform is beginning to receive more attention under Fund-supported programs.

The study found that slow trade reformers often faced more difficult macroeconomic conditions than did fast reformers, but the latter also made faster progress in the fiscal area, which suggests that these countries were either more willing or more able to take bold, comprehensive reforms.

Reversals in trade reform were relatively limited and often reflected competitive pressures from appreciating real exchange rates, lagging domestic tax reforms, or political difficulties in resisting domestic pressures for protection. The increased attention paid in Fund-supported programs to trade liberalization was reflected in the conditionality applied to trade measures. Fund disbursements in nearly half the arrangements (generally in arrangements with a more structural orientation) were conditional on the implementation of trade measures. Priority was given to the liberalization of quantitative restrictions over tariff reform because quantitative restrictions are less transparent and more restrictive than tariffs. However, as progress continues on the elimination of quantitative restrictions, the focus will move to tariff reform.

Lessons from Experience

The study drew the following lessons from the review of program design issues.

- Trade policy must aim at significantly improving efficiency over the medium term, and trade instruments for nontrade objectives should be used only in emergency situations.
- Across-the-board import surcharges are the least distortive form of trade restrictions, but even they penalize other countries' exports in the absence of efficient compensatory schemes.
- Although short-term fiscal and medium-term trade reform goals are often at odds, a well-designed tariff reform may actually improve the import tax collection rate while statutory tariff levels come down.
- Tariff reforms are sustainable if accompanied by a restructuring in the domestic tax system that decreases reliance on trade taxes.
- The liberalization of exchange systems and exchange rate flexibility are also required for sustainable tariff reforms.

Trade (GATT) and the WTO in that area. The Fund's emphasis on balanced and sustainable macroeconomic and related structural policies would not only deliver broader economic benefits but could also establish an appropriate macroeconomic environment for global trade flows. Directors requested that the implications of the Uruguay Round agreement for individual countries be monitored closely with a view to identifying any associated adjustment and financing needs. The World Bank could also play an important role in providing assistance to affected countries. Policy advice and technical assistance from both institutions would also be important in dealing with transitional problems.

In this regard, Directors emphasized the importance of close consultation and coordination with the World Bank in the design of trade reforms. They cautioned strongly against turning to any form of trade taxes to address revenue shortfalls. Any such taxes should remain consistent with the member's Uruguay Round commitments, should be strictly temporary, and should be accompanied by an explicit package of structural and macroeconomic policy reforms. (See Box 3 for an overview of trade policy in the context of Fund-supported programs.)

Regional Trading Arrangements

The trend toward regional trading arrangements and the economic implications of such arrangements were the subject of a Board discussion in October 1994. Directors noted that the Fund's interest in monitoring developments in regional trading arrangements was fully consistent with its surveillance function. Directors agreed with the first-best policy of most-favored-nation liberalization and the goal of global free trade. So far, they noted, the trend toward regional trading arrangements had been broadly consistent with the objective of global trade liberalization, and the successful completion of the Uruguay Round supported the view that regional and multilateral trade liberalization could be complementary.

However, Directors warned against complacency about the spread of regional trading arrangements, which could have adverse effects on those countries that were left out. Even where the impact was minimal in the aggregate, there was the danger of uneven effects on individual countries.

Given that new regional initiatives were likely to continue in the foreseeable future, it was all the more important for institutions such as the Fund to continue to emphasize the importance of designing and implementing regional trading arrangements in a manner consistent with the ultimate goal of global free trade. Directors encouraged participating countries to design and implement regional arrangements with a view to that larger goal. They should ensure consistency with the rules of the GATT and its successor, the WTO. They could also, for example, undertake multilateral liberalization along with moves to eliminate regional barriers to trade and investment; open the regional entities to new members; strengthen discipline in the use of antidumping actions; and implement simple, transparent, and liberal rules of origin that did not keep markets closed to third countries.

Collaboration with the World Trade Organization

The Board discussed the relationship between the WTO and the Fund in August and October 1994, and again in January 1995. Directors emphasized the importance of close, constructive cooperation between the two institutions. Although they had different mandates, the Fund and the WTO had complementary purposes and objectives and should be mutually supportive.

Directors welcomed the WTO's status, in contrast to the GATT, as an international organization, and the inclusion in its mandate of trade in goods and services and trade-related aspects of intellectual property rights. The adoption of new dispute-settlement procedures would strengthen the effectiveness of WTO rules. Directors supported the WTO's mandate to seek cooperation with other international organizations, particularly the Fund and the World Bank, in working toward greater coherence in global economic policymaking.

The trade policy review mechanism, which had been started under the GATT and made more permanent under the WTO, would help to improve surveillance in the trade area. Directors welcomed the continuation of the Fund's role in WTO consultations on trade measures taken for balance of payments reasons and in the provision of information during trade policy reviews on the macroeconomic situation of the country in question.

A three-stage process in the development of relations between the Fund and the WTO was broadly endorsed by Directors. The first stage established transitional arrangements for continuing Fund participation in the new WTO Committee on Balance of Payments Restrictions in consultations on trade measures taken to safeguard the balance of payments, to be expanded to include services. The second stage would consider specific modalities of closer cooperation, with a view to designing an institutional framework for working relations between the institutions, including issues related to observer status and the exchange of documents and information. In the third stage, the WTO and the Fund would address in greater detail areas that needed more time to define, or were not fully resolved in stage two, such as issues related to global coherence in economic policymaking, as stated in the WTO charter.

Directors noted the advance made in the General Agreements on Trade in Services on the liberalization of capital movements and looked forward to addressing the Fund's policy on capital controls at a future Board meeting.

Although some gray areas remained regarding the course of future institutional interaction and cooperation, those were to some degree inevitable, Directors agreed, particularly in the early stages of the WTO's existence. Resolving those issues, which was an important objective, would be facilitated if all participants kept in mind the common objectives of the international institutions involved in economic policies and the need to maintain close cooperation and mutually supportive relations to the benefit of member countries.

Financing for Developing Countries and the Debt Situation

During 1994/95, the Board met several times to discuss issues related to commercial and official financing flows to developing countries and economies in transition, and to the debt situation confronting these countries, including the sustainability of the multilateral debt of the heavily indebted poor countries in the context of overall debt burdens. Board members noted that considerable progress had been made in resolving the debt problems faced by middle-income developing countries. Owing to their adoption of strong economic policy programs, most of these countries either had graduated from the Paris Club rescheduling process or were expected to do so shortly. Low-income developing countries, however, continued to face difficult debt problems. For these countries, sound economic policies would require adequate financial support. The multilateral institutions, especially the Fund and the World Bank, would be called on to play a large role through their financial facilities in supporting the reform efforts of developing and transition countries. The Board also explored ways to allow the Fund to continue providing financial resources on highly concessional terms to low-income countries through the ESAF.

Commercial and Official Bilateral Debt

In September 1994, during a discussion of the debt situation, Directors noted that substantial progress had been made in resolving both the commercial and official debt problems of the middle-income developing countries in the year since the Board's last comprehensive review of the debt strategy. Owing to their strong economic policy programs, a number of countries had been able to conclude restructuring agreements with their commercial creditors; a flexible approach with a menu of options made it possible to tailor bank packages to the specific needs of individual countries. Most middle-income countries had graduated from the Paris Club rescheduling process, or were expected to do so at the end of their current consolidation periods. Directors observed that progress in this area for the few middle-income countries with unresolved commercial debt problems would require the implementation of strong economic policies by debtor countries and flexibility on the part of creditors.

Many middle-income countries had begun to enjoy renewed access to spontaneous private financing since resolving their debt problems. Directors observed that the middle-income developing countries had been the major beneficiaries of the sharp increase in private financing between 1990 and 1993. Despite a severe market correction in early 1994, Directors saw recent developments as providing grounds for optimism with respect to the sustainability of substantial capital inflows, but they noted that continued access to international financial markets would depend on countries' maintaining strong policy stances.

Low-income countries, in contrast, continued to confront difficult debt problems. Many had large debts to official creditors, and some had sizable commercial bank debts that needed to be restructured. Access to private sources of financing had not improved for low-income developing countries as a group. Directors emphasized that these countries would need to establish sound, stable, and sustainable economic policies and would also require supportive actions on a number of fronts.

Directors observed, for example, that, through the Paris Club's phased approach to debt rescheduling—involving the rescheduling of debt-service flows on enhanced concessional terms—official creditors had provided substantial assistance in meeting the external financing needs of a number of low-income countries. Nevertheless, they noted that many low-income countries still faced large debt overhangs to official bilateral creditors that could be removed only by the implementation of stock-of-debt operations, as envisaged under the menu of enhanced concessions agreed by the Paris Club in 1991. In this context, at a subsequent discussion in February 1995, Directors welcomed the Naples terms—which provide for an increase in the level of concessionality for most low-income rescheduling countries from 50 to 67 percent—agreed by Paris Club creditors in December 1994. Directors welcomed in particular the first stock-of-debt operation under these terms in February 1995, for Uganda.

Directors felt that commercial bank creditors would need to show more flexibility in dealing with low-income developing countries with especially severe private debt burdens. Because of their limited resources, many of these countries were likely to be unable to finance the cost of simple debt buybacks. Directors considered that creditors should be willing to accept terms more explicitly tied to assessments of the low-income developing countries' limited ability to service their debt, which might not be reflected in secondary-market prices for the debt. Sufficient resources would need to be made available on appropriate terms to support bank-debt operations.

Directors expressed concern about the decline in net bilateral aid flows recorded in 1994 and emphasized that the targeting of aid to the poorest countries could be considerably improved—for example, by reducing the use of aid as an instrument of export competition. Many Directors also felt that recipient countries needed to make more effective use of bilateral aid.

Directors noted that officially supported export credits remained a key source of official bilateral assistance, particularly for certain developing and transition countries. They agreed that access to export credits could help developing countries to establish creditworthiness but should not be used as a substitute for general balance of payments support, especially in the medium term. Developing countries would thus need to carefully manage their outstanding debt to export credit agencies. Directors also encouraged export credit agencies to make more use of recent innovations in risk management, to coordinate their lending more closely with other agencies and multilateral institutions, and to hold more frequent discussions on the effective use of export credits with recipient countries. They considered that the potential benefits of escrow accounts should be weighed against the danger of the proliferation of such arrangements and of reduced access to nonsecuritized lending.

Multilateral Financing and Debt

Directors observed that the multilateral institutions had played a central role in supporting the economic adjustment of developing countries. In particular, the Fund, through the continued operation of its ESAF, and the World Bank, had made major contributions to lending on highly concessional terms to low-income countries. In the Directors' view, in the future the multilateral institutions, especially the Fund and the World Bank, would be called to play an even greater role in providing financing to developing and transition countries. These institutions would establish the framework for support from other creditors and donors—in part by improving the availability and understanding of information on trends in financing flows.

In their September 1994 discussion, Directors stressed that debt forgiveness by the multilateral institutions, in light of their role in mobilizing resources for the developing and transition countries, was not desirable and should not be considered. Debt forgiveness would impair the effectiveness of the Fund by undermining its preferred creditor status and the revolving nature of its resources. At the same time, Directors emphasized the importance of highly concessional lending by the multilateral institutions—especially the regional development banks—in support of economic policy programs in the low-income developing countries. Multilateral institutions should also work with member countries whose payments were in arrears to help them overcome these problems.

During the February and April 1995 meetings, discussions centered on the magnitude and sustainability of the multilateral debt of the heavily indebted poor countries. On the basis of debt-service analysis presented in papers jointly prepared by Fund and World Bank staff, at the April meeting most Directors agreed with the conclusion that, for the majority of heavily indebted poor countries, debt service to multilateral institutions should be manageable, provided that concessional bilateral flows were maintained and that new multilateral lending was on appropriately concessional terms and supported a policy framework that generated at least modest real export growth. Some countries would, however, face heavy burdens of both debt service and the overhang of debt that would clearly impede development prospects in the future; for these cases, it was decided that further country-specific analysis would be undertaken.

At the February meeting, Directors agreed broadly that all new multilateral and bilateral lending to the heavily indebted poor countries should be on concessional terms. Directors agreed that there should be a reassessment of the means available to the Fund for dealing with countries with protracted arrears to the Fund and for assuring the viability of some additional countries with prospective heavy debt burdens by complementing the mechanisms put in place by other creditors, such as the Naples terms agreed by Paris Club creditors in December 1994.

Continued Fund Assistance Through the ESAF

Directors noted that most but not all heavily indebted countries would experience a decline in their debt service to the Fund over the next decade, mainly because of the introduction of highly concessional lending through the SAF and the ESAF. There was broad agreement that ESAF terms were consistent with sustainable debt-service burdens for most heavily indebted countries and that it would be appropriate to continue to provide assistance through the ESAF, provided that the revolving nature of the Fund's resources and the institution's monetary mandate were respected. Some Directors were of the view that the Fund would need to do more.

In April, Directors considered possible modalities for continued Fund involvement in low-income countries, including the most heavily indebted ones, through the ESAF. Directors broadly agreed that there would be a need for a continuation of ESAF-type concessional operations; most also were ready to explore the possibility of a self-sustained ESAF financed through resources expected to reflow to the Special Disbursement Account (SDA) from the ESAF Trust Reserve Account beginning in the year 2004, according to current projections.

Most Directors welcomed early consideration of possible ways to finance ESAF-type concessional operations in the interim period between the end of 1996, when full commitment of ESAF Trust resources is expected, and 2004, when resources from the SDA would become available. It was noted that some uncertainty attached to the likely timing of full commitment of existing ESAF Trust resources, and consideration was given to the usefulness of exploring with present ESAF Trust creditors the possibility of an earlier transfer of resources to the SDA by reducing the coverage of claims on the ESAF Trust Loan Account.

Directors also explored modalities for funding the loan component of ESAF assistance; most supported giving further consideration to combining various funding alternatives, including the use of the General Resources Account (GRA), although some did not favor this approach. Suggestions were made on possible sources of funding for the subsidy component, including transfers by members of resources refunded from the second Special Contingent Account (SCA-2), bilateral funding, and the investment income from the profits of the sale of some of the Fund's gold. Some Directors were firmly opposed to gold sales, but interest was expressed in further discussion of the role of gold in the Fund.

Directors discussed several options for dealing with the problems of countries with a heavy debt overhang, including the possibility of extending maturities for ESAF loans for a category of countries eligible for ESAF assistance. However, most Directors considered that the Fund could best assist those countries facing continuing heavy debt burdens and balance of payments problems by ensuring that ESAF resources continued to be available on present terms. This would enable the Fund to tailor its financing to the situation of individual members while maintaining conditionality and continuing to monitor members' policies over what might be prolonged periods. Nevertheless, a few Directors felt that this approach would not adequately address the problems related to debt overhangs and the need of members for assurances that debt service to the Fund would be kept at manageable levels. In the view of these Directors, further consideration should be given to the possibility of an extension of maturities.

In its April 1995 communiqué, the Interim Committee took note of the Board's discussion of the multilateral debt of heavily indebted poor countries and stressed that multilateral lending to these countries should be on appropriately concessional terms. The Committee agreed that continued Fund support for the poorest developing countries on ESAF terms would be desirable, and it requested the Board to examine the options for continued financing and adapting of the ESAF.

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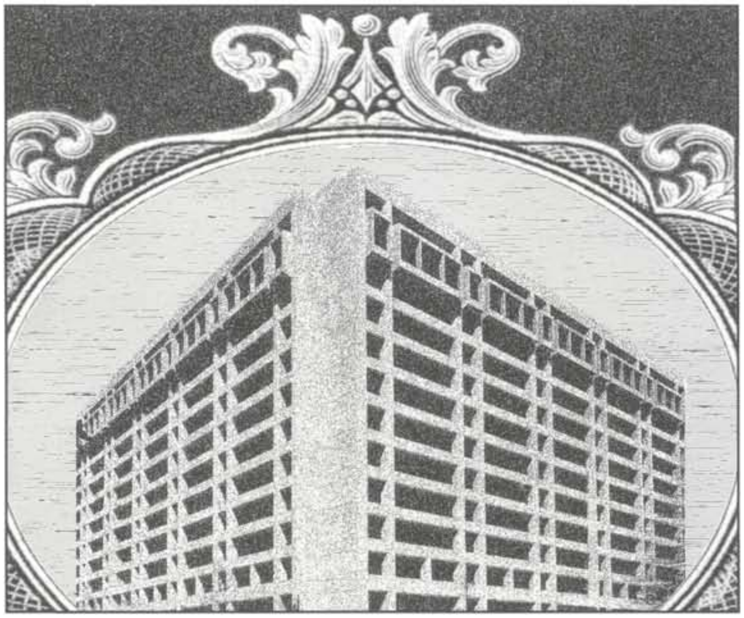

THE FUND IN 1994/95

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Fiftieth Anniversary and the Evolving Role of the Fund

The Fund has continually adapted to a changing world economic environment, allowing it to preserve both its relevance to the needs of its membership and its essentially monetary and catalytic character.

At a Board seminar in July 1994, Directors evaluated the progress made by the Fund in the context of the fiftieth anniversary of the Bretton Woods Conference of July 1944. Directors observed that the anniversary provided a special stimulus for initiatives and reforms that might benefit the Fund's work in the future. These issues were also the focus of a conference held at the time of the Annual Meetings of the Fund and the World Bank in Madrid in September 1994.

The anniversary year was also marked by a crisis in Mexico that the Fund responded to with the largest amount of financial support that it had ever extended to a single member country. The crisis both illustrated the flexibility of the Fund and raised issues about the types of reform that might be considered for the future. In addition, the Fund approved arrangements for Russia and Ukraine—two major economies in transition—provided additional financial assistance to Argentina, extended its financial support to a large number of other countries, and increased access to its resources for all members.

Fiftieth Anniversary

The anniversary was an occasion for reflecting on the progress made in the past, as well as prompting a forward-looking discussion of the role of the Fund. Although the basic purposes of the Fund remain those formulated fifty years ago, its role and activities have changed considerably as a result of changes in the world economy, some of which have been, in turn, assisted to a significant extent by the work of the Fund.

Many of these issues were the focus of a conference held at the time of the Annual Meetings of the Fund and World Bank in Madrid in September 1994 that looked at the future of the Fund and the World Bank. Among the participants there was a strong consensus on the policy strategies that all countries needed in order to reach the objective of sustainable, equitable, economic growth with high employment, a goal often referred to as "high-quality growth."

The developments of the past fifty years have been reflected in the evolution of the Fund in each of its three major areas of activity.

First, the Fund has adapted its role in the exchange rate system. After divergences in the economic performance of the industrial countries had led to the collapse, in the early 1970s, of the Bretton Woods system of fixed but adjustable parities, the right of members to choose their own exchange arrangements was recognized by the Second Amendment of the Articles in 1978.

The Fund was given responsibility for overseeing the international monetary system and the economic, financial, and exchange policies of its members with a view to achieving orderly exchange arrangements and promoting a stable system of exchange rates. It was recognized that this involved surveillance over all policies affecting exchange rates. This was based on the understanding that the key to exchange rate stability was provided by improvements in national policies that could be fostered by international cooperation, including the convergence of inflation rates at low levels, fiscal consolidation, and structural policies that promoted the efficient working of labor and other markets. Surveillance, convergence, and cooperation were seen as crucial for the proper functioning of the international monetary system and were areas in which the Fund could make a central contribution.

The Fund's surveillance activities are the principal means through which it seeks to improve the functioning of the international monetary system. These activities comprise the Fund's regular consultations with individual member countries under Article IV, and also its consideration of policy issues in a global context—notably in the discussions of the World Economic Outlook and of world economic and market developments, in parallel with the Fund's contribution to the policy coordination effort among the major industrial countries.

The second main area of Fund activity is its provision of financial assistance. One major change has been the concentration of the Fund's financing operations in recent years on developing countries and economies in transition. These countries account for all of the 60 Fund-supported programs in place as of the end of the financial year. This contrasts with the Fund's early years, when many industrial countries drew on Fund resources and industrial country drawings accounted for most of Fund lending.

The recognition that the adjustment problems countries face can in many cases be addressed through structural as well as macroeconomic policies has led to the introduction of new financing facilities with longer maturities and, in some cases, concessional interest rates that operate alongside the more traditional short-term stand-by arrangements and medium-term extended Fund facility arrangements.

These adaptations have enabled the Fund to continue serving the needs of countries facing macroeconomic imbalances and payments difficulties, and to provide balance of payments support for the implementation of reforms, as its membership has expanded and changed in composition. They enhanced the Fund's support for members as they resolved debt problems and regained access to capital markets. Through these measures the Fund has contributed to growth-oriented adjustment in the developing countries more generally, and assisted Russia and the other transition economies in their efforts to move to a market system.

The third area of activity is the provision of technical assistance to member countries to help them design and implement policies and build or modernize institutional capacity, thereby improving the effectiveness of Fund-supported programs.

Technical assistance and training by the Fund in its areas of expertise began in the early 1960s with the emergence of newly independent developing countries. It has since spanned such areas as the design and operation of tax systems, central banking and monetary policy, exchange systems, and economic statistics. There has been a particularly dramatic growth in demand for these services in recent years, especially to help with institution building and policy implementation in the countries in transition.

In recent years further steps have been taken to ensure that the framework for cooperation between the World Bank and the Fund encourages the appropriate collaboration and mutual support between the two institutions.

Developments in 1994/95

The Board in October 1994 decided to increase, for a period of three years, the annual access limit for drawings in the credit tranches, and under stand-by and extended Fund facility arrangements, from 68 percent to 100 percent of a country's quota in the Fund. The increase in the annual access limit was intended to provide confidence that the Fund would be able to respond in a timely manner and on an appropriate scale in support of strong economic programs. The new annual access limit will ensure that the Fund can play an increased role in supporting programs and catalyzing other financial contributions for members' adjustment and reform efforts.

The Fund responded swiftly to the crisis in Mexico that erupted toward the end of December 1994 by approving, on February 1, 1995, an 18-month stand-by arrangement for an initial amount of SDR 5.3 billion that could later be augmented by a further SDR 6.8 billion, in support of the Government's 1995–96 economic and financial program. This was the largest financing package ever approved by the Fund for a member country, both in terms of the amount and the overall percentage of quota. The exceptional action was taken in order to support the Mexican authorities in a strong adjustment program designed to help deal with a severe crisis in the financial and foreign exchange markets. The program included prudent fiscal and strong monetary and credit policies, an incomes policy, and structural reforms. At the same time the action was designed to provide an adequate international response to Mexico's financial crisis and to give confidence to the international financial system. The Fund credit is intended to complement other external financing for Mexico.

The Fund and its membership also faced the need to act quickly to stop the spread of contagion effects arising from the crisis in Mexico. In the context of unsettled international financial markets, Argentina experienced large capital outflows in early 1995. The authorities decided in early March to take strong action to reinforce the public finances and to provide resources for restructuring the weakened financial system, and to seek large-scale international financial support, including an extension of the country's extended Fund facility arrangement to a fourth year, in part to rebuild international reserves. On April 6, 1995, the Fund approved a request by Argentina to extend the extended Fund facility arrangement and to increase the amount by SDR 1,537 million, to a total of SDR 4,020 million.

Mexico's difficulties also pointed to the need to adapt the Fund's surveillance to the globalization and integration of capital markets. On a number of occasions during the year, Directors reviewed the Fund's work in surveillance over members' exchange rate policies. They did so both in the context of the Fund's regular biennial review of surveillance, and in light of the Interim Committee's request of October 1994 for the Board to pursue its work on strengthening surveillance.

The Fund continues to face the challenge of making surveillance more effective, and it has been pursuing this objective persistently, through a number of initiatives aimed at making surveillance more continuous and flexible. Examples are the greater use, as needed, of communications with governments on important issues between regular consultations; strengthening the timely provision by member countries of the necessary data to the Fund; more focus on regional surveillance; efforts to sharpen the Fund's analytical work on exchange rates and on the macroeconomic linkages between countries; and a strengthening of the internal procedures whereby the Fund can focus on global issues and issues of potential systemic importance.

Increased Openness

In summing up the Board discussion of the biennial review of surveillance, the Managing Director raised the issue of openness and the need to strike the appropriate balance between the need to preserve the confidential relationship between the Fund and its members, which is the foundation for effective cooperation and surveillance, and the desirability of encouraging more transparency to the public with respect to Fund policies and operations, and the data on which they are based.

In recent years, international organizations, commercial banks, academics, nongovernmental organizations (NGOs), and the general public have increasingly looked to the Fund, as well as the World Bank, as sources of information not readily available elsewhere. The Fund has responded through an expanded external relations and publications program and the development of information-sharing arrangements with a number of other international agencies.

The year saw a number of discussions by the Executive Board of the desirability of greater openness and the adoption of a decision, in July 1994, to make available to the public information contained in Fund documents—for example, Recent Economic Developments reports and statistical annexes and appendices—that serve as background to Article IV consultation discussions, provided that the member does not object. By April 30, 1995, 46 such documents had been released (see Appendix IV).

The Fund's Financial Base

In March and April 1995, the Board held wide-ranging, preliminary reviews of the Fund's financial resources and liquidity position. These reviews of the Fund's financial base took place against the background of the October 1994 Interim Committee discussions and the financing needs of member countries, including the financial crisis in Mexico. The Mexican crisis had drawn attention to the vulnerability of members to sudden shifts in market sentiment and the resultant large and unpredictable capital outflows; to the fact that private capital markets were less accessible to a number of countries; and to the consequent need to assess the adequacy of the Fund's financial resources.

In March 1995, there was broad support in the Board for first examining the role of the Fund in the emerging environment of not only globalized trade and payments but also of globalized and integrated financial markets. In this context, many Directors agreed on the link between strengthening the Fund's surveillance role, both over members' economic policies and over the international monetary system as a whole, and the need for the Fund to strengthen its financial base.

All Directors were of the view that the Fund was, and should remain, a quota-based institution. Therefore, the issue of the size of the Fund, the extent of the need to restructure the quota shares of members, and the need to ensure that members' quotas were not excessively out of line were deserving of careful examination. Since it took time to effect an increase in quotas, the Board generally agreed to move forward to consider all aspects of the review of quotas.

Directors also were generally in agreement that the present state of the Fund's liquidity position was still adequate, despite the large demands for the Fund's resources. However, most Directors noted that a progressive and relatively large deterioration in the Fund's liquidity position was likely over the coming two years. The uncertainties that underlay the current liquidity projections pointed to the need both to monitor developments very closely and to strengthen the Fund's resources, as needed, to enable the Fund to fulfill its functions in an increasingly uncertain world economic environment.

Directors also considered various aspects of Fund borrowing. Many noted that borrowing was a useful

Box 4

INTERNATIONAL MONETARY SYSTEM

The Board discussed the scope for improvements in the current international monetary system in July 1994 on the occasion of the fiftieth anniversary of the Bretton Woods Conference. The Board also took account of the Interim Committee's mandate to examine systemic issues, including the effective exercise of surveillance and economic policy coordination.

Current System

Directors recognized that the fundamental purpose of the international monetary system was to provide a framework that facilitated the balanced expansion of international trade as well as the free exchange of goods, services, and capital, and thereby to promote high levels of sustainable noninflationary economic growth. Directors also agreed that flexibility was the hallmark of the current system, both in terms of the globalization of international capital markets and the wide range of exchange rate arrangements that had been adopted to meet members' needs.

Exchange Rate Volatility

There was widespread agreement that the degree of exchange rate volatility under current arrangements, especially among the major reserve currencies, was on occasion greater than desirable. In addition, there had been cases of market overshooting, leading to misalignments between currencies. However, Directors differed as to the costs imposed on the world economy by this volatility or by currency misalignments, and the cost associated with taking action to reduce them.

Many speakers noted, however, that even with full cooperation on policies and convergence in desirable economic performance, there would inevitably remain significant fluctuations in exchange rates that were a manifestation of the operation of a fully integrated global capital market. In their view, the costs of exchange rate volatility were not large enough to offset the benefits to policymakers of retaining the option of a flexible exchange rate system. Moreover, the costs of short-term volatility could be reduced through the use of hedging instruments available in deep and broadly based financial markets.

It was noted that the sustained pursuit of appropriate domestic policies—especially fiscal policy—would have long-term benefits in enhancing macroeconomic stability and the credibility of policymakers, thereby fostering confidence in a country's currency and ultimately promoting exchange rate stability. It was generally recognized that, although exchange market intervention could, at times, have a role to play in countering sharp movements in exchange rates, especially if accompanied by changes in policies supportive of appropriate domestic objectives, such intervention could not be relied on to deal with excessive exchange rate volatility and misalignment in a reliable and systematic manner. In addition, Directors noted that it could be undesirable to divert fiscal policy away from its important medium-term domestic objective for possible short-term benefits in terms of exchange market stability.

A number of Directors felt that exchange rate volatility had significant overall negative effects on international trade and investment. Moreover, it was noted that fluctuations in the exchange rates of the three major industrial countries often had adverse spillover effects on other countries. In addition to limiting those costs, some Directors thought that target zones or reference ranges for the exchange rates of these countries would also provide useful discipline on their economic policies, although it was recognized that the conditions for a

expedient to meet temporary problems, although an increase in quotas was the appropriate response to meet the Fund's needs over the medium and long term. A number of Directors suggested that the possibility of reviewing the adequacy of the General Arrangements to Borrow (GAB) could be explored, as well as the issue of extending associated borrowing arrangements with other members.

Over the past financial year, the Board continued to review the need for a new allocation of SDRs with respect to the long-term global need to supplement international reserves and the desire to deal with the situation of the many new members that had not participated in previous SDR allocations. However, the Board did not reach an agreement on these issues.

Against the background of the Board's discussions of the Fund's financial base, the Interim Committee in its April 1995 communiqué, noting that the Fund's liquidity was projected to decline sharply over the next two years, requested the Board to continue to review the adequacy of the Fund's resources, and, in connection with its review of the role of the Fund, to carry forward its work on the Eleventh General Review of Quotas. The Committee also saw a need to examine the issues related to borrowing by the Fund from members and, in particular, the role of the GAB. Noting that there was not yet a basis for agreement on an SDR allocation, the Committee asked the Fund to initiate a broad review of the role and functions of the SDR in light of changes in the world financial system. The Committee also invited the Fund to embark on an examination, in close collaboration with other institutions, of all relevant issues in connection with the Fund's ability to better assist members in coping with sudden market disturbances, consistent with its catalytic role.

successful system of target zones or reference ranges between the main currencies had not been met.

Noting the advantages of a more formal pegged system, some Directors encouraged continued work on pragmatic steps to achieve greater exchange rate stability, building on what was already in place. In that context, the wish was expressed that the experience of the Group of Seven major industrial countries, beginning with the Louvre Accord, be analyzed more thoroughly as a possible basis for further progress.

It was widely agreed that monetary policy was the most potent instrument for influencing exchange rates over the very short term. However, it was broadly felt that the primary role of monetary policy should be to sustain noninflationary growth. Many Directors emphasized that deflecting monetary policy away from those goals and targeting it on exchange rate objectives on a sustained and systematic basis could entail costs greater than the benefits arising from reduced exchange rate volatility. It was recognized, nevertheless, that exchange rates often sent important signals that needed to be taken into account in calibrating the appropriate stance of monetary policy, and that there were occasions when monetary policies should appropriately be adjusted in light of exchange rate developments.

Globalization of Capital Markets

Another important topic was the globalization of international capital markets and the role such markets played in the international monetary system. There was general agreement that deep and wide international capital markets provided significant benefits to the world, particularly through the efficient allocation of global saving and investment, and that the Fund should continue to support moves toward greater liberalization of capital accounts.

At the same time, a number of Directors spoke of the Fund's incomplete understanding of the key connections between capital markets and exchange rates, and they encouraged the staff to do more work on that topic. Although it was agreed that international capital markets generally provided a useful form of discipline on domestic policymakers, markets were not always right. There had been swings in sentiment about currencies that had not been based on economic fundamentals, and abrupt changes in access to international capital markets in consequence. In this regard, several Directors saw a role for a new short-term Fund facility (see section on Fund Support for Member Countries).

Implications for Fund Surveillance

These and other aspects of the international monetary system were obviously relevant for the surveillance role of the Fund in the system, in the Board's view. Indeed, the current system, with its diverse exchange rate arrangements and immense stocks of mobile capital, made Fund surveillance even more challenging and needed than under the Bretton Woods system. There was general agreement in the Board that the interconnected nature of modern economies meant that effective surveillance of exchange rates necessarily required an appraisal of domestic monetary, fiscal, and structural policies. The Fund played a key role in promoting stability in the international monetary system by encouraging sound domestic policies, and it was important that needed adjustment in these policies be made before private market participants forced that adjustment on a more costly basis.

Directors also generally agreed that changes to the international monetary system were likely to be evolutionary rather than revolutionary, and that such evolution should entail close cooperation between the countries involved and the Fund, including in the context of the Group of Seven.

The Challenges Ahead

On a number of occasions during the fiftieth anniversary year, the Board considered the challenges that lay ahead for the Fund. In its July 1994 discussion on the evolving role of the Fund, most Directors stressed the importance of the globalization of markets, as well as the need for the Fund to reflect on the appropriate design of instruments and policies that would take into account such globalization, notwithstanding the difficulties inherent in doing so. (Box 4 describes the Board's discussion of ways to enhance the working of the current international monetary system.)

In discussing exchange market stability in the context of this increased globalization of markets, Directors recognized that the essential elements of this strategy were surveillance, the convergence of economic policies, and renewed efforts to implement sound domestic policies and encourage cooperation. Views differed on whether collective exchange rate discipline through anchoring or pegging mechanisms, or the use of reference ranges for exchange rates, could help to promote greater stability in the system. It was recognized, however, that successful policy cooperation and convergence would reduce the need for additional mechanisms to enforce discipline.

Strengthening Fund Surveillance

Among the Fund's most important responsibilities is its mandate under the Articles of Agreement to oversee the effective functioning of the international monetary system and to exercise firm surveillance over members' exchange rate policies. The Fund fulfills these oversight and surveillance roles in a variety of ways. Of these, the two principal means are the regular annual consultations with member countries, which are known as Article IV consultations, and, in a global context, the discussions held on the World Economic Outlook. Through the Article IV consultations, the Fund assesses the appropriateness of a member's macroeconomic and structural policies—since these underpin its exchange rate policies—and encourages all members to adopt policies that are in their long-term interests and also are conducive to the expansion and balanced growth of the world economy.

This section highlights the themes that emerged from the Fund's biennial review of surveillance, which examined both the analytical contents of surveillance and the operational guidelines. In the aftermath of the financial crisis in Mexico, the Board also explored ways of enhancing the effectiveness of surveillance. In this context, a related discussion stressed the importance of timely provision by members of key data to the Fund. Other issues considered by the Board included international policy coordination; precautionary arrangements, enhanced surveillance, and program monitoring; and developments in the international exchange and payments system, including progress by members toward current account and capital account convertibility.

In its conduct of surveillance, the Board supplements its regular and systematic monitoring of developments through the Article IV and World Economic Outlook discussions with informal Board sessions on world economic and market developments, which are held about every six weeks. The Board's review of international capital market developments also contributes to multilateral surveillance. As part of the strengthening of surveillance, the frequency of informal meetings on country matters has been increased; these now generally take place each month (see below). In addition, the Fund's Managing Director takes part in the policy discussions of the Group of Seven major industrial countries, where he provides a global perspective by focusing on the international repercussions of their policies.

The principles and procedures that guide Fund surveillance are set out in a 1977 document, "Surveillance over Exchange Rate Policies." At least every two years, the Board reviews this document, as well as the implementation of surveillance, to see what changes—if any—are needed to enhance the effectiveness of surveillance. At its most recent review, the Board carried out a thorough and candid examination of both the analytical and the operational aspects of surveillance and adopted a decision to amend the 1977 document to take explicit account of the role of capital flows (see Appendix V). It decided that the next review of surveillance would take place no later than September 15, 1996. The Interim Committee, in its October 1994 communiqué, requested that the Board "pursue its work on strengthening IMF surveillance, as the central element of the IMF's contribution to better economic policies and more effective cooperation." In addition, the Committee requested a report on the methodological aspects of multilateral surveillance.

Key Issues in Surveillance

The latest biennial review of surveillance in February and April 1995 took place against the background of

Box 5

COMMON POLICIES AND INSTITUTIONAL DEVELOPMENTS IN THE EUROPEAN UNION

In its April 1993 *Declaration on Cooperation for Sustained Global Expansion,* the Interim Committee voiced its support for "the steps agreed by the Executive Board to strengthen . . . surveillance, including regional developments." As part of the Fund's efforts in this regard, the Board met in informal session in June 1994 to discuss a broad range of issues related to policy and institutional developments in the European Union, against the background of the ratification of the Treaty on European Union (the Maastricht Treaty), progress toward completion of the single market program and toward Economic and Monetary Union (EMU), closer ties between the European Union and neighboring countries, and establishment of the European Monetary Institute (EMI).

Contacts Between the Fund and the European Union

Directors emphasized that regular contacts and discussions between the Fund and European Union institutions and member countries form a vital link for enhancing the regional focus of Fund surveillance. In this context, they remarked on the important strides that the European Union had made in strengthening the institutional framework for its own surveillance and coordination of macroeconomic policies. Directors observed that this development was important not just from the perspective of the European Union's own goals of further economic and monetary integration, but also in the context of the Fund's broader interests in fostering conditions that promote a prosperous and stable global economy, its surveillance over the policies of individual European Union member countries, and its interest in contributing a global perspective to policy coordination within the European Union.

Directors particularly welcomed the establishment of the EMI, which would have a crucial role to play in laying the foundations of EMU. They recognized the work carried out at the national level in order to fulfill the obligations deriving from the Maastricht Treaty—especially, the important reforms aimed at establishing the independence of central banks, and the work of the Committee of Governors to ensure the EMI's strong foundation. Because assessing, on a continuous basis, developments in Europe and their implications for the global economy had become increasingly important, Directors noted the importance of contact between the Fund and European Union institutions, particularly the EMI.

Policy Issues

Certain areas where the Fund might anticipate events in its relations with the European Union were identified: (1) ensuring that surveillance by the European Union and Fund surveillance are well coordinated; (2) advising on the credibility of the programs for moving to EMU; (3) assessing the impact of an enlarged European market on other countries; and (4) reviewing the lessons that European Union experience can provide for other countries—for instance, the integration of banking regulations. With respect to specific issues, Directors observed that European Union objectives were such that more ambitious policies would be needed if the objectives were to be achieved in accordance with the agreed timetable. Directors also considered that fiscal and budgetary consolidation still had a long way to go, and that the strategy to reduce unemployment would need to give greater emphasis to labor market deregulation, removal of distortions, and welfare reform.

As regards the European Union's common policies, Directors were in broad consensus that the steps taken to promote further integration of internal markets had represented a notable achievement. Such policies had been complemented, they observed, by reforms of the Common Agricultural Policy and by trade liberalization with countries in transition in central and eastern Europe. In the context of the association agreements with these countries, Directors noted the speed with which liberalization for industrial products had taken place, although some concerns remained over the use of safeguard and antidumping clauses.

In recognizing the important strides in building up the European Union's institutional framework for the surveillance and coordination of macroeconomic policies, Directors noted the extent to which the strengthened surveillance process had entailed formulation of broad economic strategies at the Union level, with quite specific goals set in some areas of policy. In this regard, Directors expressed broad agreement with the general aims of the European Union's macroeconomic strategy, as outlined at the December 1993 meeting of the European Council, as well as with the need to focus on imbalances in public finance and on unemployment.

ongoing systemic changes, in particular the increased globalization of capital markets and the greater mobility of cross-border capital flows, which had presented new challenges for surveillance. The Board noted that the December 1994 financial crisis in Mexico had demonstrated the swiftness and intensity with which international capital markets could react to adverse developments in a country, and it emphasized the importance of preventing such crises from recurring.

Directors observed that the review afforded the opportunity to focus on the methodological aspects of surveillance, especially with regard to the spillover effects of economic developments in the largest industrial countries and the complex interactions that occur among countries in a global environment of increasing economic and financial integration.

Directors welcomed the progress in improving the flexibility, timeliness, and continuity of surveillance. As

Box 6
PROVISION OF STATISTICAL DATA

In April 1995 the Board examined a range of issues related to the provision of statistical data to the Fund by members. Deliberations on the financial crisis in Mexico had highlighted some shortcomings in surveillance, resulting from deficiencies in the data reported to the Fund by a number of member countries.

Quality and Coverage

Directors also stressed that members needed to provide complete and consistent data in the context of Article IV consultations. In this regard, they emphasized the importance of Board scrutiny of data quality, coverage, and timeliness in Article IV consultations and asked the staff for a specific assessment of the situation regarding these issues in each Article IV report to be submitted to the Board over the coming year. For surveillance to be effective, continuous, and timely, the regular flow of information between Article IV consultations was vital.

Directors recognized that the data requirements for surveillance changed over time and varied from country to country. Several Directors observed that the authorities in some developing countries were hampered by limitations in the availability and quality of their statistics. Furthermore, the needs and scope of members for producing data and for their reporting to the Fund also differed from country to country. The selective approach in gathering data practiced by the Fund in ensuring even-handed surveillance was welcomed by the Board, since a single standard for all Fund members would not be desirable or realistic. Nevertheless, there was agreement in the Board that, as an absolute minimum, members should report to the Fund, in a timely fashion and with little delay, ten key indicators together with the balance sheets of the central bank. Those related to exchange rates, international reserves, reserve or base money, broad money, interest rates, the consumer price index, exports and imports, the external current account balance, the overall fiscal balance, and GDP or GNP. Directors agreed that as many of these data as possible, especially those relevant for monetary policy, should be reported monthly. At times of exchange market tension, however, certain types of data, such as those on foreign reserves and domestic and foreign debt, might have to be reported more frequently.

Timeliness

The need for increased efforts to provide information on capital flows and the

a mark of strengthened bilateral surveillance, they noted that consultations with most countries were on the standard 12-month cycle. At the same time, Directors expressed concern about the greater number of delays in concluding the Article IV consultations. They welcomed the intensified contacts between members and the Fund in the period between consultations, when necessary, including informal staff monitoring arrangements.

Although most Board members endorsed the coverage of issues in Article IV consultation reports, a number of Directors advocated stronger emphasis on the core elements of surveillance, including monetary and exchange rate policy. Others, however, supported the increased emphasis given in recent years to structural issues. The Board agreed that care would be needed to maintain a balance among priorities in providing full and effective coverage of the Fund's core responsibilities while also examining other problem policy areas.

The Board agreed on the need for greater transparency in key areas of surveillance, as well as more pointed appraisals in staff reports. Directors also supported increased focus on possible misalignments in exchange rates, including the use of alternative scenarios in cases in which the rate is used as an anchor.

Efforts to better identify emerging difficulties at an early stage were encouraged, and in that context Directors agreed that there should be more emphasis in surveillance on financial market issues for members for which such issues were particularly relevant. Many supported greater selectivity in surveillance, particularly in connection with intensified monitoring of members' economic and financial performance. Directors endorsed the use of follow-up procedures, such as six-monthly staff discussions with the authorities, together with pointed staff appraisals of particular situations, when necessary. There was agreement that efforts to strengthen surveillance would depend both on countries' willingness to cooperate with the Fund and on the quality and relevance of staff economic analysis and policy advice.

Directors endorsed staff suggestions for improving regional surveillance. In this context, they agreed to institute annual discussions of reports on economic and currency unions and to continue the annual discussion of European Union policies in its present form, but emphasized that Article IV consultations should remain the basic channel for surveillance (see Box 5 on common policies in the European Union). Further, subject to staffing constraints and without giving rise to delays in concluding consultations, they supported the increased clustering of Article IV consultations if countries shared common characteristics or common issues.

variables that influence them in a more timely manner was stressed. The requirements for reporting data should apply to all countries, whether or not the member had a program with the Fund. In this context, it was recognized that the staff and the Board should continue to respect the wishes of the country authorities with regard to data provided on a confidential basis.

Data submitted by most Fund members were satisfactory; but there were significant shortcomings in a number of cases. For this reason, several Directors asked for more explicit standards for data reporting or data publication, particularly in connection with Fund financing. It was felt that data inadequacies in a single member could affect the Fund's ability to detect emerging crises, which could in turn have adverse repercussions on the quality of the Fund's advice, both for the member concerned and for the international monetary system. It was especially important to maintain the quality and timeliness of data after the conclusion of a Fund arrangement.

Many Board members also encouraged country authorities to publish comprehensive data promptly. The practices of the major industrial countries as regards the scope, timeliness, and frequency of the release of data were viewed as a desirable standard. Other Directors, while recognizing the growing importance of transparency in the global economy and the related need to change the attitudes prevailing in many members cautioned against prematurely advocating the standards of the major industrial countries for the rest of the Fund membership.

Directors asked the staff to ascertain in particular cases whether lack of data stemmed from inadequacies in the capacity to generate data, or reluctance on the part of the member to provide the data. If the former, technical assistance and training could be considered to overcome the deficiency. If the latter, a graduated approach was favored that would consist first of direct staff and management contacts with the authorities, then prompting by the Director for the country concerned, and finally consideration of the matter by the Board. For such an approach to succeed, the involvement of the Director representing the particular country would be essential.

The Interim Committee, in its April 1995 communiqué, stressed the importance of regular and timely provision by all members of economic data to the Fund. It also emphasized that timely publication by members of comprehensive data would give greater transparency to their economic policies. The Committee requested Directors to work toward the establishment of standards to guide members in the provision of data to the public and to submit proposals for consideration by the Committee at its next meeting.

Enhancing the Effectiveness of Surveillance

In April 1995 the Board examined ways of enhancing the effectiveness of surveillance, using the Fund's surveillance experience with Mexico as an illustrative example. It also reviewed a report prepared by an outside expert on the background to the financial crisis in Mexico. The Board agreed that the Fund's relations with Mexico in 1994 before the financial crisis in that year had revealed certain weaknesses. Important factors were delays on the part of the member in reporting key data to the Fund on a timely basis, including in the period between the presidential election and the inauguration. Furthermore, Fund surveillance had not functioned as a clear early warning signal to Mexico, particularly as far as the working of the pegged exchange rate system was concerned. The Board agreed that the responsibility was shared by the member and the Fund.

The object of the Board review of the Mexican case was to examine certain aspects of the "culture" of the institution and the relationship between the Fund and members that, while making that relationship more harmonious, had on occasion led to less effective surveillance. The Fund's practice had been to rely almost exclusively on members to provide data and information on policy matters, and heavy weight had been given to the views of the country authorities in their dialogue with the Fund. (See Box 6 for a discussion of data issues in the context of surveillance.) Although many member countries welcomed policy discussions in the context of surveillance, others viewed such discussions only as necessary obligations of Fund membership. An important task for the future would be to improve the policy dialogue between the Fund and its members, and also to make the dialogue more candid. Delays in the publication of key data could prove counterproductive.

Several suggestions emerged from the discussions on improving the Fund's surveillance function and for the effective working of the Fund as an institution:

- Management should ensure that the staff analysis was suitably pointed. However, it was recognized that the ability of staff and management to present views on sensitive issues such as the misalignment of exchange rates would depend on the willingness of members and of the Board to debate potentially controversial issues and to honor the confidentiality of Board deliberations.

- Although Directors generally agreed that staff work should be more selective and should concentrate on priorities such as surveillance, views differed on the issue of intensified surveillance. Some Directors advocated that surveillance should be concentrated on countries facing difficulties and on identifying emerging problems at an early stage, especially in countries of regional or systemic importance. Others stressed the importance of adhering to the principle of even-handedness in the treatment of members, including annual consultations with all members.

• Management would report to the Board, twice a year before the Interim Committee meetings, on the follow-up procedures it had undertaken. Such reviews would focus on the measures adopted by a country after receiving the summing up of the consultation discussion. As appropriate, strict confidentiality would be maintained.

• Many Directors emphasized the need for close cooperation between Fund staff and country authorities. For successful surveillance, staff should not be viewed as an adversary. It was also stressed that collaboration between a country and staff should not weaken following completion of a Fund-supported program.

• Although most Board members agreed that staff should consult different sources of information as a check against official data, others stressed that the main source should remain the latter. Many Directors suggested that Fund staff should develop contacts with research institutions and private sector organizations in member countries; but others noted that the wishes of the country authorities should be respected and that staff should handle such outside contacts with circumspection. Many Directors advocated reliance on published market information and more effective dialogue among Fund staff and with the World Bank and the International Finance Corporation (IFC).

• Directors agreed that staff should increase their contacts with officials in member countries, apart from the visits in connection with consultations and programs.

Issues in International Policy Coordination

In the context of enhancing the effectiveness of multilateral surveillance, Directors examined in September 1994 a number of systemic issues concerning international policy coordination. This Board session complemented earlier discussions on the evolving role of the Fund and prospects for improving the international monetary system (see above).

Most Directors viewed policy cooperation (that is, information exchange, discussion, and persuasion), rather than an explicit commitment to a formal system of policy coordination, as the main avenue for improving economic policies. Most also agreed that efforts toward better policy cooperation among the major industrial countries had generally led to improved macroeconomic and structural policies. However, some speakers observed that, although these efforts had reduced the number and extent of misalignments of the major currencies, they had not contributed to resolving short-run exchange rate volatility. Many Directors commended the shift away from the benign neglect of exchange rates and supported intervention in the exchange market when exchange rates clearly varied from economic fundamentals. There was general agreement, however, that the correction of policy fundamentals was the primary focus of economic cooperation and that only through stable domestic prices and fiscal consolidation could the major industrial countries enhance, on a durable basis, the future stability of the key currencies.

As regards Fund surveillance over exchange rate policies, Directors warned against too narrow a focus on exchange rates, since inappropriate domestic policies were at the root of many exchange rate problems. There was, however, general support for the view that the Fund in its surveillance role needed to monitor closely and assess carefully actual or emerging exchange rate misalignments. In this context, several Directors suggested that the release of Article IV staff reports and the Chairman's summings up of the Board's Article IV discussions could help market participants in gauging fundamentals. Other Directors opposed such release on grounds of confidentiality, in particular possible negative influences on the members' willingness to enter into frank discussions with the staff of their economic policies and problems.

Although Directors were not in favor of public airing of the Fund's views on exchange rate misalignments, they agreed that these views should be heard in forums where such decisions were taken and also that the Fund should identify possible cases of serious exchange rate misalignments and convey this information to the country authorities concerned in a timely and confidential manner. In cases of exchange rate misalignments that might pose an important systemic risk, the Board should also be informed expeditiously.

Precautionary Arrangements, Enhanced Surveillance, and Program Monitoring

Article IV consultations are the central form of collaboration between the Fund and a member country. For members facing balance of payments difficulties, arrangements in connection with the use of Fund resources provide another avenue for the exchange of views. But for various reasons, members have also sought closer Fund collaboration in several other ways. Some have sought to catalyze financial flows, with Fund endorsement seen as a way of unlocking external financing, including through debt rescheduling; others have sought collaboration as a signal of Fund approval of their policies or have found it useful to maintain contact with Fund staff at times of difficult policy decisions. These other types of Fund collaboration have taken place under precautionary arrangements, enhanced surveillance, "shadow" programs, and other forms of monitoring by the staff and the Board.

Directors observed that precautionary arrangements—that is, conventional stand-by or extended arrangements under which a member reaches understandings with the Fund on policy adjustment yet intends not to make use of Fund resources during the period of the arrangement—had been useful in indicating Fund endorsement of a member's policy. Such arrangements had served to boost confidence in the member's policies, thereby helping to ensure that a balance of payments need would not arise. Precautionary arrangements had provided members with a supplement to their reserves should such a need arise during the period of the arrangement.

The Board agreed that informal monitoring by Fund staff had been successful in meeting members' requests for a more intensive dialogue with the Fund in a flexible manner. Such monitoring could range from quantitative benchmarks under a shadow program to closer collaboration in formulating policies. It was pointed out, however, that it was important to ensure that the Board had an adequate opportunity to provide the necessary guidance. Several Directors cautioned that informal arrangements could be misconstrued as formal Fund endorsement. They emphasized that such endorsement could only be provided by the Board and normally only as part of a Fund financial arrangement.

Enhanced surveillance policies and procedures, initially established in 1985 to facilitate multiyear debt-rescheduling agreements with commercial banks, had been used sparingly over the years. Enhanced surveillance did not imply Fund endorsement of policies, and the standards for meeting its criteria lacked clarity. In consequence, enhanced surveillance might equally have been interpreted as meeting the standards of Fund arrangements in the upper credit tranches, or as indicating that the policies had fallen short of such standards. Although a few Directors suggested strengthening enhanced surveillance, and a few others recommended abolishing it, most Directors supported its retention on the ground that there were likely to be cases where enhanced surveillance could be useful, such as those in which the Board would be asked to play a more active role—either by monitoring developments more closely or by endorsing a member's policies.

Issues and Developments in the International Exchange and Payments System

Issues and developments in the international exchange and payments system, many of which constitute the core of the Fund's traditional surveillance responsibilities under its Articles, were discussed by the Board at a November 1994 seminar.[5] In general, Directors welcomed the accelerated progress in liberalizing members' exchange systems, which was seen as a signal of members' commitment to an open policy stance, although it was also noted that nearly 80 members had still to accept the obligations of Article VIII. (As of April 30, 1995, 101 countries had accepted the obligations of Article VIII.)

Directors also agreed that the procedures adopted in 1993 to speed the movement toward current account convertibility under Article VIII had been successful (see Box 7). They endorsed the policy that members should eliminate, as far as possible, measures that required Fund approval before they accepted the obligations of Article VIII and should satisfy themselves that they would be unlikely to resort to such measures in the future.

The Board noted that several members continued to maintain exchange restrictions subject to Fund jurisdiction. Directors expressed particular concern regarding the ad hoc restrictions on international payments and transfers evidenced by the increase in external payments arrears and emphasized that efforts to reduce these arrears, which seriously compromise the system of international payments, should continue. Payments arrears are considered evidence of exchange restriction subject to the Fund's jurisdiction when they result from limits imposed by the government, or when they interfere with the availability of foreign exchange to make payments for current international transactions or with the timely transfer of the proceed of such transactions. That one sixth of the members that had accepted Article VIII had later reimposed controls caused concern for several Directors.

In the discussion on capital account convertibility, a number of Directors noted the continued increase in the relative importance of capital account transactions in foreign exchange markets, the benefits that arise from the free movement of international capital, and the general ineffectiveness of controls limiting capital flows. By the end of 1994, all industrial country currencies were convertible for capital transfers, whereas developing country currencies remained tightly controlled (see Box 8).

Some Directors, noting that we live in a world very different from that faced by the founders of the Fund, expressed support for an extension of the Fund's jurisdictional responsibility in the area of capital account transactions. Although the Fund does not have formal

[5]See *Issues and Developments in the International Exchange and Payments System* (April 1995), World Economic and Financial Surveys; and the *Annual Report on Exchange Arrangements and Exchange Restrictions* (1995).

Box 7

CURRENT ACCOUNT CONVERTIBILITY

Policies to ensure current account convertibility lie at the heart of the Fund's purposes, as provided in Article I(iv) of the Articles of Agreement. To that end, Article VIII enjoins members from imposing restrictions on the making of payments and transfers for current international transactions or engaging in discriminatory currency arrangements or multiple currency practices unless authorized by the Articles or the Fund. Under Article XIV, members are permitted, as a transitional measure, to maintain and adapt to changing circumstances exchange restrictions that were in effect on the date the member joined the Fund; Article XIV does not permit reimposition of pre-existing restrictive exchange practices or introduction of new ones. Current account convertibility was one of the issues discussed at the Board's seminar on issues and developments in the international exchange and payments system held in November 1994.

In the past, many members have been reluctant to abandon transitional status under Article XIV and accept the obligations of Article VIII. Since early 1993, however, a further 19 members have accepted Article VIII obligations, bringing the total to more than one hundred by the end of April 1995.

In dealing with those measures deemed to give rise to an exchange restriction under Article VIII, the Fund's policies are guided by the principle that a direct governmental limitation on the availability or use of foreign exchange for current international transactions constitutes a restrictive measure. In considering temporary approval of a restrictive exchange measure, the Fund considers the seriousness of a member's balance of payments position and its prospect for improvement, the discriminatory nature of the measure, and the length of time the measure has been in effect and the member's intentions regarding its elimination.

Despite the progress made toward the goal of current account convertibility, relatively few developing countries have eliminated all exchange restrictions subject to approval under Article VIII. This is in part a direct result of the continued widespread use of capital controls by developing countries, owing to the difficulty some members have found in separating nontrade current account transactions from capital transactions in administering controls.

Developments in Controls on Import Payments

Comprehensive foreign exchange budgets, including budgets for imports, have traditionally represented the strictest form of exchange restriction. At the end of 1992, such budgets were operating in only 14 developing countries. In contrast, nearly all Fund members maintained some form of import-licensing requirement other than exchange controls. This indicated that virtually all quantitative restrictions now fall under the heading of trade rather than exchange policy.

At the end of 1992, 40 countries, out of 61 developing and industrial countries, had liberalized or eliminated specific quantitative controls on imports; only 6 had tightened them. Some developing countries supplemented their quantitative import controls administered through the foreign exchange system with other exchange-based measures, such as multiple exchange rates, advance import deposit requirements, and various administrative measures and ad hoc restrictions.

Of the 44 countries maintaining multiple exchange rates at the end of 1993, about one third used them to tax or subsidize imports. The multiple exchange rates were used to subsidize essential or priority imports and, therefore, were not being used for quantitative import controls. For most of the countries, these systems were used as a transitional stage in exchange rate adjustment.

At the end of 1992, the use of advance import deposit requirements had declined, with the industrial countries requiring no such deposits. The number of developing countries that still required such deposits dropped to 16, from 21 at the end of 1990.

External Payments Arrears

Payments arrears could involve a particularly severe form of exchange restriction. Their disorderly and often discriminatory nature strikes at the effectiveness of the international system of contracts and payments. During 1990–92, the overall external payments arrears of Fund members increased substantially, totaling an estimated SDR 82 billion at the end of 1992. During the same period, the number of Fund members with external payments arrears also increased, totaling 66 in 1992. That the composition of the group of countries with external payments arrears had changed little since 1986 underlined the extreme difficulty of restoring a country's international financial relations once arrears had been incurred.

Accelerating Current Account Convertibility

Developments in the international payments mechanism over the past decade allowed for more rapid elimination of exchange restrictions and a shorter Article XIV transition. For members that no longer maintain exchange restrictions under the transitional arrangements of Article XIV, virtually no benefit is gained from continuing to avail themselves of such transitional arrangements. These countries are encouraged by the Fund to accept the obligations of Article VIII following an in-depth review by the staff of their exchange systems. To this end, sharpening the focus of Article IV consultations has been a key aspect of the Fund's strategy to accelerate Article VIII acceptances. Consequently, a growing number of nonindustrial countries eliminated all exchange restrictions as part of a comprehensive package of macroeconomic adjustment and experienced a rapid turnaround in capital flows generated by greater confidence and by the liberalization itself.

Because restrictions on trade are now effected mainly by customs rather than exchange mechanisms, members are normally able to settle their balance of payments without recourse to exchange restrictions. Maintaining restrictions through both the customs and exchange system can represent forms of protectionism that can adversely affect global output growth and the development of trade relations.

Box 8

CAPITAL ACCOUNT CONVERTIBILITY

Although the importance of international capital movements has long been recognized for providing vital support to the multilateral trading system and playing a critical role in economic development, the Fund's Articles of Agreement do not extend its jurisdiction to exchange transactions and transfers related to international capital movements. As a result, under the Articles members have been free to restrict capital transfers. The Fund's mandate does, however, include the principle of looking into capital movements as part of its exercise of surveillance over exchange rates.

Industrial Countries

Nearly all industrial countries have now moved toward full capital account convertibility. During 1991–94, those industrial countries that had maintained exchange controls on capital movements moved to eliminate them. Extensive liberalizations took place in Austria, Finland, Greece, Iceland, Ireland, Norway, Portugal, Spain, and Sweden.

Apart from exchange controls, industrial countries had also applied extensive controls on underlying capital transactions, with the most restrictive being on the admission of foreign securities to the domestic capital market. Foreign bank credits and loans unrelated to trade were also more heavily restricted than other types of capital movements. Commercial credits related to international trade, on the other hand, enjoyed a high degree of freedom.

A staff review of selected industrial countries studied the impact of capital account liberalization on the capital accounts of nine industrial countries (Australia, Denmark, France, Italy, the Netherlands, New Zealand, Norway, Sweden, and the United Kingdom) and found that, as might be expected, these countries recorded larger net foreign direct investment outflows in the year of liberalization or in subsequent years. However, in three countries—France, Italy, and the Netherlands— the larger foreign direct investment outflows were more than offset by larger portfolio and other capital inflows.

Developing Countries

The issue of capital account convertibility now affects almost exclusively developing countries. Although the Middle East oil exporting countries, Indonesia, a number of small island economies, and the offshore centers of Singapore and Hong Kong have maintained liberal capital accounts for many years, most developing countries have kept, until recently, tight control of outward capital movements. This slower progress toward capital account convertibility than in industrial countries may be due in part to the more acute shortage of domestic saving in developing countries and the greater perceived risk of capital flight, particularly in those countries with below-market interest rates and unsound macroeconomic policies.

More recently, in the aftermath of the debt crisis and the substantial capital flight that had evaded capital controls, many developing countries shifted their policies toward liberalization of the capital account. The adoption of more realistic exchange rates and the development of more market-based instruments of monetary policy have contributed to progress by some of these countries.

Among some of the measures taken by developing countries during 1991–93 were the liberalization of controls on capital movements (11 countries), foreign direct investment inflows (23 countries), resident domestic operations in foreign currency (25 countries), commercial bank operations in foreign exchange (10 countries), and long-term portfolio inflows (12 countries). None of the countries intensified restrictions on portfolio or direct investment outflows.

The staff's preliminary review of developing countries' experience with extensive liberalization of the capital account suggested a number of common features. Liberalization:

- was undertaken as part of a program of macroeconomic stabilization or structural adjustment;
- occurred in the context of a floating or managed-floating exchange rate;
- either occurred simultaneously with the liberalization of interest rates and the movement to indirect instruments of monetary policy or followed a broader liberalization of the financial system;
- occurred either simultaneously with or following the liberalization of the current account; and
- was accompanied by an overall strengthening of the balance of payments.

jurisdictional responsibilities over capital controls, its surveillance of members' exchange rate policies does extend to capital account transactions. Other Directors were willing to contemplate the possibility of amending the Articles of Agreement to make this jurisdiction more explicit. Some Directors, however, expressed reluctance, noting that in some circumstances the use of capital controls could play a useful role in dealing with exchange rate pressures, and the risk of destabilizing capital flows.

The increased incidence of bilateral and regional arrangements brought about by the accession to membership of the countries of the former Soviet Union was recognized by the Board as being but a brief transition during which multilateral payments instruments are poorly developed. Because such arrangements often give rise to exchange restrictions and multiple currency practices, it was agreed that the Fund would include the elimination of bilateral payments arrangements inconsistent with Article VIII as a performance criterion for upper credit tranche stand-by and extended arrangements.

Members had reduced their recourse to multiple exchange rates, although some Directors noted that multiple currency practices had been used as a transitional measure to more liberal exchange rate regimes in some cases, albeit at the expense of consequent distortions. They, therefore, supported the continuation of the present approval policy for multiple currency practices, which calls for the unification of exchange rates over a specific and appropriately brief period.

ARTICLE IV CONSULTATIONS

Regular consultations between the Fund and member countries are mandated under Article IV of the Fund's Articles of Agreement. Bilateral discussions with each member are usually held once a year, when a staff team visits the country, gathers economic and financial information, and discusses economic developments and policies with officials. On return to Fund headquarters, the staff team prepares a detailed report of the country's performance and prospects. The report is discussed by the Board, which constitutes the consultation with the member. The Managing Director of the Fund, in his capacity as Chairman of the Board, summarizes the views of Directors, and this assessment is then passed on to the country authorities. Table 2 lists the Article IV consultations concluded by the Fund in 1994/95.

This section sets out summaries of the Board discussions during Article IV consultations. All the major industrial countries are reported individually. In addition, overviews of three groups—the smaller industrial countries, economies in transition, and developing countries—are presented, accompanied by reports of selected countries within these groups. These countries were selected because of their importance in the world or regional economy, with some smaller countries included on a rotating basis. For each country, the Annual Report includes a brief description of salient macroeconomic and structural developments in the period leading up to the consultation and a table of data available to the Board at the time of the consultation.

Industrial Countries

United States

Directors concluded the 1994 Article IV consultation with the United States in August 1994, as the U.S. economy entered an advanced stage of the expansion. The economy had grown steadily since the second quarter of 1991 (Table 3), and there seemed to be little slack remaining in U.S. labor and product markets by mid-1994. Growth in real personal consumption expenditures, which was strong in 1992 and 1993, and again in the first quarter of 1994, slowed in the second quarter. The personal saving rate continued to decline, from over 5 percent in 1992 to less than 4 percent in the first half of 1994.

Employment growth accelerated from the sluggish pace set early in the expansion, rising markedly in 1993 and in the first half of 1994 despite continued shedding of jobs through corporate downsizing. Employment gains also became more widespread; early in the recovery, job creation had been concentrated in the service sector, but in the second half of 1993 increased construction activity and rising automobile demand also spurred employment in manufacturing. The unemployment rate was 6.1 percent in July 1994, within the range of estimates of the natural rate of unemployment. Strong demand and the appearance of domestic capacity constraints, together with higher oil prices in the first half of 1994, helped to halt the general decline in inflation rates that began in 1991. Consumer prices advanced by 2.6 percent in the year to June 1995, a rate of increase little changed from a year earlier.

The external current account deficit rose from 1.6 percent of GDP in 1993 to a seasonally adjusted annual rate of 1.9 percent in the first quarter of 1994. The higher deficit was largely the result of a growing imbalance on merchandise trade associated with the strong cyclical position of the United States relative to

Table 2
ARTICLE IV CONSULTATIONS CONCLUDED IN FINANCIAL YEAR 1995

Algeria	May 27, 1994
Angola	Aug. 24, 1994
Argentina	July 18, 1994
Armenia	July 8, 1994
Australia	Feb. 22, 1995
Azerbaijan	June 8, 1994
Bahamas, The	May 16, 1994
Bahrain	May 25, 1994
Bangladesh	Feb. 1, 1995
Barbados	Mar. 31, 1995
Belarus	July 18, 1994
Belgium	Dec. 16, 1994
Belize	Jan. 18, 1995
Bhutan	Oct. 14, 1994
Bolivia	Dec. 19, 1994
Botswana	Nov. 21, 1994
Brazil	Nov. 16, 1994
Burkina Faso	Oct. 17, 1994
Burundi	Sept. 6, 1994
Cambodia	May 6, 1994
Cameroon	Nov. 23, 1994
Canada	May 4, 1994
Cape Verde	Dec. 19, 1994
Chad	Feb. 17, 1995
Chile	July 29, 1994
China	Mar. 22, 1995
Colombia	Jan. 11, 1995
Comoros	Nov. 23, 1994
Congo	May 27, 1994
Costa Rica	Dec. 2, 1994
Croatia	Oct. 14, 1994
Cyprus	Dec. 7, 1994
Czech Republic	July 29, 1994
Denmark	April 14, 1995
Djibouti	June 15, 1994
Dominica	June 15, 1994
Ecuador	May 11, 1994
El Salvador	Oct. 14, 1994
Equatorial Guinea	May 2, 1994
Eritrea	Dec. 7, 1994
Estonia	Apr. 11, 1995
Ethiopia	Nov. 9, 1994
Fiji	Dec. 21, 1994
Finland	Aug. 26, 1994
France	Sept. 7, 1994
Georgia	July 8, 1994
Germany	Sept. 2, 1994
Ghana	June 24, 1994
Greece	July 18, 1994
Guinea	Sept. 23, 1994
Haiti	Mar. 8, 1995
Honduras	Jan. 30, 1995
Hong Kong[1]	Mar. 3, 1995
Hungary	Mar. 24, 1995
Ireland	June 6, 1994
Israel	May 25, 1994
Italy	Mar. 17, 1995
Jamaica	Feb. 10, 1995
Japan	July 27, 1994
Jordan	May 25, 1994
Kazakhstan	Nov. 30, 1994
Korea	Sept. 12, 1994
Kuwait	July 15, 1994
Kyrgyz Republic	Mar. 31, 1995
Lao P.D.R.	Jan. 25, 1995
Latvia	July 15, 1994
Lebanon	Aug. 22, 1994
Lesotho	Sept. 23, 1994
Libya	July 27, 1994
Malaysia	Sept. 23, 1994
Maldives	May 6, 1994
Mali	Oct. 17, 1994
Malta	Dec. 19, 1994
Marshall Islands	May 20, 1994
Mauritania	Jan. 25, 1995
Mauritius	Aug. 26, 1994
Micronesia	May 20, 1994
Moldova	June 3, 1994
Mongolia	Nov. 23, 1994
Morocco	July 11, 1994
Myanmar	Sept. 16, 1994
Namibia	June 8, 1994
Netherlands	May 4, 1994
Netherlands Antilles[2]	June 22, 1994
New Zealand	July 25, 1994
Nicaragua	June 24, 1994
Niger	Feb. 17, 1995
Nigeria	May 2, 1994
Norway	Feb. 8, 1995
Oman	Aug. 22, 1994
Peru	July 22, 1994
Philippines	June 24, 1994
Portugal	Aug. 29, 1994
Qatar	May 23, 1994
Russian Federation	Sept. 21, 1994
San Marino	July 15, 1994
Saudi Arabia	Oct. 21, 1994
Seychelles	Nov. 7, 1994
Slovak Republic	July 22, 1994
Slovenia	Aug. 1, 1994
South Africa	Jan. 30, 1995
Spain	Feb. 15, 1995
St. Lucia	Aug. 5, 1994
St. Vincent and the Grenadines	Oct. 21, 1994
Sudan	Jan. 13, 1995
Suriname	Jan. 18, 1995
Swaziland	July 18, 1994
Sweden	Jan. 20, 1995
Switzerland	Jan. 23, 1995
Syria	Mar. 13, 1995
Tajikistan	Sept. 14, 1994
Tanzania	May 2, 1994
Thailand	July 8, 1994
Togo	Sept. 16, 1994
Trinidad and Tobago	Jan. 20, 1995
Tunisia	Jan. 20, 1995
Turkey	Apr. 21, 1995
Turkmenistan	Feb. 10, 1995
Uganda	Apr. 21, 1995
Ukraine	Oct. 26, 1994
United Kingdom	Oct. 17, 1994
United States	Aug. 31, 1994
Uzbekistan	Jan. 25, 1995
Vanuatu	Feb. 8, 1995
Venezuela	Mar. 1, 1995
Viet Nam	June 8, 1994
Western Samoa	Oct. 19, 1994
Zaïre	June 1, 1994
Zambia	Sept. 23, 1994
Zimbabwe	Sept. 14, 1994

[1]Consultation discussions with Hong Kong are held in the context of the consultation with the United Kingdom.
[2]Consultation discussions with the Netherland Antilles are held in the context of the consultation with the Kingdom of the Netherlands.

its trading partners. However, net investment income receipts also declined steadily owing to the growing net external indebtedness of the United States.

In their discussion, Directors observed with satisfaction that, since the last consultation, the U.S. economy had continued to expand at a strong pace, while the rate of inflation had remained subdued. They observed that the favorable performance of the economy had been supported by the authorities' efforts to address the fiscal problem and the skillful management of monetary policy.

Directors generally agreed that monetary policy needed to focus on slowing demand growth to a pace consistent with sustainable non-inflationary growth. Directors, therefore, welcomed the Federal Reserve's actions to tighten monetary conditions ahead of clear-cut evidence of a rise in inflation. They stressed the need for the authorities to react quickly to any signs of emerging inflationary pressures in order to preserve and strengthen the progress that had been made toward price stability. Several Directors commented that a further increase in short-term interest rates could be justified for domestic reasons, and some considered that such action would also support the dollar.

Table 3

UNITED STATES: SELECTED ECONOMIC INDICATORS

(Annual percent change unless otherwise noted)

	1991	1992	1993	1994[1]
Domestic economy				
Real final domestic demand	–1.2	2.5	3.7	4.3
Real GDP	–0.7	2.6	3.0	3.9
Employment	–0.9	0.6	1.5	. . .
Unemployment rate[2] (in percent of labor force)	6.7	7.4	6.8	6.3
Consumer price index	4.2	3.0	3.0	2.6
External economy[3]				
Current account balance	–0.1	–1.1	–1.6	–2.3
Trade balance	–1.3	–1.6	–2.1	–2.5
Invisibles balance	1.2	0.5	0.4	0.3
Financial variables				
General government balance[3]	–3.4	–4.5	–3.5	–2.6
Federal[3]	–3.6	–4.6	–3.6	. . .
Personal saving rate[4]	5.0	5.5	4.1	. . .
Gross private investment[3]	12.9	13.2	14.0	. . .
Growth rate of M2[5]	2.9	1.9	1.4	. . .
Three-month treasury bill interest rate[2]	5.4	3.4	3.0	4.4
Ten-year government bond interest rate[2]	7.9	7.0	5.9	6.9

Note: Data in the table reflect information available at the time of the Board discussion.
[1]Projected.
[2]Yearly average.
[3]On a national accounts basis and in percent of GDP.
[4]As a percentage of disposable personal income.
[5]Four-quarter change, in percent.

Directors noted that the implementation of the medium-term fiscal program adopted in August 1993 would contribute significantly to fiscal adjustment in fiscal years 1994 and 1995. After fiscal year 1995, however, the deficit was expected to begin to grow again, and the federal debt-to-GDP ratio would resume its rise from already high levels. At the same time, the U.S. national saving rate would remain below historical and international norms. Against this background, there was a broad consensus among Directors that further fiscal consolidation was needed to reverse the upward trend in the debt-to-GDP ratio, restore national saving to adequate levels, and support investment.

The priority for fiscal policy, Directors believed, was to ensure that the pace of fiscal consolidation was maintained after fiscal year 1995. Therefore, they encouraged the authorities to adopt measures sufficient to achieve a further substantial reduction in the deficit, beginning in the budget for fiscal year 1996. A number of Directors observed that the goal of fiscal consolidation should include more effective control over the growth of spending on entitlement programs. Noting the constraints already placed on discretionary outlays and the difficulty of achieving reductions in mandatory spending, Directors emphasized the need to consider revenue measures, especially those that minimized adverse effects on economic efficiency and private saving.

Directors noted that, despite the recent weakness of the dollar against the yen and the deutsche mark, the effective value of the dollar was little changed from its average of the past several years. Renewed pressures on exchange markets could not be ruled out, given the large U.S. external current account deficit and the prospects that it would remain large well into the medium term. Directors welcomed the recent assurance by the Secretary of the Treasury that the dollar was not a tool of trade policy and that its weakness was a matter of concern to the U.S. Government. Several Directors emphasized that, in their view, the deterioration in the U.S. external balance on current and long-term capital accounts was at the root of the recent weakness of the dollar. Against this background, Directors stressed the importance of strengthening the fundamentals—particularly through additional fiscal adjustment, which would help to ensure that the process of correcting the external imbalance does not place an excessive burden on domestic investment.

Directors welcomed the authorities' commitment to achieve a timely ratification of the Uruguay Round agreement. They encouraged the authorities to continue to support the free trade system and refrain from restrictive trade practices. Directors noted the important role played by the United States in assisting developing countries, but they expressed concern about the decline in the share of GDP devoted to official development assistance.

Japan

Directors met at the end of July 1994 to discuss the Fund's Article IV consultation with Japan amid signs of a mild recovery from three years of economic downturn (Table 4).

Following a "bubble" period of rapid output growth in the Japanese economy during 1987–90, the economy entered a period of stagnant activity in late 1991. Output rose briefly in early 1993 but then faltered again, mainly owing to the appreciation of the yen that began in mid-1992 and to continued adjustments to excess capital stock accumulated during the bubble period. A further yen appreciation between mid-June and mid-July 1994 raised concerns that the recovery could be derailed. The rise was small, however: only 3 percent in nominal effective terms, compared with a 25 percent nominal effective appreciation from mid-1992 to mid-1993. The other chief factor prolonging the recession—depressed investment activity—showed only mixed signs of improvement by mid-1994, with full adjustment expected to take a number of years.

Flagging domestic demand had led the Government to provide compensatory, countercyclical support through four major fiscal packages between August 1992 and February 1994. The February plan cut taxes in fiscal year 1994 in anticipation of an envisaged permanent income tax cut combined with a lagged increase in consumption taxes. On the monetary side, the weakening in aggregate demand had been cushioned from mid-1991 by declines in nominal interest rates. In real terms, however, these effects were partially offset by declining inflation.

Japan's current account surplus, having risen sharply in 1991–92, widened moderately to a high of $131 billion in 1993, although as a proportion of GDP it remained stable at 3 percent—well below the peak of 4.2 percent in 1986. The increase in dollar terms mainly reflected cyclical factors and the terms of trade improvement arising from exchange rate appreciation. As regards import penetration, despite a rapid rise in the volume of manufactured imports from the mid-1980s on, Japan's ratio of manufactured imports to GDP remained the lowest among industrial countries.

In June 1994, the Government announced a five-year deregulation plan and a package of deregulation measures in four areas: housing and land use; information and communications; import promotion, market access, and distribution; and the financial sector. Many specifics of the initiatives, however, remained to be determined.

In their discussion, Directors noted the indications that the recession in Japan had bottomed out and that a recovery, although moderate and gradual, appeared to be under way. Directors also pointed out, however, that there were downside risks and that the recovery was fragile, owing in particular to the yen's further appreciation, continued weakness in business investment, and remaining problems in the banking sector.

Directors welcomed the fiscal and monetary measures introduced during the cyclical downswing, including the most recent packages, as providing much-needed support to economic activity, although some considered that earlier and more forceful action would have been warranted. On macroeconomic policy, many Directors considered that a further reduction in interest rates would not be effective, although others felt that a further cut in the official discount rate would be desirable. On the fiscal side, Directors observed that, owing to earlier fiscal packages, substantial stimulus was in place for 1994. In this context, Directors welcomed the 1994 income tax cut and supported the tax reform currently under consideration.

Most Directors believed that the large increase in the budget deficit in the past few years, including its structural component, imposed a constraint on further measures, and that fiscal consolidation should be resumed once the recovery was under way, particularly in view of such long-term considerations as the rapid aging of the population. Directors agreed that a renewed consolidation effort, including an increase in the consumption tax and a reform of the pension system, would be required in the period ahead to avoid rapid growth of the public debt in the long run.

As regards structural measures, all Directors urged the authorities to strengthen their efforts to remove structural rigidities, promote deregulation, and open up markets. Directors stressed the need for the recently launched broad initiatives to be quickly translated into concrete measures, especially in the areas of distribution, transportation, telecommunications, construction, and land use. Many Directors emphasized that broadly based market opening would raise consumer welfare and standards of living both in Japan and abroad, and that this would be the best antidote to protectionist pressures.

Several Directors observed that the banking system remained burdened by a large amount of nonperforming and restructured loans. They welcomed the recent initiatives to strengthen rehabilitation, but a number of Directors suggested the need to supplement those initiatives with improved disclosure requirements and the expeditious development of a secondary market for nonperforming loans. Directors also welcomed the continuation of financial sector reform and the completion of interest rate liberalization.

Directors noted that the current account surplus had widened markedly since 1990, owing in part to cyclical developments. They felt that the surplus would decline somewhat in the medium term, since a sustained recovery of domestic demand would eliminate the cyclical component. Nevertheless, the surplus, given its important structural component, was likely to remain significant in the medium term. Most Directors did not see this as a problem in itself, since the surplus would make a much-needed contribution to the pool of global saving, as long as it was not the result of structural rigidities in the economy. Some Directors felt that a further reduction in Japan's surplus over the medium term would be desirable, in light of what they viewed as the country's excess saving engendered in part by structural rigidities and distortions. A view was expressed that the low level of import penetration in Japan might be contributing to distortions in the saving-investment balance, which, in turn, hindered long-term growth prospects. Most Directors, while noting that structural rigidities and distortions should be eliminated on their own right, felt that the impact of structural reforms on the current account balance remained uncertain.

Table 4
JAPAN: SELECTED ECONOMIC INDICATORS
(Annual percent change unless otherwise noted)

	1991	1992	1993	Proj. 1994
Domestic economy				
Domestic demand	2.9	0.4	0.3	1.7
Real GDP	4.3	1.1	0.1	0.9
Unemployment rate (level, in percent)	2.1	2.2	2.5	3.0
Consumer price index	3.3	1.7	1.3	0.7
External economy				
Exports, f.o.b. (in billions of U.S. dollars)	306.6	330.9	351.3	372.8
Imports, c.i.f. (in billions of U.S. dollars)	203.5	198.5	209.9	230.5
Current account balance (in billions of U.S. dollars)[1]	72.9	117.6	131.4	34.9[2]
Current account balance (in percent of GDP)	2.2	3.2	3.1	2.9
Overall balance (in billions of U.S. dollars)	–17.1	–1.4	23.5	6.1[2]
Real effective exchange rate (relative normalized unit labor cost; 1990 = 100)	107.5	111.8	135.8	149.0[3]
Financial variables				
General government balance (in percent of GDP)	3.0	1.8	–0.6	–2.7
Gross national saving (in percent of GDP)	34.6	34.4	33.4	32.2
Gross domestic investment (in percent of GDP)	32.5	31.2	30.3	29.3
Broad money (M2 plus CDs, period average)	3.6	0.6	1.1	1.7
Interest rates				
Three-month CD rate (average)	7.2	4.3	2.8	. . .
Official discount rate (end of period)	4.5	3.3	1.8	. . .

Note: Data in the table reflect information available at the time of the Board discussion.
[1]Sum of the seasonally adjusted trade balance and the seasonally unadjusted invisibles balance.
[2]Actual, first quarter of 1994.
[3]As of June 1994.

Many Directors encouraged the authorities to address trade issues within a multilateral framework, and some expressed concern that the focus on bilateral discussions of sectoral and trade issues threatened to lead to market sharing and managed trade arrangements.

Directors welcomed Japan's leading position as a provider of foreign assistance, including its important contribution to the enlarged and enhanced ESAF and to the Fund's technical assistance. They expressed the

Table 5
GERMANY: SELECTED ECONOMIC INDICATORS
(Annual percent change unless otherwise noted)

	1991	1992	1993[1]	1994[2]
Domestic economy (west Germany)				
Total domestic demand (percent change at 1991 prices)	3.6	1.5	−2.6	0.1
GDP (percent change at 1991 prices)	4.5	1.6	−1.9	1.2
Unemployment (in percent of labor force)	5.5	5.8	7.3	8.4
Average hourly earnings in industry	7.3	7.0	6.0	3.5
Unit labor costs in total economy	4.1	4.8	3.5	—
Consumer price index	3.5	4.0	4.1	3.0
Domestic economy (east Germany)				
Real GDP	−28.6	9.7	7.1	8.0
Real investment	33.4	24.0	15.6	13.6
Unemployment (in percent of labor force)	10.8	14.8	15.1	15.7
Consumer price index	. . .	11.1	8.9	3.5
External economy				
Current account balance (in billions of deutsche mark)	−32.2	−34.4	−35.2	−19.3
Nominal effective exchange rate (1990 = 100)	98.9	101.7	104.6	104.4[3]
Financial variables				
General government balance (in percent of GNP)	−3.2	−2.6	−3.3	−2.8
Money and quasi-money (M3; percent change in annual average)	10.7	8.5	8.2	. . .
Three-month money market rate (period average, in percent)	9.2	9.5	7.2	5.5[4]
Yield on government bonds (period average, in percent)	8.6	8.0	6.3	6.2[4]

Note: Data in the table reflect information available at the time of the Board discussion.
[1]Preliminary.
[2]Projected.
[3]June 1994.
[4]Average January–June.

hope that the recent decline in disbursements of official development assistance relative to GDP would be reversed, with a view to achieving the United Nations target at an early date.

Germany

The 1994 Article IV consultation with Germany was considered by Directors in September 1994, as the German economy continued to emerge from the severe recession that began in 1992. The downturn bottomed out in the course of 1993 (Table 5), and the economy then moved into an export-led recovery phase in which output fluctuated about an apparent gentle uptrend. Weak domestic demand persisted in west Germany as consumption remained flat in the first quarter of 1994 after stagnating in 1993. Disposable incomes were under pressure from tax increases, pay restraint, and a sharp decline in employment. But by early 1994 a modest recovery was taking shape in west Germany, while preliminary estimates indicated that strong growth in east Germany was continuing.

Despite the stabilization of output in west Germany and recovery in east Germany, total employment continued to fall in 1993 and early 1994. In west Germany, restructuring in the manufacturing sector aggravated labor shedding, and employment continued to decline through May 1994 despite the nascent recovery. Unemployment in west Germany rose from a low point of $5\frac{1}{2}$ percent of the labor force in early 1992 to stand at $8\frac{1}{4}$ percent in June 1994. In east Germany, meanwhile, growth appeared to create little or no employment, and the jobless rate continued to rise in the early months of 1994.

The widening gaps in output and labor markets helped to make inflationary pressures recede. After running at around 4 percent in 1992 and much of 1993, despite stable producer prices and declining import prices, west German consumer price inflation began to decline in 1994 in the face of weak demand and sluggish labor cost growth. At the same time, there was a marked fall in consumer price inflation in east Germany, which for several years had been well above the west German rate.

Fiscal policy in 1993 and 1994 continued to emphasize measures to reduce the deficits incurred to meet the cost of German unification. The 1994 budget plans of the territorial authorities implied a lowering of the general government deficit to $2\frac{3}{4}$ percent of GDP, despite the weakness of the economic recovery. After a pause around the turn of 1993–94 as money growth accelerated, the easing in monetary conditions resumed in April 1994. At around 5 percent at the end of June 1994, three-month money market rates were approximately half their peak levels in August 1992.

In their review of the German economy, Directors observed that, even with a recovery in economic activity, unemployment would remain among the most serious problems facing policymakers. This underscored the need for continued reform to increase the flexibility of the labor market, including the need to increase the flexibility of the collective wage-bargaining system itself. Although overall wage increases had moderated noticeably in recent months, high unemployment among less-skilled workers would persist unless steps were taken to increase wage differentiation, especially at the lower end of the scale.

Directors welcomed progress made in reducing the structural deficit of the general government. They strongly supported the intention of the authorities to reduce the deficit of the general government further, as well as the objective of rolling back the high burden of taxes and social security contributions. The emphasis placed by the authorities on curbing the growth in public spending was strongly supported by Directors. However, Directors emphasized that a further round of selective, well-targeted expenditure cuts would be required to create scope for a substantial decline in the revenue burden. They affirmed that wage restraint in the public sector, while helpful, was unlikely to be sufficient.

As Directors had mentioned previously, further steps to scale back subsidies to agriculture, coal mining, and the old industrial core in eastern Germany would need to be key elements in any fiscal retrenchment program. Measures would also be required to reduce overstaffing in the public sector, improve the targeting of social welfare benefits, and adapt arrangements for pensions and health care.

Directors generally agreed that, in light of the uncertainties about the medium-term inflation outlook generated by the continued substantial overshooting of the target path for broad money, the pause in official interest rate reductions since May 1994 was understandable, and it was generally agreed that the level of short-term interest rates was broadly appropriate. In that connection, a number of Directors observed that over the medium term, monetary targeting had contributed to keeping inflation in check in Germany and should be maintained as a framework for policy. However, it was felt that the forces at the root of the current overshooting should be carefully re-examined, and that more reflection was needed on the best instruments to guide monetary policy. Nevertheless, most Directors expected the rate of inflation—and money growth—to decelerate in the months ahead, thus allowing for a further decline in short-term interest rates, which in turn would support a more robust and broadly based upturn of domestic demand in Germany.

France

When the Board considered the 1994 Article IV consultation with France in September 1994, French economic growth had resumed (Table 6) after the sharpest recession since the Second World War. During the downturn, consumption was particularly sluggish, with its rate of growth falling for four successive

Table 6

FRANCE: SELECTED ECONOMIC INDICATORS

(Annual percent change unless otherwise noted)

	1991	1992	1993	1994[1]
Domestic economy				
Total domestic demand	0.6	0.2	–1.9	1.8
Real GDP	0.8	1.2	–1.0	1.7
Employment	0.1	–0.5	–1.6	–0.4
Unemployment (in percent of total labor force)	9.4	10.1	11.7	12.4
Unit labor costs in manufacturing	3.9	0.2	3.2	0.8
Consumer price index	3.2	2.4	2.1	1.8
External economy				
Export volume[2]	4.2	5.1	–2.5	. . .
Import volume[2]	3.1	1.2	–5.9	. . .
Trade balance (in billions of francs)	–56.4	9.4	40.0	39.2
Effective exchange rate (MERM)[3]	–2.6	3.7	0.5	–0.4[4]
Financial variables				
General government balance (in percent of GDP)	–2.2	–3.9	–5.8	–5.6
Broad money (M3)	2.5	5.2	–1.5	–4.3[5]
Three-month interbank money rate	9.7	10.4	8.4	6.0[4]
Government bond yield	9.0	8.6	6.8	6.6[4]

Note: Data in the table reflect information available at the time of the Board discussion.

[1]Projected.

[2]National accounts basis.

[3]Based on the Fund's multilateral exchange rate model; a positive figure indicates an appreciation.

[4]Average to July 29, 1994.

[5]First quarter of 1994 over the first quarter of 1993.

years. Consumer confidence in 1993 declined to its lowest ebb since household surveys began, and the fall in investment was similar to those that occurred after the oil shocks of the mid-1970s and early 1980s. Although output growth turned positive in the second quarter of 1993, real GDP contracted by 1.5 percent in 1993, and the recovery gathered pace only in early 1994.

Unemployment increased continuously from 1990 until mid-1994, when it reached 12.5 percent, a postwar record, before beginning to fall later in the year. A sharp drop in employment in 1993 was concentrated in the private nonagricultural sector, and especially in manufacturing. A notable feature of the labor market in 1993 was the rise in part-time unemployment through a program of temporary layoffs, encouraged by an increase in the government subsidy to those temporarily laid off. The public (nonmarket) sector was the only area in which additional jobs were created in 1993, partly through the increase in employment programs.

Inflation remained low during 1993, with a small rise in the GDP deflator relative to 1992 (2.5 percent) and a continuing reduction in the rate of increase of consumer prices. Wholesale price increases were moderate as a result of the recession, and to some degree because of lower prices for intermediate imported inputs. In January 1994 the Bank of France became independent in the conduct and formulation of monetary policy, with a mission to pursue price stability "within the general framework of the government's economic policy." The Bank of France stated in its 1993 annual report that it planned to pursue price stability through maintaining the stability of the French franc within the exchange rate mechanism (ERM) of the European Monetary System (EMS) and through keeping the money supply within a range compatible with noninflationary economic growth.

The recession had an adverse impact on public finances, lifting the general government deficit, which was among the lowest of the industrial countries in the early 1990s, to levels well above the average. The economic downturn led to a decrease in tax revenues, an increase in social security payments, and a widening of the general government deficit from 1.6 percent of GDP in 1990 to 6.1 percent of GDP in 1993.

In their discussion, Directors acknowledged that France's relatively high general government deficit was, to some extent, the result of the unfavorable cyclical position. They accepted that the economic recovery should in time reduce the actual deficit to its structural level of about 4 percent of GDP, but they observed that this was still too high. Directors commended the authorities for their Convergence Plan, which formulated a medium-term objective for the general government deficit of 2 percent of GDP. They expressed concern, however, over whether these targets would be met. One danger was the risk that high real long-term interest rates would depress output and add to debt-servicing costs. More fundamentally, Directors questioned whether the reforms of social security would be far-reaching enough to contain expenditure to planned levels.

In considering the causes of the high rate of unemployment in France, Directors pointed to the unfavorable effects of high social charges and the level of the minimum wage, both of which affected low-skilled workers most. Directors endorsed the authorities' objective of substituting a more broadly based tax for social charges on labor income, but noted that employers' contributions would still remain above those in most industrial countries. They urged the authorities to find a way to lower labor costs for low-skilled workers, to make training programs more efficient and transparent, and to explore channeling a portion of unemployment benefits to employers in the form of employment subsidies.

Several Directors believed that monetary policy could be more responsive to domestic indicators, but most other Directors supported the authorities' cautious approach to monetary easing and their conviction that exchange rate stability was essential in maintaining the credibililty of monetary policy. In the discussion, the argument was also advanced that achieving the long-term objective of monetary union required exchange rate stability.

United Kingdom

Directors met in October 1994 to discuss the staff report for the Article IV consultation with the United Kingdom. Because no consultation had been held in the previous year (owing to a change in the country's budget cycle that affected the timing of the discussion), Directors took up economic developments in the United Kingdom over the past two years. It is expected that the next Article IV consultation will be held on the standard 12-month cycle.

At the time of the discussion, the economic performance of the United Kingdom had improved steadily since the lowpoint of the recession in mid-1992. Annual growth of real GDP, which reached 2 percent in 1993, accelerated to near 4 percent in the second quarter of 1994, and unemployment had declined significantly (Table 7). The September 1992 departure from the ERM was credited with bolstering the recovery by allowing for an easing of overall monetary conditions. The resulting increase in private consumption fueled growth throughout 1993, while a pickup in exports was an important contributor to growth in the first half of 1994. Investment began its recovery later in 1993, however, and had not yet reached its prerecession levels.

Despite rising demand during the period, inflation in the United Kingdom remained exceptionally low, largely because the 1990–92 recession left considerable room for noninflationary growth. Underlying inflation fell to 2.2 percent in July 1994, its lowest rate in decades. The improvement in the labor market was also favorable—unemployment fell from its high of 10.6 percent in December 1992 to 9.2 percent in August 1994. The growth of average earnings had stabilized at 3.8 percent.

Since leaving the ERM, the United Kingdom's external cost competitiveness had increased by 10 percent, with non-oil exports rising by over 9 percent in the year up through the second quarter of 1994. Over the same period, import growth was a moderate 5 percent. Reflecting these movements, the current account deficit narrowed to 0.7 percent of GDP in the second quarter of 1994. In addition, positive financial market sentiment benefited sterling during 1993, helping it to recover about a third of its post-ERM depreciation. Sterling remained stable in 1994, but the gilt market weakened when world markets stumbled, and long-term sterling interest rates rose to about 9 percent.

In 1993, the U.K. authorities took steps to tackle the country's large fiscal imbalance by proposing a plan for medium-term fiscal consolidation. Revenue measures included several significant tax increases, the implementation of which was phased through April 1995 in order to protect the recovery. Expenditures were to be restrained, including a freeze on running costs. The plan aimed to eliminate public sector borrowing by the end of the decade.

In their review, Directors commended the U.K. authorities on the economy's impressive performance since the February 1993 consultation. They noted that during 1994 the recovery gained strength and became better balanced, while inflation fell to a very low level. Directors observed that policies had been implemented in a well-judged manner and particularly welcomed the medium-term fiscal consolidation and supporting monetary policies. They noted, however, the declining trend in private saving and the limited recovery in investment.

Directors considered that the authorities were likely to face greater challenges in the future as the recovery became more mature and slack was absorbed. Moreover, Directors commented that the authorities' policy credibility, while strengthening, was still not robust—as reflected in the rise in long-term interest rates. In this regard, it was important that the authorities met their announced policy intentions. They emphasized that redressing the budgetary imbalance would be essential to sustain the recovery. Although encouraged by the fact that public borrowing had been below its targeted path, Directors advised the authorities to continue to use unanticipated favorable developments to reduce the deficit faster.

Table 7
UNITED KINGDOM: SELECTED ECONOMIC INDICATORS
(Annual percent change unless otherwise noted)

	1991	1992	1993	1994[1]
Domestic economy				
Real domestic demand	–3.1	0.3	2.1	2.8
Real GDP	–2.0	–0.5	2.0	3.3
Employment	–3.1	–2.5	–1.0	0.2
Average unemployment rate (in percent of labor force)	8.1	9.8	10.3	9.4
Retail price inflation	6.8	4.7	3.0	2.5
External economy (in billions of pounds)				
Exports	103.4	107.3	121.4	131.0
Imports	113.7	120.4	134.6	141.5
Current account balance	–8.2	–9.8	–10.3	–3.7
Invisibles balance	2.1	3.3	2.9	6.8
Nominal effective exchange rate (period average, 1990 = 100)	100.79	96.89	88.80	89.22[2]
Financial variables				
General government receipts[3] (in billions of pounds)	221.2	219.6	228.0	249.8
General government expenditure[3] (in billions of pounds)	244.2	268.4	283.4	295.2
M0	2.4	2.4	4.9	6.1[2]
M4	5.6	3.1	5.1	5.5[2]
Three-month interbank interest rate	11.5	9.6	5.9	5.2[4]
Ten-year government bond yield	10.1	9.1	7.5	8.3[4]

Note: Data in the table reflect information available at the time of the Board discussion.

[1]Fund staff projections unless otherwise indicated.

[2]Preliminary 1994 average based on available data.

[3]Excluding privatization proceeds. Outturn figures from Central Statistical Office for fiscal years 1991/92, 1992/93, and 1993/94, and from proposed budget in Financial Statement and Budget Report for fiscal year 1994/95.

[4]Second quarter of 1994.

Successful fiscal consolidation, Directors commented, would depend on holding down government expenditures. They emphasized firm adherence to the freeze on running costs and continued progress on fundamental expenditure reviews. Directors agreed that the recent tax measures were broadly appropriate and strongly advised against tax cuts until public borrowing was firmly under control.

Directors welcomed the firm commitment to low inflation embodied in the monetary policy framework adopted after departure from the ERM. They expressed satisfaction with the performance of underlying inflation, which had already moved into the lower half of the 1–4 percent target range. In this regard, Directors endorsed the recent increase in interest rates as a prudent way of heading off inflation and building credibility.

Directors also commended recent steps to enhance transparency and accountability in monetary policy, which are particularly important given that the authorities' conduct of monetary policy involves considerable judgment. Those steps should help to ensure that decisions are guided solely by considerations of monetary and financial stability. In addition, Directors recommended that the authorities solidify their commitment to a low and stable inflation rate and keep well within European Union convergence objectives.

In the area of structural policies, Directors welcomed the progress in privatizing public enterprises. Further, although structural unemployment remained high, they recognized the United Kingdom's leadership in improving labor utilization, increasing industrial productivity, and gearing policy toward improving the process of wage determination. Directors suggested that further measures, including training programs, may be needed to alleviate the remaining unemployment.

Finally, Directors encouraged the authorities in their commitment to liberal trade policies and commended them for their official development assistance. They urged that such assistance be increased toward the United Nations target of 0.7 percent of GDP.

Italy

Directors considered the 1994 Article IV consultation with Italy in March 1995, against a background of an economic recovery that had accelerated while financial market pressures on the lira and interest rate differentials persisted. In the first three quarters of 1994, GDP grew by 2.2 percent over the same period a year earlier. Exports continued to grow at strong rates, given the considerable competitiveness gains and the expansion of demand in partner countries, but imports also picked up as domestic demand revived (Table 8).

The economic upswing was still in its early stages at the time of the Executive Board discussion, and, as in past recoveries, its effects had yet to be reflected in general labor market conditions. Despite a continued fall in participation rates, unemployment rose further in 1994 to a year average of 11.5 percent. Employment continued to decline, with particularly intense labor shedding in the services sector, bringing the cumulative loss of jobs from the previous peak at the end of 1991 to 1.4 million, a much larger fall than in previous recessions.

The wage restraint stemming from slack labor market conditions and adherence to the guidelines of the new collective bargaining system served to moderate inflation. The 12-month increase in consumer prices reached a low of 3.6 percent in mid-1994 but edged up again to average 3.9 percent during the year. Although above the official target of 3.5 percent, this outcome was nonetheless the lowest annual rate recorded in 25 years.

Private saving is estimated to have recovered in 1994 from the historical low level reached in 1993, while the gap between public saving and investment is estimated to have improved marginally following the contraction in public works. The external current account surplus is estimated to have increased slightly, to about 1.5 percent of GDP, while official foreign reserves remained broadly stable as the current account surplus was offset by capital outflows.

In contrast to the generally positive developments in the real economy, the fiscal situation remained critical. In 1994, the planned "pause" in the process of fiscal adjustment resulted instead in a backtracking, with the primary surplus falling to 1.1 percent of GDP (from 1.8 percent of GDP in 1993). In addition, overoptimistic interest rate assumptions underlying the 1995 budget required further corrective measures in March 1995. These measures, and stronger-than-expected growth in 1995, were viewed—at the interest rates prevailing at the time of the Board meeting—as sufficient to achieve the 1995 target for the overall balance (a deficit of some 8 percent of GDP) and to stabilize the debt-to-GDP ratio in 1995, a year earlier than envisaged in the Government's three-year plan.

In their review, Directors noted that, over the past year, positive macroeconomic developments had been overshadowed by the looming threat of a confidence crisis, evidenced by financial market anxieties. They stressed that the economic recovery presented the opportunity to restore confidence by making rapid and durable progress in fiscal consolidation. Several Directors emphasized that Italy needed a binding and ambitious medium-term fiscal strategy. Otherwise, persistent market tensions threatened a vicious circle in which inflationary pressures would increase and the recovery could be smothered.

Table 8
ITALY: SELECTED ECONOMIC INDICATORS
(Annual percent change unless otherwise noted)

	1991	1992	1993	1994[1]
Domestic economy				
Total domestic demand	1.9	0.8	–5.0	2.3
Real GDP	1.2	0.7	–0.7	2.5
Employment[2]	0.8	–0.9	–2.9	–2.7
Unemployment (in percent of total labor force)[2,3]	8.8	10.7	10.4	11.5
Unit labor costs in manufacturing	7.5	3.1	1.4	–1.6
Consumer price index	6.3	5.3	4.4	3.9
External economy[4]				
Export volume	0.1	3.8	8.5	10.4
Import volume	4.5	3.4	–10.4	10.1
Trade balance (in percent of GDP)	—	0.3	3.3	3.4
Effective exchange rate	–2.4	–2.4	–18.7	–4.7
Financial variables				
General government balance (in percent of GDP)	–10.2	–9.5	–9.5	–9.2
Broad money (M2)[5]	8.3	6.0	7.9	2.8
Six-month treasury bill rate[6]	12.5	14.4	10.5	9.1
Ten-year treasury bonds (gross)[6]	13.3	13.3	11.2	10.6

Note: Data in the table reflect information available at the time of the Board discussion.
[1]Estimates.
[2]Series broken in 1992 by methodological survey revision; pre-1992 series reconstructed by Bank of Italy.
[3]Excluding workers in Wage Supplementation Fund.
[4]Volumes are customs basis; trade balance is balance of payments basis.
[5]Growth rate used for target monitoring, that is, moving average of last three months.
[6]Period average.

Directors welcomed the important step that had been taken toward fiscal consolidation with the Government's corrective budget package. They noted that the package was aimed not only at safeguarding the 1995 fiscal targets, which were judged to be an indispensable minimum, but also at going further, making it possible to stabilize the public debt as a share of GDP beginning in 1995, as the Board had recommended at the time of the 1994 discussion. Directors welcomed the inclusion in the package of permanent measures aimed at reducing the debt-to-GDP ratio. This was a welcome shift from the heavy reliance in the 1995 budget on one-off measures of uncertain yield.

Directors stressed the need to avoid slippages from the current targets and to take further action to tackle long-standing expenditure rigidities. They strongly supported the Government's priority to implement a major structural reform of Italy's public pension system. This reform was needed to ensure the system's solvency and to relieve a growing burden on the public finances. They also welcomed the Government's intention to advance the timetable for the preparation of the 1996 budget, along with that of the new three-year plan. Directors believed that the current medium-term fiscal plan was not ambitious enough. They advocated the acceleration of fiscal consolidation, with targets consistent with those required for participation in European integration.

Directors considered that the 1995 inflation target was beyond reach and expressed concern about the risk of a resurgence in inflation arising mainly from the persistent weakness of the lira. This, in turn, reflected the market's lingering skepticism about the prospects for sustained fiscal adjustment, and Directors thus viewed rapid and visible progress on the fiscal front as essential to forestall an upsurge of inflation. Directors stressed the critical role monetary policy needed to play in achieving and preserving price stability. There was general agreement in the Board that, with the lira outside the ERM, the monetary authorities needed to help anchor expectations by building credibility for their commitment to price stability. Directors noted that a strengthening of the lira would support disinflation without placing undue pressure on the external accounts. They viewed the depreciated level of the lira as related mainly to fiscal and political concerns and agreed that the authorities should not try to engineer an appreciation through monetary policy. In such circumstances, ERM re-entry was not seen to be a viable option.

Directors pointed out the importance of key structural reforms that would enhance the flexibility and efficiency of the economy and increase the employment content of growth. They noted that unemployment had remained high even as the economy was recovering, with the situation in the south being of particular concern. Directors welcomed steps already taken to improve labor market flexibility, but they called for a bolder and more comprehensive approach to reducing the costs of hiring and firing, reforming the unemployment benefits system further, and promoting greater mobility and wage differentiation in the public sector. Directors also welcomed the acceleration of plans for privatization, but they cautioned that this schedule needed to be consistent with the program's long-term efficiency goals.

Canada

Directors met in May 1995 to discuss the staff report for the 1995 Article IV consultation with Canada. The discussion took place against a background of stronger and more broadly based Canadian economic growth during 1994. Surging exports outpaced imports (Table 9), and strong growth in profits fueled growth in nonresidential fixed investment. Also, a pickup in employment growth and an associated rise in consumer confidence led to a strengthening of private consumption, despite a run-up in interest rates and sluggish growth in personal income. Rising interest rates dampened growth in residential investment, and fiscal restraint at all levels of government acted as a brake on demand.

The unemployment rate fell from 11.2 percent at the end of 1993 to 9.7 percent in March 1995 as employment growth accelerated sharply. Notably, the increase in employment in 1994 was largely among full-time workers, whereas in the previous two years part-time workers accounted for virtually the whole increase. Inflation remained low in 1994, despite the large depreciation of the Canadian dollar and the rise in industrial product prices, mainly because of the slack that still remained in the economy.

The external current account deficit fell sharply in the second half of 1994 to 2.7 percent of GDP, from 3.9 percent of GDP in the first half of 1994 and 4.3 percent of GDP in 1993. The large depreciation of the Canadian dollar since 1991, the decline in unit labor costs, and the cyclical recovery in the United States contributed to strong growth in export volume during 1993 and 1994. Import volume growth also accelerated, owing to the large import content of exports (especially automobiles) and investment goods.

The 1995/96 budget presented to parliament in February 1995 introduced measures to achieve the interim deficit target for 1996/97 that was announced in the previous year's budget. In particular, the measures were expected to achieve a reduction in the deficit to Can$32.7 billion (4.2 percent of GDP) in 1995/96, and to Can$24.3 billion (3 percent of GDP) in 1996/97. The budget initiatives were concentrated in the area of spending cuts, focusing largely on business and agricultural subsidies.

In their review, Directors observed that, since the last Article IV consultation, Canada's economic performance had been favorable in many areas: economic growth was robust, the unemployment rate had dropped markedly, inflation continued to be low, and there had been a significant improvement in the external current account. However, they emphasized that the fiscal situation continued to be difficult despite the authorities' efforts. They also considered that over the period ahead it would be important to ensure that aggregate demand was kept within the limits of potential output, so that inflation remained subdued.

Directors noted that the measures announced in the February 1995 budget showed the authorities' commitment to the goal of fiscal consolidation. However, they stressed the need for a faster and more front-loaded fiscal

Table 9
CANADA: SELECTED ECONOMIC INDICATORS
(Annual percent change unless otherwise noted)

	1992	1993	1994	1995[1]
Domestic economy				
Total domestic demand	0.3	1.8	2.9	3.0
Real GDP	0.6	2.2	4.5	4.3
Unemployment (in percent of labor force)	11.3	11.2	10.4	9.2
Real fixed investment (private)	–3.2	–0.9	6.3	6.4
Unit labor costs in manufacturing	–0.3	–1.2	–1.2	–1.0
Consumer price index (annual average)	1.5	1.8	0.2	2.0
External economy				
Merchandise exports (f.o.b.)	11.1	16.4	21.0	21.8
Merchandise imports (f.o.b.)	9.1	15.2	17.7	19.4
Current account balance (in billions of Canadian dollars)	–26.5	–30.7	–24.8	–15.7
Nominal effective exchange rate	–5.8	–5.7	–6.2	. . .
Financial variables				
General government balance (in percent of GDP)	–7.1	–7.1	–5.3	–4.4
Three-month treasury bill rate (in percent)	6.5	4.9	5.4	. . .
Ten-year government bond rate (in percent)	8.1	7.2	8.4	. . .

Note: Data in the table reflect information available at the time of the Board discussion.
[1]Projected.

consolidation effort during the current cyclical upturn. In particular, Directors observed that the 1995 budget measures would still leave federal debt and interest payments at high levels, exposing the fiscal position either to adverse interest rate shocks or to an economic downturn. Moreover, there was the risk that the persistence of an appreciable fiscal imbalance could erode confidence in the Government's economic policies and lead to sharp increases in interest rates and renewed downward pressure on the Canadian dollar. Directors advocated the implementation of additional adjustment measures that would set the debt-to-GDP ratio on a clear downward path and lead more rapidly to the authorities' ultimate goal of budget balance. Such action would strengthen market confidence, raise the credibility of the authorities' commitment to price stability, and strengthen national saving.

Directors commended the authorities for their determined and effective efforts to reduce inflation to very low levels. They noted, however, that economic slack was being absorbed quickly, while the depreciation of the Canadian dollar and higher commodity prices could put upward pressure on domestic prices. Consequently, they believed that the authorities' credibility and conviction to maintain price stability would be tested in the period ahead. Directors thought that the authorities would need to be on their guard to prevent a re-emergence of inflationary pressures. Directors observed that the substantial depreciation of the Canadian dollar over the past few years, along with the benefits of structural reform and low inflation, had enhanced competitiveness and thus contributed to the improvement in the external current account. Some Directors, noting the possible emergence of price pressures as a result of the lower exchange rate, also recommended that the authorities consider a propitious tightening of monetary policy to avert further depreciation, particularly if further fiscal consolidation efforts were not made.

Directors complimented the authorities on their ratification of the Uruguay Round agreement and noted that its implementation offered the opportunity to phase out long-standing distortions in trade and agriculture. However, Directors were concerned that import quotas on agricultural commodities were being replaced by prohibitively high tariffs. Directors commended Canada's record on development assistance, but they expressed concern about the planned reductions that were announced in the 1995/96 budget.

Smaller Industrial Countries

During the financial year, the Fund concluded Article IV consultations with 13 of the 16 smaller industrial countries. In all except Greece, which was still experiencing stagflation at the time of the Board discussion, fairly robust recoveries were finally under way. Among the countries enjoying strong growth, New Zealand stood out as exemplifying the benefits that could be reaped through a fundamental reorientation of macroeconomic policies and restructuring.

In their consultations, Directors commended many countries for making considerable progress toward price stability under generally successful monetary policies. For the two countries that were well into their expansions, Australia and New Zealand, Directors welcomed tighter monetary conditions. For most of Europe, Directors noted that, with the strengthening of economic activity, monetary policy was entering a more difficult phase in which tightening of the monetary stance might be warranted to keep inflation low or on a downward path. Directors advised the Swedish authorities that their hard-won gains in reducing inflation should be safeguarded. This was a prerequisite for interest rates to fall from their high levels and thus to contribute to durable growth. Directors supported the Greek authorities' focus on reducing inflation but warned that monetary policy alone, in the absence of credible fiscal actions, could not secure their inflation objectives for long without significant costs to the economy.

Although the fiscal situation and outlook were of particular concern in Greece and Sweden, Directors urged most other countries also to take advantage of their expansions to strengthen fiscal consolidation. Sharply higher debt-to-GDP ratios were frequently cited as adversely affecting interest rates and impeding investment and growth. While welcoming the authorities' announcements of fiscal tightening, in most cases Directors recommended that greater efforts be undertaken to scale back public sector wage bills, income transfers, and subsidies to agriculture and industry.

Several other structural reforms were seen as key to underpinning growth prospects. Widespread and persistent unemployment problems, which for the first time in decades had emerged, even in Switzerland, led Directors to stress the need for labor market reforms in all consultations except those for New Zealand, where reforms had already been implemented, and Portugal, where labor market flexibility had resulted in much lower unemployment rates than elsewhere in Europe. Far-reaching social security system reforms were recommended for the Netherlands and Sweden, and privatization was encouraged in Australia, Greece, and Portugal.

On the external front, few common themes emerged, beyond encouragement for faster trade policy liberalization in areas where effective protection remained high.

As regards exchange rate policy, Directors' advice for the most part was tailored to the circumstances of individual countries, although the link with strong fiscal policy was stressed in several discussions. For

Table 10
NETHERLANDS: SELECTED ECONOMIC INDICATORS
(Annual percent change unless otherwise noted)

	1992	1993	1994[1]	1995[1]
Domestic economy				
Domestic demand	1.2	–0.5	2.0	2.8
Real GDP	1.3	0.3	2.4	3.0
Unemployment rate (in percent)	6.6	7.6	8.7	8.6
Consumer price index	3.2	2.6	2.8	2.5
External economy				
Exports of goods and nonfactor services	2.5	1.7	5.6	5.5
Imports of goods and nonfactor services	2.7	0.2	5.2	5.4
Current account balance				
In billions of guilders	20.0	17.5	20.9	21.5
In percent of GDP	2.1	3.1	3.5	3.4
Real effective exchange rate[2]	2.1	1.7	0.6	. . .
Financial variables				
General government balance (in percent of GDP)	–3.9	–3.2	–3.6	–3.5
Gross fixed investment	1.0	–2.3	2.5	5.8
Money and quasi-money (M3H)[3]	6.1	7.6	0.4	. . .
Interest rates (percent a year, period averages)				
Money market rate	9.3	7.1	5.1	. . .
Government bond yield	8.1	6.5	7.2	. . .

Note: Data in the table reflect information available at the time of the Board discussion.
[1]Estimates or projections.
[2]IMF Information Notice System, consumer prices.
[3]Harmonized M3 (based on standardized European Union concepts).

example, Directors advocated the urgent adoption of fundamental fiscal measures in Spain to alleviate exchange market tensions and sharp increases in long-term interest rates. Similarly, the weakness of the krona and high domestic interest rates were traced to Sweden's large budget deficit, an explosive increase in the public debt, and the resulting high debt-to-GDP ratio, requiring a forceful, convincing, and sustained policy to achieve fiscal consolidation as early as possible. In the case of Belgium, Directors noted that reducing the high public debt level would make the economy less vulnerable to adverse shocks and enhance the credibility of the exchange rate link with the deutsche mark. For Finland, in particular, there was considerable discussion of the right exchange rate posture, given the unevenness of Finland's recent recovery. Pressure on the drachma was seen as a warning signal that Greece's fiscal and monetary policies were unsustainable.

Directors welcomed steps to enhance the independence of the central banks in Greece and Spain.

Netherlands

Early in May 1995 Directors reviewed the Dutch economy. Following a mild recession in 1993, the onset of recovery in continental Europe had led to a sharp increase in Dutch exports followed by a broadly based strengthening of economic activity in 1994 (Table 10). Inflation remained low. Wage moderation had helped to contain the decline in competitiveness in a period of strong appreciation of the guilder. Total employment, which had virtually stopped growing in 1993, began to recover in 1994, and unemployment declined somewhat in the course of the year.

Fiscal consolidation had reduced the general government deficit to a level well below that of the beginning of the 1990s. Monetary policy, devoted to maintaining a tight link with the deutsche mark, had succeeded in keeping the guilder/deutsche mark rate within narrow bands. Long-term interest rates, and the exchange rate in terms of the deutsche mark, had remained stable during a period of exchange rate turbulence in February–March 1995. The current account had also remained stable—in substantial surplus (about 3 percent of GDP)—in recent years, having shown little variation over the business cycle.

In their discussion, Directors welcomed the robust recent economic performance of the Netherlands and commended the authorities for the strong policy credibility they had established. Growth had picked up, the guilder had been unaffected by exchange market tensions, and the budget deficit had been lowered. Despite these successes, Directors expressed a number of concerns: the ratios of fiscal deficit and public debt to GDP needed to be reduced further; the burden arising from large public expenditure, especially for social security, was still heavy; unemployment remained high, and labor participation rates relatively low; and labor and product markets remained subject to many rigidities.

Directors supported the authorities' monetary policy objective of price stability through the linking of the guilder to the deutsche mark. Financial markets had not questioned the guilder's strength, even during times of turbulence, and interest rates in the Netherlands were among the lowest in Europe. Saving in the Netherlands was high, Directors remarked, and the economy continued to run sizable external account surpluses.

As regards fiscal policy, Directors commended the authorities for their program aimed at a decreasing trend in expenditures over the medium term, in particular in the area of social spending. On this basis, both a reduction in the fiscal deficit and some lowering of the burden of taxes and social security charges were expected. Directors stressed, however, that the authorities must stick firmly to the program of curtailing expenditures and resist pressures to dilute it. Pointing out that the 1995 fiscal policy objectives were not particularly ambitious during a phase of economic upswing, speakers generally urged the authorities to let automatic stabilizers work and to use the higher tax revenues resulting from the faster-than-assumed growth to reduce the deficit and the debt-to-GDP ratio further rather than to cut taxes.

Taking advantage of the opportunity to cut the deficit and lower debt while economic growth was strong would be important not only to ensure confidence but also to prepare for the longer-run fiscal pressures arising from the aging of the population. Although a lowering of the high burden of taxes and social security charges was desirable, such steps required a lasting further reduction in spending.

Directors observed that the generous welfare system and high tax and social security wedge inhibited the functioning of the labor market, especially among lower-paid workers. Although they welcomed the planned reduction in tax and social security contributions, they supported the view that stronger measures would be necessary to lower labor costs through additional cuts in social benefits. Directors also urged further reforms in collective bargaining arrangements to help improve the functioning of the labor markets. As for other structural policies, Directors welcomed the adoption of a medium-term program of deregulating product markets, observing that regulations bore especially heavily on the nontradable goods sector, keeping investment there low.

Directors commended the authorities for maintaining their high level of assistance to developing countries and to the former centrally planned economies.

New Zealand

Starting in the mid-1980s, New Zealand embarked on a comprehensive reorientation of macroeconomic policies and economic restructuring. Wage and price controls were removed, the exchange rate was floated, financial markets deregulated, agricultural and export subsidies eliminated, a broad value-added tax (VAT) introduced, marginal income tax rates reduced and harmonized, commercial public sector activities privatized and the core public sector reorganized, government accounting practices improved, import protection significantly reduced, monetary policy restructured, and labor markets liberalized. When the Board met in July 1994 to discuss New Zealand's Article IV consultation, the country appeared to be reaping the rewards of its decade-long efforts.

Strong growth had been evident for two years, with GDP increasing an estimated 5 percent in 1993/94 while inflation remained low (Table 11). The higher rate of growth had already brought several important benefits. The fiscal position had reached balance three years earlier than anticipated, and employment had grown rapidly, reducing the still relatively high rate of unemployment. Despite the strength of domestic demand, New Zealand had maintained an inflation rate among the lowest in the world. Moreover, the external current account deficit had remained below 2 percent of GDP, and the external debt ratio had begun to decline. While Directors welcomed these developments, they noted that a number of challenges remained: the external environment might not remain as favorable as it had been in the recent past, net public and total external debt remained high, and unemployment was likely to come down only gradually. Directors encouraged the authorities to persevere with the coherent and consistent implementation of the basic policy strategy that was already in place by maintaining price stability, proceeding with fiscal consolidation, safeguarding the enacted structural reforms, and making continued progress toward completing the reform process.

The Board noted the rapid improvement in the fiscal position and endorsed a plan of the Government to run fiscal surpluses in order to reduce outstanding public debt. Improving the debt position would strengthen both the country's external credit standing and its fiscal position, which was particularly important given the demographic trends likely after the first decade of the next century. Some Directors believed that it might be necessary to keep firm control over expenditure to achieve the fiscal objective, in the near term, and to delay any tax reduction if the fiscal position failed to improve as expected. At the same time, they noted that there would be room to reduce taxes eventually, and the prospect of lowering tax rates to further enhance economic efficiency was raised. Directors welcomed the aims of the recently enacted Fiscal Responsibility Act. On the expenditure side, they also welcomed the changes in the welfare system and the increased efficiency of government departments.

The Board believed that the monetary policy framework, based on the Reserve Bank Act of 1989 and

Table 11
NEW ZEALAND: SELECTED ECONOMIC INDICATORS[1]
(Annual percent change unless otherwise noted)

	1990/91	1991/92	1992/93	1993/94[2]
Domestic economy				
Domestic demand	−1.6	−6.4	3.8	6.1
Real GDP (expenditure)	0.2	−2.9	0.8	5.2
Real gross fixed investment	−2.1	−16.0	7.0	15.4
Unemployment rate (in percent)	9.9	11.1	10.2	9.1
Consumer price index	5.5	1.7	1.1	1.6
External economy				
Exports (in percent of GDP)	21.0	22.9	24.3	23.7
Imports (in percent of GDP)	18.9	18.0	19.7	20.2
Current account balance (in percent of GDP)	−2.1	−2.1	−1.5	−1.7
External debt (in percent of GDP, end of period)	83.5	84.5	86.4	78.4
Debt-service ratio	12.2	13.7	13.2	11.7
Real effective exchange rate (1980 = 100)[3]	109.5	104.3	94.3	101.8[4]
Financial variables				
Adjusted government balance (in percent of GDP)[5]	−3.5	−3.3	−2.4	0.6
Broad money (in percent, year on year)	12.8	11.3	8.4	5.2[4]
Interest rates				
Bank bills (90-day)	11.9	7.3	7.2	5.4
Government bonds (five-year)	11.4	8.6	7.2	6.0

Note: Data in the table reflect information available at the time of the Board discussion.
[1]Fiscal years ending March except where noted otherwise.
[2]Estimated.
[3]Calendar-year average.
[4]March-to-February percentage change.
[5]Excluding lending minus repayment plus, since 1991, the proceeds from the sale of Crown forestry assets and unrealized foreign exchange gains.

a system of policy target agreements, had been effective in delivering low inflation, although questions remained about the effectiveness of inflation targeting in different cyclical circumstances. With the economy growing strongly and the Reserve Bank forecasting inflationary pressures, Directors viewed the upward movement in interest rates as broadly appropriate.

New Zealand's bold program of structural reforms, it was noted, had increased the productive potential of the economy. Directors emphasized in particular the far-reaching labor market reforms, which were seen as contributing to potentially more rapid productivity and employment growth, and to a lower level of unemployment, in the future.

On the external side, while major steps had been taken to liberalize the trade regime, high rates of effective protection continued in a few sensitive sectors. The Board urged the authorities to use the opportunity of the 1994 tariff review to announce plans for completing the trade liberalization process. There was, also, some questioning of the role of the agricultural marketing boards, with Directors believing that eliminating the remaining statutory export monopolies would lead to greater product innovation and a higher level of investment in the agricultural sector.

Directors welcomed the chance to review New Zealand's progress in transforming its economic and government institutions. They recognized that many challenges remained but expressed confidence that the authorities were on the right long-term path. New Zealand's experience was being watched closely by other member governments for lessons on what elements of the reforms seemed appropriate for their economies.

Norway

Directors met in February 1995 to discuss Norway's Article IV consultation. At that time, a robust recovery in the mainland economy (that is, activities other than petroleum extraction and ocean shipping) had been firmly under way for over a year. With oil and gas production continuing to rise, the overall economy was also growing briskly.

Following a sharp boom and bust associated with financial deregulation and oil-related shocks in the 1980s, Norway's economic performance recovered in 1993, driven by increases in private consumption and traditional, non-oil exports as well as by continued increases in petroleum production (Table 12). In response, private sector employment growth resumed after a lengthy period of stagnation, and unemployment was somewhat reduced from its historic highs of recent years. Inflation, which for some years had been below the average among Norway's trading partners, was reduced still further to below 2 percent, and the current account remained in comfortable surplus.

Underlying the favorable macroeconomic picture, however, were a number of structural issues, particularly related to the rapid growth of the oil and gas sector—by 1993 Norway had risen to be the world's fourth-largest oil exporter. Although this growth had brought significant benefits, the use of oil revenues to finance substantial increases in public employment had helped to crowd out mainland business activity, and the dependence of the economy and the budget on oil-related revenues carried with it continuing vulnerability to large oil shocks.

In their review, Directors commended the Norwegian authorities on their economy's recent favorable performance and welcomed the economic policies that had contributed positively to those developments. Supported by a shift toward fiscal tightening, monetary policies geared toward exchange rate stability had fostered wage moderation, declining inflation rates, and improving cost competitiveness. With continued recovery in the international economy, the short-term prospect was for continued output expansion.

Directors viewed Norway's policy challenges as being to ensure that domestic demand expanded at a sustainable pace and to foster noninflationary, employment-generating growth over the long term. Policy should, therefore, continue to focus on restraining domestic cost pressures, creating conditions conducive to investment in the mainland business sector, and enhancing the economy's capacity to withstand oil-related shocks. Directors commented on the increased uncertainty of Norway's longer-term prospects following the November 1994 decision not to accede to the European Union. Many speakers also referred to the serious structural problems in the economy associated with the high levels of protection, subsidies and transfer payments, a very large public sector, and the gradual depletion of oil and gas resources.

While welcoming the shift in the fiscal stance in 1994 that followed several years of expansionary policies, many Directors noted the need for further fiscal adjustment in the next few years to ensure a sustainable wealth position. They stressed the importance of such adjustment because oil and gas reserves would begin to decline just when large pension commitments, associated with an aging population, would start to fall due in the next century. Although welcoming the Norwegian authorities' emphasis on expenditure restraint, these Directors recommended scaling back—well beyond current plans—the extensive subsidies to agriculture and industry, as well as restraining public sector employment and transfers to households and local authorities. The high level of taxation added further emphasis to the importance of expenditure restraint, even though some Directors saw

Table 12

NORWAY: SELECTED ECONOMIC INDICATORS

(Annual percent change unless otherwise noted)

	1991	1992	1993	1994[1]
Domestic economy				
Domestic demand	–1.5	0.9	3.2	3.2
Real GDP	1.6	3.4	2.3	5.5
Mainland GDP[2]	–0.6	2.1	2.0	3.5
Unemployment (in percent of labor force)	5.5	5.9	6.0	5.5
Consumer prices	3.4	2.3	2.3	1.4
External economy				
Exports of goods and services (volume change in percent)	6.1	6.2	1.8	8.9
Oil and gas	17.0	10.8	5.8	17.3
Imports of goods and services (volume change in percent)	1.7	2.8	3.3	6.2
Current account balance (in percent of GDP)	4.8	2.6	2.3	3.0
External debt (in percent of GDP)	10.7	9.3	7.9	. . .
Real effective exchange rate[3]	–2.4	0.5	–2.3	0.3
Financial variables				
General government balance (in percent of GDP)	–0.2	–2.3	–2.6	–0.9
Gross fixed investment (volume change in percent)	1.7	4.5	15.2	1.0
Broad money[4]	10.7	7.3	0.6	7.6
Interest rates (in percent)				
Money market rate	10.6	13.7	7.6	6.0[5]
Government bond yield	9.9	9.8	6.5	8.6[6]

Note: Data in the table reflect information available at the time of the Board discussion.

[1]Official estimates and projections as of December 1994.

[2]Excludes items related to petroleum exploitation and ocean shipping.

[3]Based on relative normalized unit labor costs; 1994 figure is an average for January–November 1994 compared with 1993 average.

[4]Twelve-month percent change, end of period, except 1994, which is end-September.

[5]October 1994.

[6]November 1994.

Table 13
PORTUGAL: SELECTED ECONOMIC INDICATORS
(Annual percent change unless otherwise noted)

	1991	1992	1993	1994[1]
Domestic economy				
Domestic demand	3.9	3.9	–1.1	0.0–1.0
Real GDP	2.2	1.5	–1.0	0.5–1.5
Unemployment rate	4.1[2]	4.1	5.5	6.7[3]
Consumer price index	11.4	8.9	6.5	5.5–6.0
External economy				
Export volume	1.1	7.4	–1.8	3.5–5.5
Import volume	7.1	18.4	–5.4	0.5–2.0
Current account balance				
In billions of U.S. dollars	–0.7	—	–0.4	. . .
In percent of GDP	–0.9	—	–0.5	. . .
Overall balance (in billions of U.S. dollars)	5.8	–0.2	–2.7	. . .
Real effective exchange rate (CPI-based, 1990 = 100)	106.8	116.5	111.6	104.6[3]
Financial variables				
General government balance (in percent of GDP)	–6.5	–3.5	–7.3	–6.9[4]
Gross domestic saving (in percent of GDP)	24.3	25.0	22.9	. . .
Gross investment (in percent of GDP)	27.3	27.9	26.2	. . .
Broad money (M2, in billions of escudos)	7,804	9,057	9,747	. . .
Liquidity of residents (in billions of escudos)[5]	8,189	9,231	9,843	. . .
Interest rates				
Overnight rate	18.6	14.2	11.2	11.8[6]
Treasury bill rate (6-month)[7]	18.2	15.6	10.6	12.3[6]

Note: Data in the table reflect information available at the time of the Board discussion.

[1]Revised central bank projections, unless otherwise noted.

[2]The figure for 1991 is not comparable to later years due to a change in the survey method.

[3]June 1994.

[4]1994 Budget.

[5]Liquidity of assets held by nonfinancial residents is the sum of M2, contingent liabilities, treasury bills, and CLIPS (a type of government bond).

[6]July 1994.

[7]Gross of a withholding tax of 20 percent, introduced on May 4, 1989.

room for a restructuring of the tax burden to secure a more efficient system.

Directors noted that the authorities' new guidelines on monetary and exchange rate policies—with the stated aim of exchange rate stability against European currencies, but without a commitment to defend specified parities—essentially continued the approach followed after delinking from the European currency unit (ECU) in late 1992. This approach had been successful to date and was well understood by market participants and social partners. Most speakers did not support the view that the announcement of an inflation target would add clarity to monetary policy implementation.

As regards structural issues, Directors emphasized improving the functioning of the labor market through measures to reduce nonwage costs and encourage work-seeking behavior. They noted that the bank rescue operations mounted in 1991 had been successful and that the banks had been brought back to profitability. Directors urged the authorities to reprivatize the commercial banks more rapidly and completely than envisaged, while strengthening supervision over financial institutions. In light of Norway's high level of protection for domestic agriculture, Directors urged the authorities to view as a minimum their commitments in the agricultural area under the Uruguay Round agreement.

Directors commended Norway's continued commitment to official development assistance, which amounted to 1.1 percent of GDP in 1994, among the highest ratios in the industrial countries.

Portugal

Directors met in August 1994 to discuss Portugal's Article IV consultation, which took place amid signs of a turnaround in business and consumer confidence, fueled in part by indications of a strong pickup in export orders in early 1994 as Europe moved into recovery.

Portugal had entered the recession later than its European partners. Nevertheless by mid-1994, projections were envisaging recovery in output beginning in the second half of the year (Table 13). During 1993 a growing slack in the labor market had markedly affected wages, with reported settlements in the private sector down to about 7 percent from 15 percent in 1991. Consumer price inflation had also continued a declining trend from double-digit levels in 1989–91, dropping to below 6 percent by mid-1994.

In the external sector, the general upward trend in Portugal's export shares had weakened slightly during 1993, but imports had also fallen, and the current account continued to be fairly close to balance. However, the overall balance of payments registered a sizable deficit in 1993 as short-term private capital outflows ($3.1 billion) outweighed continued strong net inflows of foreign direct investment ($1.2 billion) and an increase in government net borrowing from abroad. Fiscal performance had sharply deteriorated in 1993. Most of this deterioration reflected noncyclical problems, including increased capital expenditures, worsening social security finances, and weaknesses in tax administration. As a result, the 1994 budget approved in December 1993 envisaged constrained spending and firm control over the public sector wage bill. (Data available subsequent to the Article IV discussion indicated that the outturn for 1994 was better than had been anticipated.)

After a turbulent first year of ERM membership, the escudo remained fairly stable in the year from August 1993, following the general widening of the ERM margins. Rather than use the wider margins to respond to bouts of exchange rate pressure, however, the monetary authorities raised interest rates and intervened in the market. At times, this policy led to sharp increases in interest rates—to over 14 percent in spring 1994 as markets tested the authorities' resolve. Tensions had abated considerably by July 1994; the escudo strengthened by about 1½ percent from mid-June, while overnight interest rates fell to below 11 percent by early August.

In their discussion, Directors welcomed Portugal's aim of returning to a medium-term path aimed at real and nominal convergence with European partners that had been pursued since the early 1990s. This strategy had been partially derailed by the severe recession in 1993 and turmoil within the ERM. As a result, although there had been a welcome reduction in inflation, including in the most recent data, the fiscal position was notably weaker than originally envisaged, and there had been recurrent exchange market tensions. Directors pointed out that the recovery elsewhere in Europe, signs of which were beginning in Portugal, offered an opportunity to press ahead with the planned fiscal consolidation and make further progress on inflation. This, in turn, should help to bring down interest rates and speed economic recovery.

Directors generally emphasized that the authorities should ease the burden on monetary policy through faster fiscal consolidation than currently envisaged, together with greater wage moderation and pursuit of structural reforms. They observed that exchange rate stability was a crucial plank in the anti-inflationary policy, and most agreed that this should continue to be the focus of monetary policy. It would be important that competitiveness not be compromised, and the continued strength of external accounts was encouraging in that regard.

Directors stressed that inflation and labor cost increases should be brought down rapidly to the levels in other ERM countries; in addition to continued wage moderation in the public sector, it would be important that any broader agreement on incomes incorporate a further slowdown in wage increases in 1995. Directors commended the labor market flexibility that, at the height of the recession, had resulted in much lower unemployment rates in Portugal than elsewhere in Europe. As regards other structural policies, they supported further progress in privatization and continued financial liberalization.

For 1995 and beyond, Directors were of the view that fiscal adjustment should be more front-loaded, with significant progress toward the medium-term goal for the fiscal deficit. On expenditures, Directors advised restraint on current spending to make room for expected higher capital expenditures. On the revenue side, Directors urged the authorities to improve underlying weaknesses in the areas of tax administration and social security.

Developing Countries

Nearly one hundred Article IV consultations with developing countries were held by the Executive Board during the year. Directors commended many countries—ranging from newly industrialized to low-income—for the significant advances they had made in macroeconomic and structural reforms, often with the financial support of the Fund. Directors were encouraged by the achievement of, or progress toward, sustained economic growth and external viability in many countries. Most countries, however, required some further macroeconomic and structural adjustment, and a strong aggregate performance masked considerable diversity. (For a description of policy issues in the CFA franc countries see Box 9.)

Foremost among the policy requirements for sustained growth was the creation, and maintenance, of a stable macroeconomic environment, although Directors noted in this regard that the implementation of monetary and fiscal policy was frequently uneven, which fueled uncertainty and discouraged saving and investment.

In their discussion of stabilization efforts, Directors frequently stressed the importance of prudent fiscal policies, which they considered vital for the preservation of macroeconomic stability. In many countries, a substantial improvement in public sector saving was needed to put growth on a firmer basis, and Directors also stressed the importance of moving toward fiscal balance. Together with measures in other areas, fiscal consolidation, especially when front-loaded, was seen

Box 9

COMMON POLICY ISSUES IN THE CFA FRANC COUNTRIES

In November 1994, Directors discussed the common policy issues faced by the CFA franc countries in connection with designing adjustment programs, and considered the implications of regional policy coordination and common currency arrangements. The CFA franc is the currency of 13 of the 14 countries in the CFA franc zone: Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, and Togo, which are members of the West African Economic and Monetary Union (WAEMU); and Cameroon, the Central African Republic, Chad, the Congo, Equatorial Guinea, and Gabon, members of the Central African Economic and Monetary Community (CAEMC). The Comoros, which uses the Comorian franc, is not a member of a monetary union.

Directors observed that comprehensive adjustment programs and the devaluation, in January 1994, of the CFA franc had provided CFA franc countries with an unprecedented opportunity to achieve sustainable economic growth, fiscal and external viability, and greater regional economic integration. Encouraging signs in some countries included a drop in inflation, which had soared following devaluation; the resurgence of economic growth and export activities; and the return of flight capital. There had also been a strong improvement in the net foreign asset positions of the Central Bank of West African States (BCEAO) and the Bank of Central African States (BEAC), the zone's two central banks.

Directors underlined the need for countries to implement adjustment programs vigorously, emphasizing financial stabilization and structural reforms, so as to derive the most benefit from regional economic recovery and integration. They noted that countries' different situations would have to be taken into account in designing individual programs.

Fiscal Adjustment

The reduction of fiscal deficits and of imbalances in the public enterprise sector would be critical in fostering private sector growth, reforming the financial sector, and achieving internal and external financial viability. Rigorous and transparent systems for controlling public expenditures and stricter wage restraints were needed, and priority should be given to spending for urgent social and investment needs. Directors urged countries to press forward with civil service reforms.

The CFA countries would need to simplify, rationalize, and lower taxes on foreign trade, while reducing exemptions, fighting fraud, increasing collections, and shifting progressively from trade taxes to broadly based domestic taxes. Directors considered that steps to improve tax administration and preserve the revenue base would be necessary to facilitate such a shift. The Fund would provide technical assistance to help the CFA franc countries broaden their tax base.

To achieve objectives in the financial sector, such as market determination of

as key to the success of efforts to foster economic growth by lowering inflation and bringing about a durable reduction in domestic and external imbalances. Furthermore, over the medium term, a strengthening of the fiscal position allowed room for growth of the private sector. On occasion, for certain countries, Directors cautioned about a buildup of the public debt, which, if not curbed, could weaken confidence, with adverse effects on international reserves and the economy in general.

On the revenue side, Directors urged country authorities to monitor developments closely and to be ready to implement contingency measures, if necessary. In many cases, they recommended broadening the tax base, improving tax administration, and reducing tax exemptions. They also considered that strict control of government expenditure and the avoidance of unbudgeted outlays were essential, and they supported a cautious stance of wage policy in the public sector. Directors also stressed that the quality of the spending must be ensured and underscored that, in curtailing expenditure, the authorities should make efforts to redirect expenditure from unproductive uses to priority economic and social services. In some cases, the Board welcomed a reduction in military expenditure.

Directors further considered that fiscal action should be supported by appropriate monetary policies, often with additional steps to liberalize the financial system. Where they recommended a change of stance of monetary policy in order to realize macroeconomic objectives—in particular, that of controlling the rate of inflation—it was usually in the direction of tightening. For some countries, however, restrictive fiscal and monetary policies should be supported by supply-side policies to strengthen growth and employment.

Board members noted that strong private capital inflows had complicated the management of monetary and exchange rate policies in many countries and had led to a marked appreciation of the real effective exchange rate. They pointed out that sterilization of large capital inflows could put upward pressure on domestic interest rates.

For several countries, Directors called for moves toward a more market-oriented monetary policy, including market determination of interest rates. In some cases, this would need to be implemented over the medium term. They emphasized the importance of positive real interest rates for mobilizing the saving and investment critical for development. Directors also spoke of the need to liberalize credit and to encourage interest rates, the development of instruments for indirect monetary control, and the ability to respond to surges in bank liquidity, Directors observed that countries would have to act decisively in addressing the problems of financially distressed banks. They would also need to develop regional money and interbank markets and a broadly based market for government securities.

Structural Reforms

Directors stressed the necessity of far-reaching structural reforms to ensure durable recovery and economic diversification and emphasized the role of the World Bank in assisting in the design and implementation of such reforms. Countries needed to move swiftly to restructure or privatize public enterprises and eliminate monopolies, but they should not allow problems in this area to hamper fiscal adjustment and private sector expansion, or put the banking system at risk. The strengthened procedures for bank supervision would have to be followed while countries took care to avoid subsidized lending and state intervention in the banking system. Greater flexibility with respect to wages and hiring practices would facilitate adjustment to external shocks, but it was recognized that staffing cuts in public enterprises and the civil service had social costs and would necessitate severance payments and training programs.

Other Issues

Directors commended efforts to accelerate economic and monetary integration in the CFA franc countries. Intrazone trade was expected to increase with further economic liberalization in individual countries and efforts by the two monetary unions to establish a common external tariff, remove intrazone trade barriers, and harmonize members' domestic tax systems.

Directors welcomed steps toward multilateral surveillance of each country's fiscal and external position. However, the central banks needed to improve the macroeconomic data base to facilitate surveillance and regional policy coordination and ensure a timely response to economic changes.

Noting with satisfaction the absence of foreign exchange restrictions on payments and transfers for current international transactions in the CFA franc countries, Directors urged them to accept the obligations of Article VIII of the Fund's Articles of Agreement (see Box 7). The central banks were encouraged to end the suspension of the repurchase of CFA franc bank notes.

Directors suggested that Fund staff review, on a regular basis, developments in the CFA franc countries, particularly in the context of Fund-supported programs. When more evidence was available, a brief assessment would be made of the experience of the CFA franc countries in 1994. This would provide lessons for program design, which would need to evolve in response to a changing, increasingly complex environment, and to reflect regional considerations that included African countries outside the CFA franc countries.

competition among banks. For a number of countries, they welcomed the progress made by the authorities to move to indirect monetary controls and, for others, recommended this as a course of action.

Directors observed that monetary policy should play a key role in reducing inflationary risks, and they commended the authorities in many countries for their success in bringing down the rate of inflation through a prudent monetary and credit stance. Elsewhere, they emphasized the importance of a renewed and sustained effort to reduce inflation to low levels, noting that this was the only way to achieve a durable decline in interest rates, maintain competitiveness internationally, and lay the basis for higher rates of economic growth. When a low-inflation environment was in place, the authorities should take advantage of this to reduce the coverage of price controls, where these existed.

As additional components of a credible anti-inflationary policy, Directors stressed the need for a more flexible labor market, as well as perseverance with structural reforms aimed at further diversification of the economy.

The Board welcomed the considerable progress in structural reform in many developing countries, highlighting in these cases such policies as the adoption of measures to foster the role of the price mechanism and improve the allocative efficiency of the economy, privatization, improved financial management and accountability in public enterprises, and capital market liberalization. In general, structural reforms helped to improve confidence, spur private investment, and strengthen economic competitiveness. These pointed to the need for elimination of labor market rigidities, incentives, generalized subsidies, and price supports. Directors also emphasized the need to promote the diversification of production and of exports, improve the competitiveness of the economy, and strengthen the role of the private sector.

Social safety nets were increasingly becoming an important component of countries' efforts to shield the most vulnerable segments of their populations from the short-term effects of corrective policies. In a number of cases, the Board welcomed the implementation of appropriately targeted safety net measures to mitigate the impact of adjustment on the poor, while at the same time urging authorities generally to focus on more efficient and lasting measures to alleviate the burden of adjustment.

On the external front, Directors emphasized that the reform strategy should encompass the liberalization of the external trade and payments system. In general, authorities should resist protectionist pressures. A large number of countries were commended for initiatives to reduce exchange and trade restrictions, to promote greater competition, and to encourage fuller integration into the world economy. In a few cases, Directors suggested that the authorities should take steps to liberalize the external capital account.

Directors had occasion to welcome the decision by a number of countries to accept the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement, or their intention to do this, as well as the decision by several others to seek accession to the General Agreement on Tariffs and Trade (GATT) and its successor organization, the World Trade Organization (WTO). The completion of the Uruguay Round provided important new opportunities in the trade area for many members.

Directors welcomed improvements in many countries in external competitiveness—although in other cases they noted with concern a deterioration—and in this context urged the authorities, among other things, to keep wage and exchange rate policy under close review in order to safeguard the external position. The Fund's advice in the area of exchange rate policy depended on the circumstances of each country. A few countries were urged to unify exchange rates at a realistic, market-determined level. The objective of achieving exchange rate stability had been and would continue to be elusive without a concomitant—and significant—tightening of fiscal and monetary policies.

Many countries had made progress toward balance of payments viability, but in many cases further adjustment efforts would be needed over the medium term. In some countries, Directors were concerned about a deterioration of the external position that had often resulted from a relaxation of policies, and that was evidenced by a loss of international reserves. Although the adjustment needed to ensure external viability would be challenging, a strengthening of the external position would enhance the prospects for growth.

Board members recognized that, for some countries, balance of payments viability could not be attained without the support of substantial debt and debt-service reduction and concessional terms for new financing.

Directors noted that only a comprehensive adjustment strategy could mobilize creditor and donor support. They stressed that adequate external assistance that complemented domestic saving would be essential for many countries and occasionally noted with concern substantial shortfalls in external assistance. In this context, Directors occasionally urged the authorities to improve the quality and transparency of governance. It was emphasized that the sustainability of growth also depended on the attraction of foreign direct investment.

Directors frequently pointed to the importance of remaining current on debt and other external obligations, and they praised the good record of many countries in this regard. They also stressed the necessity for other countries of quickly eliminating domestic and external payments arrears, in part to normalize relations with external creditors and donors.

Finally, in order better to guide policymakers in reformed economic environments, Board members asked a number of countries to improve the quality, coverage, timeliness, and transparency of their economic and financial data, in some cases with technical assistance from the Fund.

Argentina

Directors met in July 1994 to discuss the Article IV consultation with Argentina and to review the country's extended arrangement with the Fund (see section on Fund Support for Member Countries). The strong economic upswing in Argentina—made possible by comprehensive stabilization efforts, structural reform, financial liberalization, debt and debt-service reduction, and privatization in recent years—had continued throughout 1993, albeit at a more moderate pace.

Throughout the first three quarters of 1993, the growth of domestic demand gradually subsided, but in the last quarter of 1993 and the early months of 1994 domestic expenditure rebounded because of increased investment, which rose by a third in real terms during January–March 1994. Although consumer demand was strong, consumer price inflation remained very low, at 3.4 percent for the year ended May 1994 (Table 14). Imports, led by capital goods, rose by 23 percent in the last quarter of 1993 and by 46 percent in the first four months of 1994 relative to the corresponding periods of 1993. Exports in January–April 1994 were only 4 percent higher than in the same months of 1993; agricultural exports declined, but exports of industrial manufactures rose by over 30 percent. Consequently, the trade deficit widened to \$2.4 billion in the first four months of 1994, compared with \$0.5 billion during the same period in 1993. Capital inflows in 1993 were strong enough to offset the current account deficit, which had widened to \$8.8 billion in 1993 (as a result, gross international reserves rose by over \$4 billion in 1993, to \$15 billion at the end of the year), but they weakened somewhat in March–April 1994, following the increase in international interest rates, before subsequently regaining strength.

Real GDP was projected to grow by around 6 percent in 1994, led by investment, which was expected to reach $20\frac{1}{2}$ percent of GDP. National saving was projected to rise by about 1½ percentage points of GDP in 1994, but the external current account deficit was expected to widen in 1994, to 3.8 percent of GDP (compared with 3.5 percent of GDP in 1993). Inflation was expected to remain at low single-digit levels during the year. The growth rate of monetary aggregates slowed in the first four months of 1994; broad money rose at an annual rate of about 18 percent during the period, compared with an annual rate of 56 percent during the same period in 1993. Fiscal targets for expenditure and the overall balance of the public sector were missed by small margins in the first quarter of 1994; a better-than-expected tax outturn was offset by higher discretionary spending, owing to a change in budgetary commitment procedures.

In their discussion, Directors commended Argentina's progress over the past three years in strengthening public finances, curbing central bank credit, implementing comprehensive structural reforms, and re-establishing relations with internal and external creditors. These policies had resulted in lower inflation, strong capital inflows, and a sharp recovery of domestic demand and economic activity. The medium-term prospects for continued economic growth, they concluded, remained positive.

Directors focused considerable attention on the overall macroeconomic setting and the appropriateness of Argentina's macroeconomic policies. While noting the success in bringing inflation down to single-digit levels approaching those in major industrial countries, Directors stressed the need to maintain monetary discipline and continue progress toward price stability. They agreed that domestic saving and investment should be strengthened in order to improve growth prospects further and strengthen the sustainability of the external position.

Most Directors shared the authorities' view that the widening of the external current account deficit reflected a positive response of foreign capital to the opportunities arising from stabilization and adjustment, and to the restructuring of the private sector economy. Thus, the rapid growth of imports was in response to high demand for capital goods. Argentina's competitive position would have to be monitored, however, and these Directors agreed with

Table 14

ARGENTINA: SELECTED ECONOMIC INDICATORS

(Annual percent change unless otherwise noted)

	1991	1992	1993[1]	1994 Proj.	1994 Rev.[2]
Domestic economy					
Real GDP	8.9	8.7	6.0	6.0	7.4
Unemployment rate (in percent)[3]	5.3	6.7	9.6	9.5	12.2
Consumer prices (end of period)	84.0	17.5	7.4	2.7	3.9
External economy					
Exports, f.o.b. (in billions of U.S. dollars)	12.0	12.2	13.1	14.7	15.7
Imports, c.i.f. (in billions of U.S. dollars)	8.3	14.9	16.8	19.7	21.5
Current account balance (in billions of U.S. dollars)	–2.8	–8.4	–8.8	–10.6	–10.1
Overall balance (in billions of U.S. dollars)	0.8[4]	–3.1	10.2	2.3	0.3
External debt (in percent of GDP)[5]	35.9	28.4	23.6	22.3	22.6
Debt service (in percent of exports of goods and nonfactor services)	57.0	49.2	47.8	40.9	37.9
Real effective exchange rate[6]	36.5	13.6	9.5	. . .	–4.7
Financial variables					
Combined public sector balance (in percent of GDP)[7]	–1.2	0.6	2.2[8]	1.2	0.1
Gross national saving (in percent of GDP)	15.2[2]	14.3[2]	15.7[2]	16.7	16.8
Gross domestic investment (in percent of GDP)	14.6	16.7	18.2[2]	20.5	19.9
Broad money[9]	. . .	49.8	33.5	26.9	16.9
Interest rate (compounded annual interfirm rate)	70.0	18.2	8.1	. . .	8.5

Note: Data in the table reflect information available at the time of the Board discussion.

[1]Preliminary.

[2]Data revised subsequent to the Board discussion.

[3]Percent of labor force seeking work in greater Buenos Aires as of October each year.

[4]Excludes placement of $4.9 billion of compulsory bonds.

[5]Includes Fund credit.

[6]Average; measured in terms of foreign exchange per unit of local currency; –, depreciation.

[7]Cash basis, except for interest payments, which are on an accrual basis. For 1991, average of quarterly ratios to nominal GDP; for 1994, includes employee social security contributions that were estimated to accrue to the newly created private pension system, equivalent to 1.6 percent of GDP.

[8]Includes payments to reduce arrears from previous years to pensioners and provincial governments.

[9]Twelve-month rate of change in the average stock of monetary base in the quarter or month (for 1994, April).

Table 15
BURKINA FASO: SELECTED ECONOMIC INDICATORS
(Annual percent change unless otherwise noted)

	1991	1992	1993[1]	1994[2]
Domestic economy				
Real domestic demand	5.8	3.8	0.1	−2.9
Real GDP	9.9	2.5	−1.0	3.3
Consumer price index	2.5	−2.0	0.6	31.2
External economy				
Exports, f.o.b. (in billions of CFA francs)	79.3	78.5	76.5	176.8
Imports, f.o.b. (in billions of CFA francs)	169.8	178.7	182.2	330.4
Current account balance (in percent of GDP)[3]	−13.6	−14.4	−16.0	−20.0
Overall balance (in percent of GDP)	0.4	1.8	0.9	4.4
External debt (in percent of GDP)	1.7	2.1	2.6	3.7
Debt-service ratio (in percent of exports of goods and services)	14.6	17.8	22.1	19.1
Real effective exchange rate	2.9	1.9	1.4	−35.5
Financial variables				
Central government balance (in percent of GDP)[4]	−8.2	−8.8	−10.1	−14.7
Gross national saving (in percent of GDP)	17.6	17.6	17.8	25.4
Gross national investment (in percent of GDP)	20.9	21.3	21.9	28.9
Broad money	5.0	6.3	8.1	20.8

Note: Data in the table reflect information available at the time of the Board discussion.
[1]Estimated.
[2]Projected.
[3]Excluding transfers.
[4]Excluding grants.

the authorities that overall fiscal balance would be the appropriate course of action. Other Directors, however, expressed concern that the economy remained vulnerable and advised the authorities to be prepared to strengthen the fiscal position so that the economy could sustain both domestic and external adjustment.

Directors emphasized the importance of structural measures to increase flexibility in the economy, reduce domestic production costs, and improve competitiveness. Such measures included reform of labor legislation in order to facilitate labor mobility and promote more flexible employment conditions, reform of bankruptcy laws, and reform of the health insurance system. Directors encouraged the authorities to persevere in their efforts to induce the provinces to carry out deregulation, privatization, and tax and administrative reform, while continuing to restrain their domestic and foreign borrowing. While recognizing the internal political and social factors that made carrying out structural measures difficult, Directors stressed that addressing structural issues was necessary to ensure continued progress toward sustainable growth. In that context, Directors also emphasized the benefits to Argentina of further liberalizing international trade.

In the area of sectoral policies, Directors noted the authorities' decision not to lower bank reserve requirements at this time. They urged the authorities to continue with the steps being taken to protect the solvency of the financial system, including risk-adjusted capital adequacy requirements and strengthening of prudential regulations and bank supervision.

Burkina Faso

Directors met in October 1994 to discuss the Article IV consultation with Burkina Faso and the midterm review of its second annual arrangement under the enhanced structural adjustment facility (ESAF). The discussion took place against the background of the broadened medium-term adjustment strategy—including a 50 percent devaluation of the CFA franc in January—that the authorities had adopted in 1994. The basic macroeconomic objectives for 1994–96 were to achieve an average annual real GDP growth rate of more than 5 percent; lower the rate of inflation to about 5 percent by 1996, following the acceleration initially induced by the devaluation; and reduce the external current account deficit (excluding official transfers) to less than 15 percent of GDP by 1996. The program's objectives for 1994, as set at the beginning of the year, were to attain a real GDP growth rate of at least 3 percent, contain inflation to about 30 percent, and limit the external current account deficit to 21.5 percent of GDP.

Burkina Faso's economic performance in 1993 under the program that was supported by the first annual ESAF arrangement was disappointing. Owing mainly to a sharp drop in cotton output and a slowdown in manufacturing activity, real GDP declined by 1 percent, while the external current account deficit widened to 16 percent of GDP (Table 15). The fiscal situation also deteriorated, as a poor revenue performance—reflecting, in part, temporary problems associated with the introduction of the VAT—was not offset by corresponding reductions in outlays, which, in fact, exceeded the programmed level. On the monetary side, broad money increased by about 8 percent, largely because of a rise in currency in circulation corresponding to larger cash holdings by the private sector, which was attempting to obtain foreign currency in anticipation of the devaluation. However, net domestic assets fell as bank credit to the economy declined. The increase in broad money thus contributed to a larger-than-expected rise in net foreign assets. Moreover, with respect to structural reforms, although progress was made in liberalizing foreign trade and restructuring public enterprises, a number of measures—in particular, to enhance revenue—were delayed. As a result, the midterm review under the arrangement could not be concluded.

In their discussion of economic developments in 1994, Directors welcomed the positive response of the economy to the devaluation of the CFA franc and the accompanying adjustment effort. They observed that the rate of inflation had decelerated rapidly following the initial surge and that—bolstered by the improved competitiveness of the economy—the prospects for strong growth in the tradable goods sector and real GDP were encouraging. Most program criteria and benchmarks for the period January–June 1994 were observed.

In view of the larger-than-programmed fiscal deficit in the first half of 1994, Directors welcomed the authorities' commitment to improve revenue performance, through a strengthening of customs and tax administration, firm implementation of measures to reduce tax exemptions and combat tax evasion, and the collection of exceptional revenue, as programmed, from selected public enterprises. With respect to expenditures, Directors commended the authorities' success in keeping wage and salary payments on target; they also stressed the need to improve budget management, particularly by strengthening the monitoring of expenditures and introducing a revised budget nomenclature system.

In the monetary area, broad money rose by 15 percent in the first half of 1994. The Government's net position vis-à-vis the banking system exceeded the performance criterion for end-June 1994 by about 4 percent of the initial stock of broad money. Nevertheless, net domestic assets of the banking system continued to decline, contributing to a larger-than-expected increase in net foreign assets.

In discussing the medium-term outlook, Directors emphasized the need to build on the devaluation by accelerating the pace of structural reform, with a view to laying the groundwork for private sector development and sustainable growth. They noted with satisfaction the program to restructure and privatize public enterprises and urged the authorities to rely more on private sector initiative to increase investment and output. To that end, Directors also called for an acceleration of the restructuring of the banking sector and the privatization of public enterprises. In addition, they observed that serious consideration should be given to eliminating the protection tax, so that possible distortions and inefficient resource allocation could be avoided.

Directors also urged the committee that was recently created to monitor external obligations falling due to take appropriate action to avoid a further accumulation of external arrears.

Chile

Directors met in July 1994 to discuss Chile's Article IV consultation. Following the rapid economic growth, lower inflation, improved foreign reserve position, increased employment and real wages, and reduced poverty achieved in the early 1990s, concern shifted to overheating. The Chilean authorities' economic program for 1993 aimed to slow the growth of domestic demand to a rate consistent with estimated real GDP growth of $6^1/_2$ percent, down from $10^1/_2$ percent in 1992, and to achieve a moderate reduction in inflation, from 12.7 percent in 1992 to 11–12 percent, mainly through tight monetary policy.

In the event, real GDP growth slowed to 6 percent in 1993, domestic demand grew by 9 percent in real terms, and the terms of trade deteriorated more sharply than expected, owing to declines in world prices for copper and Chile's other primary commodity exports (Table 16). Consequently, the external current account deficit widened by 3 percentage points, from 1.8 percent of GDP in 1992 to 4.8 percent of GDP in 1993. Despite tight monetary policy throughout 1993, the 12-month inflation rate declined only slightly, to 12.2 percent in December 1993.

In their discussion, Directors commended Chile's wide-ranging structural reforms and the authorities' continued pursuit of sound macroeconomic and structural policies that have enabled the country to make significant progress toward sustained economic growth and external viability. They also welcomed the authorities' prudent response to the sharp drop in copper prices and other adverse external developments in 1993. They stressed, however, the importance of maintaining strong performance in the medium term while lowering inflation to industrial country levels.

Directors observed that progress in reducing inflation had lagged in 1993 and cautioned that slippages must be avoided during a gradual approach to inflation reduction. They welcomed the authorities' readiness to adhere to tight monetary policy should

Table 16
CHILE: SELECTED ECONOMIC INDICATORS
(Annual percent change unless otherwise noted)

	1991	1992	1993[1]	1994[2]
Domestic economy				
Domestic demand (at current prices)	27.1	29.8	22.8	...
Real GDP	6.1	10.3	6.0	4.0
Unemployment rate (in percent of labor force, fourth quarter)	5.3	4.4	4.5	...
Consumer price index (12 months ended December)	18.7	12.7	12.2	10.0
External economy				
Exports, f.o.b. (in millions of U.S. dollars)	8,929	9,986	9,201	9,805
Imports, c.i.f. (in millions of U.S. dollars)	7,354	9,237	10,180	10,503
Current account balance (in millions of U.S. dollars)	15	–743	–2,092	–2,003
Overall balance (in millions of U.S. dollars)	1,247	2,499	578	948
External debt (in percent of GDP)[3]	48.1	44.2	43.9	45.0
Debt service (in percent of exports of goods and nonfactor services)	23.7	20.3	22.5	20.0
Real effective exchange rate (12 months ended December)	5.5	10.8	–2.2	...
Financial variables				
Combined public sector balance (in percent of GDP; –, deficit)	1.4	1.9	1.0	–0.4[4]
Gross national saving (in percent of GDP)	22.2	22.3	21.4	21.4
Gross national investment (in percent of GDP)	22.2	24.1	26.2	25.8
Broad money (in percent of GDP)	30.6	32.7	35.2	36.2
Real interest rate[5]	5.8	5.5	6.5	...

Note: Data in the table reflect information available at the time of the Board discussion.
[1]Preliminary.
[2]Projected.
[3]End of period; excludes use of Fund credit and trade credits.
[4]The actual outcome for 1994 was in surplus.
[5]Actual average yield on 90-day central bank indexed promissory notes.

domestic demand growth and inflation fail to subside, and their commitment to save any fiscal revenue above the 1994 budget projections should circumstances call for curtailment of public outlays. Directors noted that the greater flexibility in managing the exchange rate could contribute to the process of disinflation, but some Directors wondered whether there was scope for using the exchange rate as a nominal anchor. Directors emphasized that reducing the scope of indexation—including with respect to financial instruments—would facilitate inflation reduction.

The Board commended the steps taken toward liberalizing foreign exchange transactions and recommended that Chile take advantage of its present strong external position to proceed with further liberalization. Directors welcomed recently adopted legislation on capital markets, which should facilitate integration with international capital markets. Directors also noted Chile's success in achieving social objectives, including poverty reduction, and encouraged the Government to continue with privatization of public enterprises and to improve further the regulatory framework for private sector activities.

China

The Board's discussion on China took place in March 1995. Since the reform process began 15 years ago, the size of China's economy had quadrupled, with real output increasing by 9 percent annually. Many of the distortions of central planning had been eliminated or reduced, and economic agents had been allowed to make decisions based on market signals.

Reform had stimulated a vibrant nonstate sector, which accounted for more than one half of industrial output and two thirds of GNP. The economy had also become more open and integrated with the rest of the world through trade and investment.

These achievements notwithstanding, several problems remained: the lack of an effective infrastructure for indirect macroeconomic management; weak performance of the state-owned enterprise sector, which accounted for most of the unemployment and had hindered development of the financial system; a weak legal and regulatory framework, which had impeded development of competitive markets; widening disparities between coastal and inland areas and urban and rural areas; and unemployment.

These problems became evident in 1992 and 1993 when economic growth reached about 13 percent in each of these years (Table 17). The accompanying surge in demand was accommodated by expansionary monetary policies, which caused inflationary pressures to intensify and disorderly conditions to emerge in the financial and exchange markets. By mid-1993, the authorities had responded decisively with the introduction of a 16-point program for economic adjustment aimed at restoring macroeconomic stability and, in particular, achieving a "soft landing." In 1994, however, the growth of aggregate demand, while moderating, remained high, and inflation accelerated to over 20 percent. Although certain structural factors, including increases in food prices, accounted for much of the acceleration, rapid growth in monetary aggregates also contributed to rising overall inflation.

In their discussion, Directors praised the impressive performance of the Chinese economy and the comprehensive reform program under way to advance its transformation to a market economy. Particularly noteworthy, they felt, were the recent reforms of the exchange and trade system, the ongoing reforms of the central bank and fiscal system, and the emerging initiatives in the enterprise and financial sectors.

Directors were of the view that a return to a more stable macroeconomic environment in 1995 would require tighter monetary and fiscal policies than currently planned, as well as faster progress with reforms in key areas, such as the state-owned enterprises, the financial sector, institution building, and further internal and external liberalization.

Table 17
CHINA: SELECTED ECONOMIC INDICATORS
(Annual percent change unless otherwise noted)

	1991	1992	1993	Proj. 1994
Domestic economy				
Real GNP	8.0	13.0	13.4	11.8
Unemployment rate				
Retail prices (period average)	2.7	5.4	13.0	21.7
External economy				
Exports, f.o.b. (in billions of U.S. dollars)	58.9	69.6	75.7	98.9
Imports, c.i.f. (in billions of U.S. dollars)	–50.2	–64.4	–86.3	–94.7
Current account balance (in billions of U.S. dollars)	13.3	6.4	–11.9	2.2
Overall fiscal balance (in percent of GNP)	–2.2	–2.3	–1.9	–2.1
External debt (in billions of U.S. dollars)	60.6	69.4	83.6	95.0
Debt-service ratio[1]	10.3	12.5	12.3	12.6
Real effective exchange rate (year-end; 1990 = 100)[2]	85.1	74.5	74.2	74.7[3]
Financial variables				
Gross national saving (in percent of GNP)	36.0	35.8	39.2	44.0
Gross domestic investment (in percent of GNP)	32.7	34.4	41.2	43.6
Broad money	26.4	31.3	24.0	36.8[4]
Interest rate (one-year time deposits, year-end)	7.56	7.56	10.98	10.98[4]

Note: Data in the table reflect information available at the time of the Board discussion.

[1]Debt service as a percentage of exports of goods and nonfactor services.

[2]In terms of the basket of currencies used in the IMF Information Notice System. A decline in the indices indicates a depreciation. For 1990–93, effective exchange rates are calculated on the basis of the weighted average of exchange rates in the official and swap markets. From 1994, they are calculated on the basis of the interbank market rate.

[3]November 1994.

[4]End of September 1994.

Considerable concern was expressed over demand pressures remaining excessive, with inflation accelerating to high levels in 1994. Directors viewed reducing inflation on a lasting basis as the key macroeconomic policy challenge facing the authorities. Success in this area would depend on implementing tighter financial policies in the near term and addressing areas that impeded macroeconomic policy reform, particularly weaknesses in the state-owned enterprises and in the infrastructure for macroeconomic policymaking and implementation.

Directors welcomed the authorities' intention to focus on the state-owned enterprise sector in 1995. They agreed that reform of this sector was one of the most challenging and important steps in the current stage of the reform process. They urged that immediate steps be taken to harden the budget constraints on these enterprises, particularly wages and access to bank credit, and urged the authorities to continue to encourage diverse ownership forms, including privatization. Reform of the state-owned enterprise sector would need to be supported by parallel reforms of the financial sector and the establishment of a transparent legal and regulatory framework. Many Directors noted that reform of social security benefits, including social safety net provisions, would be critical to the reallocation of labor that would accompany the restructuring process.

With regard to monetary policy, Directors noted the difficulty that had been experienced with monetary control in the context of large external surpluses and inadequate monetary instruments. They were of the view that actions were needed to strengthen monetary control. Directors encouraged the People's Bank of China to reduce lending and reorient itself toward short-term credits and to proceed with establishing open market operations and enhancing competition in the banking sector. Directors stressed that achieving and maintaining positive interest rates in real terms was a crucial element of the program for monetary restraint. They welcomed the enactment of the central bank law and hoped that it would help in formulating and implementing monetary policy that was more closely oriented to restoring and maintaining price stability.

Directors welcomed the comprehensive fiscal restructuring implemented in 1994 and noted that it would contribute to more effective demand management and to reducing regional disparities over the medium term. They strongly supported the authorities' plans to improve tax administration.

Directors also welcomed the successful implementation of the reform of the foreign exchange market and the unification of exchange rates in early 1994. Given the strong balance of payments position, Directors saw few obstacles to removing the remaining restrictions on current account transactions and strongly encouraged China to accept the obligations of the Fund's Article VIII at an early date.

Directors underlined the need to consolidate the progress made by fully liberalizing trading rights of domestic and foreign enterprises, dismantling nontariff barriers, and accelerating tariff reduction and simplification. They also urged the authorities to improve the quality of data and to increase public dissemination of data.

Directors considered that perseverance with the implementation of the reform program was essential for realizing the full potential of the Chinese economy and for continued improvements in living standards.

Ecuador

Directors met in May 1994 to discuss the Article IV consultation with Ecuador and approved its request for a stand-by arrangement (see section on Fund Support for Member Countries).

In the ten years following the onset of the debt crisis in 1982, Ecuador was faced with high inflation and declining per capita output and had difficulty in servicing its external debt. A new Government took office in 1992 and adopted a series of reform measures to turn the economy around. Tighter fiscal policies in 1993, combined with a policy that kept the nominal exchange rate approximately constant to anchor inflationary expectations, helped to cut the inflation rate sharply (from 60 percent in 1992 to 31 percent) and encouraged private capital inflows that substantially increased international reserves (Table 18). The combined public sector deficit was also reduced, from 3.9 percent of GDP in 1992 to 0.4 percent of GDP in 1993. Although the external current account deficit widened (from \$110 million to about \$470 million) because of a drop in world oil and banana prices, this weakening was more than offset by the higher-than-expected increases in capital inflows and net international reserves (the latter increased by about \$600 million in 1993). Despite worsening of Ecuador's terms of trade, real GDP growth remained positive in 1993, at 2.0 percent compared with 3.6 percent in 1992.

In late 1993 the authorities initiated efforts to deepen structural reforms and strengthen fiscal adjustment. Legislation to downsize the public sector and improve its efficiency was approved in November 1993, and legislation to deregulate the petroleum industry and open the sector to increased activity by private companies was passed in December. When the decline in world oil prices in late 1993 threatened to erode the fiscal gains achieved earlier in the year, the Administration submitted a tax reform bill that featured a sharp increase in the VAT rate. Congress rejected the VAT increase, and in January 1994 the authorities moved to strengthen public finances by increasing the domestic price of gasoline. At the same time, an austerity decree gave the Ministry of Finance increased power to limit government spending.

In their discussion, Directors commended the Government for the progress achieved in reducing inflation, increasing international reserves, and implementing structural reforms. They urged the authorities to persevere in the adjustment and reform effort, in order to improve Ecuador's economic prospects on a durable basis and to ensure continued foreign direct investment. In this regard, Directors welcomed the agreement reached with the commercial bank steering committee on a term sheet that contemplated debt- and debt-service-reduction operations as an important step toward achieving external viability.

Fiscal consolidation and structural reform were seen by the Board as key to a successful effort to foster economic growth by lowering inflation and durably reducing domestic and external imbalances. Adjustment of public sector tariffs and establishment of a system to stabilize oil revenue in the face of fluctuating world oil prices were seen as important elements of the fiscal program. In the near term, increased tax collections would depend on strict adherence to the

Government's plan to strengthen tax administration; beyond that, additional revenue sources would need to be identified and tax reform eventually undertaken. Such reform should aim to enhance tax equity, reduce the public sector's reliance on oil revenue, and increase outlays on infrastructure and social programs, especially those directed toward the poorest segments of the population. The authorities were also urged to formulate quickly a program to strengthen finances of the social security system.

Directors welcomed approval of legislation to improve public sector efficiency and increase private sector activity, including through the sale of public assets. They emphasized, however, that prudent fiscal and wage policies must be accompanied by suitably restrained credit policies; plans to lower reserve requirements and reduce the stock of open market bills should be tailored to progress in fiscal consolidation and inflation reduction. Directors also welcomed approval of legislation to reform the financial system and the authorities' plans to enhance central bank autonomy and strengthen bank supervision.

Directors noted Ecuador's application for accession to the GATT (and its successor organization, the WTO) and encouraged Ecuador and its partners in the Andean Pact to agree on a low and simple common tariff. The authorities were advised to resist protectionist pressures in implementing reference prices and agricultural price bands, and to overhaul those systems. Directors welcomed Ecuador's maintenance of a free interbank market for private foreign exchange transactions. They urged the authorities to develop more direct expenditure control mechanisms and to eliminate multiple currency practices for public sector transactions. Directors commended the authorities for their intention to tighten the fiscal stance further, in order to safeguard competitiveness, should capital inflows exert continued upward pressure on the currency.

Table 18

ECUADOR: SELECTED ECONOMIC INDICATORS

(Annual percent change unless otherwise noted)

	1991	1992	1993[1]	1994[2]
Domestic economy				
Non-oil real GDP	4.4	3.3	0.9	2.2
Urban unemployment (in percent)	8.5	8.9	. . .	. . .
Consumer prices (end of period)	49.0	60.2	31.0	20.0
External economy				
Exports, f.o.b. (in millions of U.S. dollars)	2,851	3,008	2,901	3,076[3]
Oil exports (in millions of U.S. dollars)	1,152	1,337	1,253	1,296[3]
Imports, f.o.b. (in millions of U.S. dollars)	2,207	2,048	2,326	2,472[3]
Current account balance (in millions of U.S. dollars)	–570	–111	–469	–693[3]
Overall balance (in millions of U.S. dollars)	–973	–1,009	–478	–698[3]
External debt (in percent of GDP, end of year)[3, 4, 5]	108.4	104.5	95.7	85.7
Debt-service due (in percent of exports of goods and nonfactor services)[3, 4, 5]	70.8	65.6	59.6	64.8
Real effective exchange rate (end of period)	—	6.6	19.9	. . .
Financial variables				
Combined public sector balance (in percent of GDP)[6]	–4.3	–3.9	–0.4	–0.5
Gross national saving (in percent of GDP)[3,4]	17.0	20.6	18.9	20.3
Gross domestic investment (in percent of GDP)	21.9	21.6	22.2	24.5
Money and quasi-money (M2)	55.0	56.5	46.7	27.5
Interest rate[7]	49.5	42.3	28.4	. . .

Note: Data in the table reflect information available at the time of the Board discussion.

[1]Estimated.

[2]Projected (under Fund-supported program).

[3]Before debt-reduction operations.

[4]Includes late interest on arrears to commercial banks.

[5]Includes obligations to the Fund.

[6]Includes interest payments on an accrual basis and the change in the floating debt of the Treasury; excludes late interest on arrears to commercial banks. Through 1993, includes statistical discrepancy (difference between deficit measured "above" and "below the line").

[7]On 90-day certificates of deposit, end of period.

Ghana

The Executive Board discussed the Article IV consultation with Ghana in June 1994. Because of slippages in the Government's economic recovery program during recent years and consequent macroeconomic deterioration, the authorities adopted policies in 1993 to restore financial discipline and improve Ghana's exter-

Table 19
GHANA: SELECTED ECONOMIC INDICATORS
(Annual percent change unless otherwise noted)

	1991	1992	1993[1]	1994[2]
Domestic economy				
Real GDP	5.3	3.9	5.0	5.0
Consumer price index	18.0	10.1	25.0	21.3
External economy				
Exports, f.o.b.	11.2	–1.1	6.6	13.3
Imports, f.o.b.	9.4	10.5	18.6	–6.7
Current account balance (in percent of GDP)	–3.6	–5.5	–9.4	–6.3
External debt outstanding (in percent of GDP)	54.4	60.7	76.2	94.9
Debt service (in percent of GDP)	4.5	4.1	7.2	7.2
Real effective exchange rate	3.6	–10.6	–12.7	. . .
Financial variables				
Government revenue and grants	46.1	–6.2	97.7	53.2
Total government expenditure	33.2	45.2	60.9	29.8
Broad money	19.9	52.9	27.4	5.0
Interest rate (in percent)[3]	20.0	25.4	32.0	. . .

Note: Data in the table reflect information available at the time of the Board discussion.
[1]Estimated.
[2]Program target.
[3]Discount rate on 91-day treasury bills.

nal position. Most program benchmarks were not met, however, although real GDP growth exceeded targets—rising by 5 percent in 1993 (Table 19). (Growth was largely attributable to good harvests and strong growth in mining output.)

The program's slippage was due to higher-than-expected expenditures, a shortfall in revenue from petroleum excise duties, and exchange rate changes that affected retail prices. In addition, budgetary receipts from petroleum taxes, sales taxes, and cocoa exports fell short of targeted levels. As a result, the overall deficit in 1993 was 2.5 percent of GDP.

Nonetheless, intensified collection and administrative improvements contributed to a healthy increase in both personal and company income tax receipts. Moreover, the Government was able to contain its wage bill despite mounting pressure from public sector unions. Development spending was also kept within the budgeted limits, and structural reform continued to progress.

Liquidity in the banking system expanded sharply because of lending by the Bank of Ghana, a reduction in the public's holdings of currency relative to deposits, and a rundown of banks' reserves. Despite these actions, broad money grew by 27 percent, driven by a strong increase in private sector credit. Consumer prices rose by 28 percent in 1993, more than double the 1992 rate.

Comparatively loose financial policies and heavy sales of foreign exchange by the Bank of Ghana contributed to disappointing external sector performance. The current account deficit widened sharply to 9 percent of GDP, and the balance of payments registered an overall surplus of $41 million, with reserves declining to 2.7 months of imports.

Directors noted that, notwithstanding progress made in stabilizing the economy and strong economic growth, the performance under the 1993 program fell short of expectations. In particular, improvement in the overall fiscal balance was only about one half of what had been envisaged. In addition, although the civil service wage bill was contained, there were substantial spending overruns in other areas of the budget. As a consequence, monetary targets were missed, inflationary pressures mounted, and the balance of payments position was weaker than expected.

The authorities' commitment to a comprehensive stabilization and structural adjustment program for 1994 was welcomed by the Board. The restoration of strict financial discipline and a reduction in inflation would be essential to external viability and sustainable growth. Directors observed that the progress made on expenditure control at the payments stage needed to be complemented by better monitoring at the commitment level. Directors noted with satisfaction both the 1994 program goal of a fiscal surplus and the broadly based strategy for achieving it. However, they encouraged the authorities to pass through unanticipated increases in oil import costs and to resist pressures for large public sector wage awards. Directors remarked that if necessary the Bank of Ghana should allow interest rates to rise in order to meet the program's objectives.

Directors supported Ghana's structural reform efforts. In particular, they welcomed the good progress being made on the divestiture program, which provided a clear signal of the Government's commitment to enhancing the private sector's role in economic development. Directors also expressed satisfaction that the operating costs of the Cocoa Board had been contained, that strong price incentives had been provided to cocoa farmers, and that the domestic marketing of cocoa had been liberalized.

Directors noted that the flexible exchange rate policy acted as a safety valve against weaknesses in policy implementation and in order to avoid undue losses of foreign exchange. But they also observed that the currency depreciation over the years may well have led to inflationary expectations and that greater exchange rate stability could contribute to greater price stability. They were agreed, however, that the first priority was to strengthen macroeconomic—particularly fiscal—policy.

External assistance to Ghana was expected to remain relatively high through the medium term. Directors therefore emphasized the importance of structural reforms and domestic resource mobilization as key elements in diversifying economic activity and achieving external viability. They welcomed Ghana's acceptance of the obligations of Article VIII.

Table 20
JAMAICA: SELECTED ECONOMIC INDICATORS
(Annual percent change unless otherwise noted)

	1991/92	1992/93	1993/94	1994/95[1]
Domestic economy				
GDP at constant prices	0.8	1.8	2.0	2.0
Unemployment rate (in percent)[2]	15.4	15.7	16.2	. . .
Consumer prices (period average)	68.6	57.5	24.5	32.0
External economy				
Exports, f.o.b. (in millions of U.S. dollars)	1,082.1	1,051.1	1,071.3	1,192.6
Imports, c.i.f. (in millions of U.S. dollars)	1,741.5	1,831.8	2,202.6	2,240.2
Current account balance (in percent of GDP; –, deficit)[3]	–6.8	–1.5	–5.4	–1.4
Overall balance (in millions of U.S. dollars)	42.4	170.1	136.5	343.9
External debt (in percent of GDP, end of period)[4]	116.9	108.0	97.9	89.8
Debt-service ratio (in percent of exports of nonfactor goods and services)[5]	28.5	26.6	23.9	21.2
Real effective exchange rate (end of period; –, depreciation)	–31.6	35.3	–8.7	. . .
Financial variables				
Central government balance (in percent of GDP)	4.1	4.2	3.5	1.9
Gross national saving (in percent of GDP)	16.2	19.3	18.3	21.6
Gross domestic investment (in percent of GDP)	21.1	19.4	22.6	22.6
Broad money (M)	60.9	49.2	49.3	23.0
Interest rate[6]	44.3	20.5	50.3	27.6[7]

Note: Data in the table reflect information available at the time of the Board discussion.
[1]Projected under the extended arrangement with the Fund.
[2]Calendar years.
[3]Excluding official grants.
[4]Includes use of Fund credit and projected purchases under the extended arrangement with the Fund.
[5]After rescheduling; includes projected purchases under the extended arrangement with the Fund.
[6]Average treasury bill yield, end of year.
[7]As of December 31, 1994.

Jamaica

Directors met in February 1995 to discuss Jamaica's Article IV consultation and the fourth review under the country's extended arrangement with the Fund.

Jamaica's real GDP grew by 2 percent in 1993/94 (the fiscal year begins on April 1), about the same rate as in 1992/93 (Table 20). Twelve-month inflation rose from 14.9 percent in June 1993 to 37 percent by March 1994 before declining to 26.7 percent in December 1994, with monthly inflation coming down to 0.7 percent in the latter month. Through a package of tax measures applied by the authorities in mid-1993–94, accompanied by stronger expenditure control, the impact of the early 1993 public sector wage increases was effectively contained, leading to the public sector balance for the fiscal year reaching a surplus of 1.6 percent of GDP. The public sector balance increased further to 3½ percent of GDP during the first half of 1994/95. Net domestic assets of the central bank contracted sharply in 1993/94, and, with tighter credit policy, market interest rates on treasury bills rose from around 20 percent at the end of 1992/93 to a peak of 52 percent in February 1994.

The Bank of Jamaica's net domestic assets continued the 1993/94 declining trend during the first half of 1994/95 as the central bank sterilized the monetary effect of the gain in net international reserves. Net international reserves reached $272 million at end-September 1994, substantially ahead of the program target. This performance reflected, first, strong improvement of the external current account balance, arising mainly from higher private transfers, and, second, high private capital inflows that could be partly explained by high domestic interest rates. As a result of these developments, Jamaica's overall balance of payments showed a surplus of $137 million in 1993/94, with the surplus rising to $215 million in the first half of 1994/95. The central bank's gross reserves increased to about $630 million by the end of September 1994.

In their discussion, Directors commended the authorities for the significant economic progress made under the extended arrangement. The tightening of fiscal and monetary policies that began in 1993/94 had been sustained, and structural reforms had continued—with the result that private sector confidence in the economy had improved. The sizable gain in international reserves over the past year had given Jamaica a much-needed reserve cushion. Directors cautioned, however, that public sector wage increases should be contained at a level commensurate with anti-inflationary efforts and the sustainability of the policy mix. They stressed the importance of forward-looking wage negotiations and of tying wage increases more closely to productivity gains in order to durably reduce inflation.

The recent uncertainty in international capital markets appeared to have had no adverse impact on Jamaica. Directors noted the possibility of some nominal appreciation of the currency occurring if private capital inflows remained high. They believed, however, that given trends in wages and prices, it would be important to limit any real appreciation of the currency. They thought the authorities should stand prepared to consider responses other than sterilization, if strong capital inflows persisted.

Directors noted that important structural reforms had been implemented in recent years, particularly the liberalization of the exchange and trade system and the privatization of public enterprises. Privatization was central to improving economic efficiency over the medium term, and Directors welcomed the authorities' intention to continue the process. They also welcomed the planned elimination of Bank of Jamaica losses in early 1995/96 and commended the authorities for reforms to improve the efficiency and comprehensiveness of the financial sector.

Under the extended arrangement with the Fund, Jamaica's medium-term balance of payments prospects had improved considerably. The external debt-service burden had declined appreciably in recent years. Directors cautioned, however, that the country remained vulnerable to exogenous developments. Jamaica would need to maintain its current strong fiscal position, combined with a restrained monetary policy, to ensure continuation of external viability with low inflation in the medium term.

Jordan

Directors completed the Article IV consultation with Jordan in May 1994. At that time, they also approved its request for a three-year extended arrangement (see section on Fund Support for Member Countries).

The Board discussion was conducted in the context of the progress Jordan had made on the macroeconomic and balance of payments fronts under a two-year stand-by arrangement with the Fund ending in February 1994. After several years of stagnation, real GDP growth had averaged over 10 percent in 1992–93 while inflation had dropped below program targets to 4–5 percent (Table 21). The strong economic growth, combined with the impact of fiscal measures and lower interest payments, had reduced the fiscal deficit much faster than had been anticipated. Meanwhile, the external current account and overall balance of payments deficits had narrowed beyond expectations, reflecting increased private sector investment, improved trade incentives, and prudent exchange rate management. Also, through a prudent debt-management policy, the burden of external debt in relation to GDP was reduced to 128 percent by the end of 1993, compared with the peak of 193 percent in 1990.

In their discussion, Directors commended the Government's achievements under the program supported by the extended arrangement, as well as its adoption of a medium-term adjustment and structural reform program aimed at generating an average real growth rate of 6 percent while holding inflation at or below 5 percent. They characterized the program's two-pronged medium-term economic strategy—further progress in macroeconomic stabilization and continued structural reform in priority areas—as comprehensive and well focused. Directors noted that, to achieve the first goal, further sustained improvements in public and private sector saving were needed. In the area of structural reform, the Board encouraged the Government to elaborate the details of the envisaged reforms and to accelerate the pace of their implementation. Reform of the direct and indirect tax systems and improvements in the quality of public expenditure and the regulatory framework for private sector investments were singled out as priority areas; in that connection, Directors welcomed the planned introduction of the General Sales Tax law, which was effectively introduced on June 1, 1994, one month ahead of the planned date of introduction.

Directors also noted the authorities' intention to support the stabilization efforts by maintaining a prudent monetary and credit stance. They commended the progress made in attaining the objective of implementing indirect monetary controls by mid-1994 through the issuance of certificates of deposit denominated in Jordan dinars. They also supported the authorities' intention to streamline certain credit facilities and promote the development of the domestic interbank market.

Directors endorsed the authorities' exchange rate policy, which, bolstered by appropriate macroeconomic policies, had stabilized the nominal exchange rate in recent years. The Board also emphasized that, despite the favorable external sector developments of the past two years, the goal of achieving balance of payments viability by 1997 remained ambitious, especially in light of the country's heavy debt burden and vulnerability to adverse exogenous shocks, including regional developments and shifts in private investors' sentiments. To help expand the domestic export base—and to reduce the external current account deficit to targeted levels—the Government would have to continue to implement its medium-term strategy of domestic demand restraint, price stability, and deepened structural reforms. Despite the progress made in reducing external debt and the debt-service ratio and in normalizing relations with external creditors, Jordan's need for exceptional financing would persist for several years to come. Nevertheless, Directors considered that continued implementation of strong adjustment and debt-management policies, and the envisaged acceleration in the pace of aid disbursements, would enhance Jordan's prospects for regaining balance of payments viability in the medium term.

The Board noted the further liberalization of the exchange system and welcomed the Government's intention to accept obligations under Article VIII. Jordan accepted these obligations with effect from February 20, 1995.

Table 21
JORDAN: SELECTED ECONOMIC INDICATORS
(Annual percent change unless otherwise noted)

	1991	1992	1993	1994[1]
Domestic economy				
Domestic demand	0.8	32.0	9.1	4.9
Real GDP	1.8	16.1	5.8	5.7
Consumer price index	8.2	4.0	4.8	3.5
External economy				
Exports, f.o.b. (in millions of U.S. dollars)	1,132	1,220	1,248	1,442
Imports, c.i.f. (in millions of U.S. dollars)	2,571	3,339	3,541	3,556
Current account balance (in percent of GDP)[2]	–17.0	–14.4	–11.6	–8.8
Overall balance (in millions of U.S. dollars)	–267	–488	–571	–503
External debt (in percent of GDP)	163.8	128.1	128.2	109.0
Debt-service ratio (in percent of exports of goods and services)	41.9	36.1	35.0	25.3
Exchange rate (Jordan dinar/ U.S. dollar)	1.4689	1.4712	1.4434	1.4312
Financial variables				
Overall fiscal balance (in percent of GDP)[3]	–17.4	–3.4[4]	–5.6	–5.1
Gross national saving (in percent of GDP)	5.0	13.4	14.2	13.3
Gross national investment (in percent of GDP)	23.7	30.0	31.8	28.6
Broad money	24.5	7.9	6.9	8.0

Note: Data in the table reflect information available at the time of the Board discussion.
[1]Estimated.
[2]Including grants.
[3]Excluding foreign grants.
[4]Including the effect of an estimated 3.5 percent of GDP in nonrecurrent revenues.

Korea

The Board's 1994 Article IV consultation with Korea took place in September 1994 against a background of sustained output growth. Following an economic slowdown in 1992 caused mainly by the implementation of measures to restrain domestic demand, output picked up in 1993, supported by the continued buoyancy of exports and the gradual recovery of domestic demand (Table 22). Economic activity gained further momentum in the first half of 1994 as investment in equipment and consumer spending increased. Meanwhile, after falling to $4^{1}/_{2}$ percent by the end of December 1992, consumer price inflation rose to 6 percent in 1993 because of a surge in food prices and continued at that pace into 1994.

Table 22
KOREA: SELECTED ECONOMIC INDICATORS
(Annual percent change unless otherwise noted)

	1991	1992	1993	1994[1]
Domestic economy				
Real final domestic demand	10.5	3.9	4.7	7.9
Real GNP	9.1	5.0	5.6	7.9
Unemployment rate	2.3	2.4	2.8	2.6
Consumer price index	9.3	6.2	4.8	5.6
External economy				
Exports, f.o.b. (in billions of U.S. dollars)	69.6	75.2	81.0	87.7
Imports, c.i.f. (in billions of U.S. dollars)	76.6	77.3	78.9	88.2
Current account balance (in percent of GNP)	–3.0	–1.5	0.1	–0.8
Overall balance (in billions of U.S. dollars)	–3.7	4.9	6.5	–2.5
External debt (in percent of GNP)	14.5	14.0	13.3	. . .
Debt-service ratio (in percent of exports of goods and services)	6.0	6.0	9.1	. . .
Real effective exchange rate	–0.4	–0.9	–1.3	2.4[2]
Financial variables				
Consolidated central government balance (in percent of GNP)	–1.9	–0.7	–0.3	–0.6
Gross national saving (in percent of GNP)	36.3	35.0	34.9	35.9
Gross domestic investment (in percent of GNP)	39.3	36.5	34.8	36.7
Broad money (annual average)	18.6	18.4	18.6	15.9[3]
Interest rate (yield on corporate bonds, period average)	18.9	16.2	12.6	12.4[3]

Note: Data in the table reflect information available at the time of the Board discussion.
[1]Projected.
[2]Average for March.
[3]Through June.

Driven by the strong export performance and the slow recovery of imports, the current account registered a small surplus in 1993 after three years of deficits; large inflows of long-term capital in the same year contributed to a substantial balance of payments surplus. After a 6 percent depreciation from December 1992 through August 1993, the won appreciated by 2 percent in nominal effective terms in the last three months of 1993.

Broad money growth accelerated temporarily in the wake of the introduction of the "real name system" (which banned the use of false or borrowed names) in August 1993 but subsided to just above the top of the target band by the end of the year. Monetary expansion decelerated further in the first half of 1994. On the fiscal side, cutbacks in expenditure in the first half of 1993 in response to an anticipated revenue shortfall produced an unexpected surplus for the year as a whole, since revenues turned out close to the original budget targets. Available 1994 data suggested that revenues were running slightly ahead of budget projections, generating a better-than-expected position for the consolidated central government.

In their discussion, Directors noted Korea's remarkable economic performance since 1960—a period in which it has transformed itself from one of the world's poorest countries (with per capita income below $150) to the twelfth-largest economy, accounting for 2¼ percent of world trade. They commended the authorities for that record, attributing the sustained success to a high investment rate supported by a high private saving rate, a conservative fiscal policy, a strong emphasis on education and human capital accumulation, and an increasingly outward orientation of the economy.

Directors agreed that, with the economy approaching full employment, the main macroeconomic policy challenge was to sustain the economic expansion while avoiding a renewed bout of inflation. Because growth had shown continued strength and the unemployment rate had dropped further to just over 2 percent, Directors saw a clear case for an early tightening of financial policies and emphasized that such an action would obviate the need for more difficult measures at a later stage.

The Board commented that the task of containing demand pressures might be complicated by the prospect of continuing large capital inflows. In light of the authorities' concern that such inflows could contribute to inflationary growth of the money supply or an appreciation of the won—thereby undermining export competitiveness—Directors agreed that a set of policies emphasizing fiscal restraint and structural measures to liberalize imports and capital outflows could be helpful. At the same time, a number of Directors emphasized that a somewhat stronger currency would have beneficial effects on inflation and should not detract significantly from the economy's strong competitive position.

In view of the cyclical situation, and given the need for fiscal policy to play a greater role in restraining aggregate demand, Directors emphasized the need for a significant withdrawal of stimulus in 1995. They welcomed the recent decision to aim for a surplus in the 1995 budget while noting the difficulty of achieving such a stance, especially in light of the Government's commitment to strengthen infrastructure and improve the provision of public goods.

On monetary policy, Directors observed that the central bank's flexible approach to monetary targeting in recent years had been successful. However, with financial sector reform moving ahead and the patterns of financial intermediation changing, the assessment of the monetary stance would increasingly need to rely on a broader range of indicators. Directors endorsed the central bank's latest efforts to push up short-term interest rates to achieve monetary growth at the lower end of the target band in 1994.

The Board welcomed the authorities' commitment to steady implementation of structural reforms and agreed that financial sector reform and capital account liberalization should have top priority. On trade policy, Directors supported the continuing efforts to phase out barriers to agricultural imports and urged the Government to go further in that direction.

Table 23
MALAYSIA: SELECTED ECONOMIC INDICATORS
(Annual percent change unless otherwise noted)

	1991	1992	1993[1]
Domestic economy			
Domestic demand	18.0	2.5	10.7
Real GDP	8.7	7.8	8.5
Unemployment rate (in percent)	4.3	3.7	3.0
Consumer price index (period average)	4.4	4.7	3.6
External economy			
Exports, f.o.b. (in billions of U.S. dollars)	33.5	39.6	45.9
Imports, f.o.b. (in billions of U.S. dollars)	33.0	36.2	42.5
Current account balance (in billions of U.S. dollars)	–4.2	–1.6	–2.5
Overall balance (in billions of U.S. dollars)	1.2	6.9	10.2
Real effective exchange rate (annual average, percent change)	–2.9	6.3	–1.0
Financial variables			
General government balance (in percent of GNP)	–2.7	–1.0	0.2
Gross national saving (in percent of GNP)	29.5	32.6	33.1
Gross domestic investment (in percent of GNP)	38.8	35.6	37.1
Broad money (end of year, percent change)	13.7	18.0	22.8
Interest rate (interbank, in percent)	7.6	8.1	7.2

Note: Data in the table reflect information available at the time of the Board discussion.
[1]Preliminary.

Malaysia

In September 1994, Directors met to discuss the Article IV consultation with Malaysia. The discussion took place against the background of Malaysia's impressive economic performance over the past two decades. Following a slowdown in 1992 and early 1993, brought on in part by tighter financial policies, activity picked up momentum (Table 23). Inflation remained moderate in 1993. Real output growth rose by $8^1/_2$ percent in 1993 and the first quarter of 1994. This new growth was driven by domestic factors, particularly private consumption and investment, and a rise in exports, reflecting the improved performance of Malaysia's main trading partners.

Total investment expanded by 16 percent in 1993, up sharply from 2 percent in 1992. Public investment increased by $12^1/_4$ percent in 1993, compared with 11 percent in 1992, reflecting a greater emphasis on infrastructure upgrading. The unemployment rate fell to 3 percent in 1993 from 4 percent in 1992, with shortages in high-skill areas becoming acute. Directors noted that the Malaysian authorities' ongoing commitment to policies promoting macroeconomic stability, foreign investment, an increasingly open trading system, and a flexible labor market was largely responsible for the economy's strong performance. The major challenge facing the authorities, as seen by the Directors, was the need to avoid overheating of the economy. Signs indicated that price and wage pressures were rising; these pressures needed to be reduced. Also, policies needed to take account of the high level of capital inflows.

Directors commented on the appropriate policy mix under such circumstances. In this context, they noted that while fiscal policy could make a contribution to containing demand pressures, the burden of attaining the needed degree of restraint would ultimately fall on monetary and exchange rate policies.

Directors commended the authorities for the strength of the fiscal position that had been attained in recent years. Some Directors suggested that the authorities adopt a more ambitious target than that of maintaining an overall budget balance over the medium term. The authorities' intention to replace direct taxes with indirect taxes in order to enhance the incentives to work, save, and invest was supported by Directors. In that vein, they also supported plans to consolidate the present sales and services taxes into a broadly based consumption tax.

Directors observed that in the recent past surging capital inflows had complicated the conduct of monetary policy. Although steps had been taken by the authorities to tighten monetary policy, Directors viewed monetary policy during the past year as broadly accommodative. In particular, they saw a risk that credit demand would rise as the economic expansion continued, Directors felt that, in these circumstances, there was merit in the adoption of further monetary policy measures that could contribute more actively to restraining demand pressures. Recognizing that the increased integration of Malaysia's financial market with those of other countries had limited the scope of maintaining interest rates significantly above world levels, and the desirability of maintaining an open capital account, Directors felt that an upward movement in the ringgit exchange rate could be accommodated to maintain monetary restraint without affecting external competitiveness in view of the strong external position.

Rapid growth in Malaysia had been accompanied by rising wage costs, and consequently the competitiveness of more labor-intensive industries had been reduced. This led Directors to observe that maintaining the rapid growth would require that production continue to shift toward higher value-added industries. They noted that such a shift should be facilitated by the authorities' commitment to providing increased budgetary resources for education and training. Considering the role of fiscal incentives in Malaysia's economic development, Directors cautioned against their pervasive use, lest they introduce distortions in the allocation of resources.

Mali

Directors met in October 1994 to discuss Mali's Article IV consultation report; the discussion also included a midterm review of the country's second annual ESAF arrangement (see section on Fund Support for Member Countries). After two years of mixed economic performance, the Malian authorities resolved in early 1994 to take additional steps to restore sustainable growth and financial viability over the medium term. Their strengthened and broadened adjustment strategy, conceived in the context of increased regional cooperation and integration, involved three main elements: (1) the zonewide 50 percent devaluation of the CFA franc, effective January 12, 1994; (2) strong supporting financial policies to limit inflation and ensure that the devaluation restores long-term competitiveness; and (3) structural reforms to accelerate private sector development.

Developments under the adjustment program during the first half of 1994 were encouraging (Table 24). Inflation was more moderate than projected. The devaluation helped boost export activities, especially of the agricultural sector, while imports dropped appreciably. There were also sizable reflows of capital and a larger-than-anticipated improvement in the net foreign assets of the banking system. Structural measures included the implementation of flexible pricing policies, the strengthening of reforms in the agricultural sector, and the acceleration of public enterprise reforms. At the same time, customs duties and certain domestic taxes were reduced to moderate cost and price increases, as well as to lower external protection.

To contain the fiscal deficit at the equivalent of some 15 percent of GDP in 1994, special emphasis was placed on broadening the tax base, strengthening the collection process, reducing tax fraud, and abolishing ad hoc exemptions. On the spending front, the authorities have been very prudent; total government expenditure for the first half of the year was lower than projected. A pivotal element of the fiscal program was implementation of a restrained wage policy.

Credit conditions in Mali were generally tight in 1994. At the same time, commercial banks became increasingly liquid for several reasons: a return of flight capital, the improved financial position of exporters, the weak demand for private sector credit, and the very cautious lending stance adopted by commercial banks.

Directors commended the Malian authorities for the strengthening and broadening of their medium-term adjustment strategy, including the devaluation of the CFA franc, which was a key condition for the achievement of sustainable economic growth and financial viability. Directors noted that the comprehensive adjustment program had been implemented in difficult circumstances and that all performance criteria and benchmarks for end-March and end-June 1994 had been observed.

Directors commented that the authorities had succeeded in keeping inflationary pressures in check after the initial price shock following the devaluation while avoiding price controls and subsidies. In addition, they welcomed the package of fiscal measures. Directors noted that the significant depreciation of the real effective exchange rate had elicited a positive supply response in several sectors, notably through an increase in intraregional trade, including a rise in livestock and agricultural exports, and considerable improvement in the cotton sector.

Directors remarked, however, that despite the encouraging results, Mali's per capita income remained very low with a still fragile economy. Directors noted that fiscal imbalances were still important and that it would require continued efforts to reform the tax system, improve revenues, and contain expenditures. In that connection, further technical assistance would play an important role. They underscored the need for the authorities to continue to provide adequate allocations for health and education services, as well as for the programmed social safety net measures.

The pursuit of a prudent monetary policy was considered essential. Directors encouraged the authorities to strengthen their efforts to coordinate fiscal and monetary policies within the framework of the West African Economic and Monetary Union (WAEMU). They noted the authorities' intention to reduce domestic payments arrears with technical assistance from the World Bank. Directors indicated that the Government's securitization scheme of the consolidated government debt (assumed by the Government during the restructuring of the banking system in the late 1980s), aimed partly at absorbing the increased liquidity of the banking system, could be better structured, with the interest rate set by the market. Moreover, it was essential that commercial banks support economic activity through their lending operations without deviating from sound banking practices.

Directors remarked that the CFA franc devaluation gave the authorities an opportunity to strengthen the momentum of structural adjustment. Increasing efficiency and production in the agricultural sector was indispensable for Mali's economy to reap the full benefits of the devaluation. For example, in the cotton sector the implementation of the new performance contract and the maintenance of flexible producer prices—based on the evolution of world market prices—were seen as crucial. In the industrial and mining sectors, the vigorous pursuit of the reform and privatization program was also considered crucially important for diversifying production and increasing the profitability of a number of activities.

Directors also encouraged the authorities to accept the obligations of Article VIII at an early date.

Table 24
MALI: SELECTED ECONOMIC INDICATORS
(Annual percent change unless otherwise noted)

	1991	1992	1993	1994[1]
Domestic economy				
Real GDP	–2.5	7.8	–0.8	2.4
Primary sector (in percent of GDP)	46.3	47.2	44.9	. . .
GDP deflator	2.1	1.9	2.6	35.1
External economy				
Exports, f.o.b.	9.1	–11.4	8.7	100.9
Imports, c.i.f.	7.2	1.5	–1.6	99.1
Current account balance (in percent of GDP)[2]	–14.0	–15.0	–12.9	–19.0
Overall balance of payments (in millions of SDRs)	101.2	–5.6	3.7	72.5
External payments arrears (net change in millions of SDRs)	2.9	9.9	12.6	–24.0
Debt-service ratio[3]	17.2	19.8	19.1	22.4
Real effective exchange rate	–3.5	–7.4	–2.0	–42.8
Financial variables				
Overall fiscal deficit[4] (in percent of GDP)	–12.3	–11.2	–9.6	–14.2
Gross domestic savings (in percent of GDP)	6.5	4.6	6.6	5.3
Gross domestic investment (in percent of GDP)	23.1	21.9	21.9	26.9
Money and quasi-money	12.5	3.4	8.4	36.2
Interest rate[5]	10.6	10.1	7.3	. . .

Note: Data in the table reflect information available at the time of the Board discussion.
[1]Projected.
[2]Excluding official transfers.
[3]Excluding debt service to China and the former U.S.S.R.
[4]On commitment basis and excluding grants.
[5]End-of-period rate on overnight deposits in the money market of the Union Monetaire Ouest Africaine (UMOA); for 1993, end-of-period rate in the money market of the UMOA.

Morocco

The Board discussion on Morocco took place in July 1994. Morocco has made significant progress in macroeconomic adjustment and structural reforms over the past decade. Although economic activity suffered in 1992–93 as a result of a severe drought, the average annual rate of inflation, as measured by the

Table 25
MOROCCO: SELECTED ECONOMIC INDICATORS
(Annual percent change unless otherwise noted)

	1991	1992	Prel. 1993	Proj. 1994
Domestic economy				
Real GDP	6.2	−4.1	0.2	9.0
Consumer prices (annual average)	8.0	5.7	5.2	5.0
External economy				
Exports, f.o.b. (on the basis of SDR value)	0.4	−9.7	−6.9	9.0
Imports, f.o.b. (on the basis of SDR value)	−1.3	4.0	−8.7	7.5
Current account balance (in percent of GDP)[1]	−2.3	−2.2	−2.5	−2.3
Overall balance (in millions of SDRs)[2]	−126	−36	284	271
External debt (in percent of GDP)[3,4]	69.9	72.1	74.1	67.1
Debt-service ratio (before debt relief)[4]	40.5	37.3	38.1	34.7
Real effective exchange rate	0.1	0.6	1.0	3.0
Financial variables				
General government balance (in percent of GDP)[5]	−3.1	−2.1	−3.5	−1.9
Gross national saving (in percent of GDP)	21.7	21.8	21.5	20.2
Gross national investment (in percent of GDP)	22.8	23.0	23.1	22.2
Broad money (M2)	16.8	9.3	8.2	8.5
Interest rate (five-week treasury bills)	9.8	10.5	8.0	. . .

Note: Data in the table reflect information available at the time of the Board discussion.
[1]Before official grants.
[2]Before debt relief.
[3]Includes use of Fund credit.
[4]In percent of exports of goods, nonfactor services, and private transfers.
[5]On cash basis; excluding grants.

consumer price index, dropped to 5.2 percent in 1993 (Table 25). During 1993, a watershed year for the Moroccan economy, the authorities managed to restore financial equilibria, substantially reduce the natural and policy-induced weaknesses in the economy, and "graduate" Morocco from the prolonged use of Fund resources and from debt rescheduling.

In 1993, even with the economy buffeted by a second year of drought, sluggish economic activity in Morocco's main trading partners, and a further deterioration in the terms of trade, the authorities managed to implement reforms. These were aimed at further opening the economy and improving resource allocation; strengthening the financial system and improving financial intermediation, by adopting a new banking law and revising the statutes of the central bank; and widening the scope of private sector activity by selling the first batch of 10 of 112 enterprises targeted for privatization.

Despite a sharp drop of 8.7 percent in the terms of trade, the trade balance narrowed in 1993, owing to a larger drop in import payments than in export receipts. Export proceeds suffered from a weak export market for phosphates, the depressed economic activity in importing markets, and the effects of the drought on agricultural exports. Nonetheless, the balance of payments for 1993 recorded a surplus amounting to SDR 284 million.

In their discussion, Directors commended the authorities for the substantial progress made since the early 1980s in strengthening the macroeconomic situation, liberalizing the economy, and achieving a sustainable external position. They noted that, despite exogenous adversities in 1993, Morocco had continued to pursue prudent macroeconomic policies and structural reforms, which allowed improved growth prospects and a stronger external position.

Morocco's acceptance of the obligations of Article VIII, Sections 2, 3, and 4 was welcomed by Directors, as was the virtual abolition of quantitative trade restrictions, the further reduction in import tariffs, the privatization of a first group of public enterprises, and measures to reform the financial sector.

To reduce the high levels of unemployment and raise living standards, Directors were of the view that the main challenge in the coming years would be to move the economy to a higher sustainable growth path. They noted that higher growth would require increased private investment, a reduced budget deficit, promotion of private sector saving, and higher inflows of foreign direct investment. Increases in productivity were also seen as essential.

Directors felt that 1994 would provide a base to move ahead with further structural reforms, in light of the rebound in agricultural production and the recovery in key export markets. Concern was expressed about the signs of excessive liquidity in the economy and the danger that inflation could be reignited unless tighter monetary policy was maintained, along with continued deficit reduction. Directors agreed that there was a need to take concrete measures to reinforce the fiscal position, including possible contingency measures.

In their discussion, Directors stressed the critical need to press ahead with further reforms of the financial system, including the elimination of the remaining interest rate controls and the requirement that banks hold government paper at below-market interest rates. The new securities law was seen as contributing to the deepening of financial markets and strengthening saving. Directors felt that the financial sector reforms would also facilitate the move toward the conduct of monetary policy through market-based indirect policy instruments.

Directors welcomed the acceleration in the privatization of public enterprises and the authorities' intention of extending privatization beyond the enterprises that were currently scheduled to be privatized.

Several Directors noted that the move to current account convertibility should be followed by the establishment of a broadly based foreign exchange market, together with a range of additional financial sector reforms. It was pointed out that other countries had an important role to play in removing trade measures that artificially limited Morocco's export potential.

Table 26
SOUTH AFRICA: SELECTED ECONOMIC INDICATORS
(Annual percent change unless otherwise noted)

	1991	1992	1993	1994[1]
Domestic economy				
Domestic demand	–0.7	–1.3	1.4	3.7
Real GDP	–1.0	–2.2	1.1	2.0
Nonagricultural employment[2] (1990 = 100)	97.9	95.8	93.4	91.6[3]
Remuneration per nonagricultural worker	16.1	15.4	10.6	. . .
Consumer price index	15.3	13.9	9.7	. . .
External economy				
Merchandise exports, non-gold (in billions of U.S. dollars)	16.2	17.2	17.3	17.8
Gold exports (in billions of U.S. dollars)	7.1	6.4	6.8	7.0
Merchandise imports (in billions of U.S. dollars)	17.2	18.2	18.3	20.5
Current account balance (in percent of GDP)	2.0	1.2	1.5	–0.2
Real effective exchange rate (period average)	3.8	3.8	–2.7	–4.3[4]
Financial variables				
Central government balance (in percent of GDP)	–4.4	–8.3	–6.9	–6.6
Gross national saving (in percent of GDP)	19.5	17.2	17.6	. . .
Gross fixed investment	–7.4	–5.3	–3.4	5.7
Broad money	12.3	8.0	7.0	14.0
Prime rate (period average)	20.3	18.9	16.2	15.5[5]

Note: Data in the table reflect information available at the time of the Board discussion.
[1]Projected.
[2]Total public and private (includes general government, business enterprises, mining, and manufacturing).
[3]End of first quarter 1994, seasonally adjusted.
[4]Through October.
[5]Through November.

South Africa

The Article IV consultation with South Africa took place in January 1995 following a year of fundamental political change. It was clear by late 1993 that the most immediate problems facing South Africa were confidence related. Consequently, the African National Congress, even before it was elected to government in April 1994, voiced its commitment to eschewing policies perceived to imperil confidence—interventionist regulation, excessive fiscal and monetary spending, and confiscatory tax increases—and to strengthening market forces.

The first budget of the new Government, presented in June 1994, targeted a ½ percentage point reduction in the deficit, to 6.6 percent of GDP. Moreover, it eliminated the 5 percent surcharge on imports of capital and intermediate goods and cut the corporate profits tax. The budget helped to allay fears that the Government's Reconstruction and Development Program, which promised reform in critical areas such as housing, education, health, and landownership, would lead to financial instability.

Monetary conditions were eased appreciably in 1994, and inflation picked up slightly in midyear (Table 26). During this time, the Reserve Bank's pronouncements were aimed at safeguarding its anti-inflationary credibility. The most fundamental change in South Africa's economic circumstances has been its renewed access to foreign markets for trade and capital, and the most telling signal of the new Government's economic ideology has been its broad advocacy of free trade. Tariff protection has been simplified and is being lowered, and special export subsidies are being phased out.

Despite generally reassuring macroeconomic policies in 1994, South Africa's real GDP was unlikely to rise by much more than 2 percent for the year. In addition, the unemployment outlook was dire, with an estimated 45 percent of the labor force unable to find employment in the formal economy during 1994.

Directors congratulated South Africa on its momentous transition to democratic rule and characterized the announced macroeconomic policies of the new Government as prudent. The Government's endorsement of a more liberal trade regime and its move toward fiscal retrenchment were especially welcomed. Directors observed that improved business and external confidence were contributing to social and political stability.

Directors noted that real GDP growth had remained slow for two years into the economic recovery, and they expressed concern that the modest growth projected for the medium term would be insufficient to arrest the upward trend in unemployment. Moreover, the recent increase in inflation and the disappearance of the external current account surplus suggested that the unemployment problem was structural, particularly related to the rise in labor costs. Directors, therefore, urged that the authorities give the highest priority to easing rigidities in the labor market.

Resolving the labor cost problem would require some combination of real wage containment and worker training to boost productivity. In ideal conditions, Directors believed that real wage correction would be brought about by breaking the inflation inertia in nominal wage settlements.

Many Directors believed that the exchange rate could also play a useful role—at the right time—in correcting the competitiveness problem. They stressed, however, that any depreciation of the rand must be considered in the context of real wage correction and labor market reform and be supported by macroeconomic policies; otherwise, it might spark a wage-price spiral.

Directors expressed support for the Government's medium-term fiscal stance. By announcing appropriate targets and adhering to them, the Government would establish a track record of responsible fiscal management. Directors also welcomed the authorities' commitment to undertaking the Reconstruction and Development Program within a stringent medium-term fiscal framework.

It was observed that monetary policy had been conducted in an unusually difficult environment in 1994. Nevertheless, the upturn in inflation and the sharp deterioration in the external current account suggested that the monetary stance had been insufficiently restrictive. Directors hoped that policy changes and the continued vigilance of the Reserve Bank would correct the problem in 1995.

Directors were optimistic that the ending of financial sanctions against South Africa had eased the external constraint that had existed for the past decade. They stressed the importance of foreign direct investment and observed that significant inflows would be contingent on an improvement of South African competitiveness.

Thailand

In July 1994, the Board met to discuss the Article IV consultation with Thailand. The discussion took place in the immediate context of a pickup in the Thai economy and a rise in inflationary pressures, as well as in the broader context of the infrastructure strains caused by the rapid growth of the past three decades.

Since 1965, real GDP in Thailand has grown at an average annual rate of 7¾ percent, resulting in a five-fold increase in per capita incomes. In the process, the economy has been transformed: agriculture's share of output dropped from 35 percent in 1965 to 11 percent in 1993, while the shares of services and manufacturing correspondingly increased. Economic activity, which was hampered in the first half of 1993 by the effects of a drought on the agricultural sector and by a slowdown in exports, began to regain momentum in the second half of the year, owing to a strengthening of domestic demand and a resurgence of growth in most of Thailand's main trading partners (Table 27). In view of the low rate of unemployment and the high degree of capacity utilization, there was a risk as the upturn continued into 1994 that unchecked demand could lead to higher inflation.

As regards external developments, the sizable imports of capital goods required by the rapid industrialization of the economy have generated large trade deficits in recent years. The current account deficit was estimated to be about 5¼ percent of GDP in 1993, slightly smaller than in the previous year, while the capital account surplus was estimated at about 9½ percent of GDP. Overall, the balance of payments surplus was estimated to have risen to about 3¼ percent of GDP in 1993, from about 2¾ percent in 1992.

Interest rates fluctuated markedly in 1993 and early 1994. Short-term rates rose to over 8 percent in the first half of 1993 before falling to 4 percent by the end of the year, reflecting a drop and subsequent resurgence in liquidity. Short-term rates rose to 7 percent in March 1994 as the Bank of Thailand moved to tighten monetary conditions. On the fiscal front, the 1993/94 central government budget, which followed recent budgets in restraining current spending while increasing capital expenditure, called for a surplus of 1 percent of GDP—against the 2 percent surplus recorded in the previous year, which had been much larger than budgeted.

In its discussion, the Board commended the remarkable performance of the Thai economy, which it attributed to the authorities' commitment to macroeconomic stability, a prudent fiscal policy, an increasingly open trading system, and a flexible labor market.

Directors agreed that demand pressures were likely to intensify in 1994, and they supported the authorities' decision to tighten financial policies. In that connection, the Board welcomed the intended moderate strengthening of the budgetary position for the 1994/95 fiscal year. Although it recognized the importance of reducing the gap between private and public sector wages, the Board expressed concern about the size of the planned increase in public sector wages.

Directors noted that, in any event, the room for a contribution by fiscal policy to restraining demand was limited. On the revenue side, recent tax reforms constrained the authorities' ability to change tax rates; on the expenditure side, the increased demand for spending in the priority sectors of infrastructure, rural development, and education would limit further reductions.

In view of those constraints, the Board agreed with the Government that the burden of combating excess demand would fall mainly on monetary policy. However, the policy of maintaining the external value of the baht in a narrow range against a basket of currencies, and the increasing integration of Thai financial markets with those of other countries, could make it difficult for domestic interest rates to differ from international norms. Several Directors suggested that a broadening of the range would allow the authorities to pursue a somewhat more independent interest rate policy.

Directors supported the authorities' structural reform program. They encouraged the Government to continue its efforts to stimulate competition and improve prudential oversight in the financial sector, as well as to restructure tariffs and accelerate the privatization program. The Government's increasing focus on rural development was also welcomed, since the provision of infrastructure in the peripheral areas of the country would not only reduce the current imbalances in the distribution of income but also would lower the social and environmental costs arising from Bangkok's rapid development.

The Board considered that the continuation of Thailand's strong growth would depend on its mov-

Table 27
THAILAND: SELECTED ECONOMIC INDICATORS
(Annual percent change unless otherwise noted)

	1991	1992	1993[1]	1994[2]
Domestic economy				
Real domestic demand	8.7	5.3	7.3	9.5
Real GDP	8.1	7.6	7.8	8.2
Unemployment rate	3.1	3.0	3.2	2.6
Consumer price index	5.7	4.1	3.3	5.0
External economy				
Exports, f.o.b. (in billions of U.S. dollars)	28.3	32.2	36.6	42.2
Imports, c.i.f. (in billions of U.S. dollars)	37.8	40.1	45.1	52.7
Current account balance (in percent of GDP)	–7.5	–5.6	–5.3	–6.0
Overall balance (in billions of U.S. dollars)	4.2	3.0	3.9	2.7
External debt (in percent of GDP)	38.4	39.2	41.1	40.6
Debt-service ratio (in percent of exports of goods and services)	10.2	11.0	10.7	10.9
Real effective exchange rate	0.2	–1.6	–0.2	. . .
Financial variables[3]				
General government balance (in percent of GDP)	4.0	1.3	–0.2	–0.7
Gross national saving (in percent of GDP)	33.7	33.8	33.8	34.3
Gross capital investment (in percent of GDP)	42.0	39.5	39.3	40.3
Broad money	19.8	15.6	18.7	21.0
Government bond repurchase rate (end-period)	6.88	5.10	3.77	6.92[4]

Note: Data in the table reflect information available at the time of the Board discussion.

[1]Estimated.

[2]Projected.

[3]Fiscal years ending September 30.

[4]At end-March 1994.

Table 28
TUNISIA: SELECTED ECONOMIC INDICATORS
(Annual percent change unless otherwise noted)

	1991	1992	1993	1994[1]
Domestic economy				
Real GDP	3.9	8.0	2.1	4.4
Consumer price index	8.2	5.8	4.0	4.5
External economy				
Exports, f.o.b. (in SDRs)	4.6	5.1	–4.4	10.7
Imports, f.o.b. (in SDRs)	–6.5	20.6	–2.6	11.9
Current account deficit (in percent of GDP)	–4.4	–6.9	–8.1	–7.1
External debt (in percent of GDP)	55.2	51.5	55.2	55.7
Debt service (in percent of current receipts)	23.8	20.2	20.5	19.0
Real effective exchange rate	1.1	2.1	–1.5	. . .
Financial variables				
Central government consolidated deficit (in percent of GDP)[2]	–5.7	–3.0	–3.2	–2.6
Gross national savings (in percent of GDP)	21.5	23.4	21.4	22.4
Gross investment (in percent of GDP)	26.2	30.0	29.3	29.4
Money and quasi-money (M2)	5.5	7.2	6.6	7.3
Money market interest rate[3]	11.8	11.3	8.8	8.8

Note: Data in the table reflect information available at the time of the Board discussion.
[1]Estimated.
[2]Payment-order basis, excluding grants.
[3]Percent a year; end of period.

ing up the industrial scale toward higher value-added production, supported by increased budgetary allocations for education and training. Some Directors suggested that fiscal incentives to influence the location of new investments could be useful; other Directors cautioned that the use of fiscal incentives to promote the adoption of new technologies could introduce distortions.

Tunisia

The Article IV consultation with Tunisia was discussed by the Board in January 1995. Preliminary estimates for 1994 indicate that the adverse impact of the drought on economic activity is likely to be limited. Manufacturing industries, as well as services, continued to grow rapidly, driven by strong exports and tourism. Real GDP growth is estimated at 4.4 percent (Table 28). The overall fiscal deficit, excluding grants, is estimated to have declined to the equivalent of 2.6 percent of GDP. Total expenditure is expected to remain within the budgetary appropriations and to decline as a share of GDP.

Reflecting a somewhat more rapid-than-expected expansion of credit to the private sector, domestic credit is estimated to increase by 7.2 percent, and broad money is estimated to grow by 7.3 percent, below the growth rate of nominal GDP. This is expected to maintain the inflation rate at 4.5 percent, slightly higher than the 1993 level.

In the external sector, a narrowing of the current account deficit is anticipated for 1994. The growth of nonenergy exports remained strong, implying further gains in market share, and agricultural exports experienced sharp growth. Strong improvement in the services balance reflected booming tourism receipts and a pickup in worker remittances.

The capital account strengthened significantly, owing to large net inflows of medium- and long-term public sector borrowing. As a result, the net foreign assets of the banking system are estimated to improve substantially in 1994, with official reserves possibly rising to the equivalent of two months of imports.

Throughout 1993 and 1994, the Tunisian authorities pursued structural reforms aimed at further liberalizing the economy. With respect to foreign trade, some quantitative import restrictions were eliminated, and the import surcharge was lifted. Tunisia also has been negotiating with the European Union on a new trade and cooperation agreement and has continued to work toward external liberalization within both the Uruguay Round and the Arab Maghreb Union. On the domestic front, both producer and retail prices have been further liberalized, and the prices of subsidized food products have been raised regularly, while maintaining protections for the poorest families. A unified investment code was introduced in late 1993 to simplify the incentive structure across sectors. In March 1994 an interbank foreign exchange market was introduced to replace the system of administratively set exchange rates.

In the financial sector, audits of all commercial banks were completed, and restructuring plans were carried out for 11 banks. The regulatory and supervisory powers of the central bank were also strengthened, and interest rates were further liberalized in the context of the bank's increased reliance on the use of indirect instruments for conducting monetary policy.

Directors commended the authorities' prudent macroeconomic policies and structural reforms, which helped to safeguard economic performance despite adverse external development and the drought. Fiscal consolidation had continued, credit expansion had been restrained, and inflation had remained relatively low. Directors particularly welcomed the structural measures taken to attract private investment, liberalize the trade system, and deepen financial sector reforms. Tunisia's population policy was also commended.

With the recovery in Tunisia's main export markets and the expected rebound in agricultural output, prospects for 1995 appeared favorable, in the Board's view. This would provide an opportunity to reduce further the fiscal and current account deficits and to accelerate structural reforms. Directors considered the budget target for 1995 to be appropriate but stressed that considerable efforts are required to contain expenditure growth and achieve the ambitious revenue targets. Directors encouraged the authorities to enhance revenue performance through strengthening the tax and customs administrations.

Directors believed that the main challenge in the years ahead was to move the economy to a higher and sustainable growth path. To achieve this objective, it would be necessary to intensify structural reforms designed to increase domestic saving and productivity. Directors welcomed the Government's intention to further liberalize the economy, introduce greater competition and flexibility in various markets, and improve the incentive structure. Directors also welcomed the authorities' intention to accelerate the privatization program in 1995. They underlined the importance of eliminating the remaining preferential interest rates and the mandatory financing of priority sectors in 1995.

The central bank's policy of keeping the real effective exchange rate stable as a means of maintaining competitiveness was supported, but Directors noted that greater scope could be given to market forces in the determination of the exchange rate. The view was also expressed that exchange rate policy could be used to keep inflation low.

Directors considered that Tunisia should build on the momentum of the reforms implemented thus far by moving toward full convertibility of its currency. This would help to accelerate Tunisia's integration into the world economy and reinforce the authorities' high-growth strategy over the medium term. Directors also noted that Tunisia's prospective free trade agreement with the European Union and its membership in the WTO would have a positive impact on the economy.

Viet Nam

The 1994 Article IV consultation with Viet Nam was completed by the Board in June 1994, in conjunction with its review and modification of the stand-by arrangement with the country and approval of its request for a second purchase under the systemic transformation facility (STF) (see section on Fund Support for Member Countries). The Board discussion took place against the background of the progress Viet Nam has been making since 1989 in the transition to a market-based economy and toward macroeconomic stability.

In 1989–92, GDP rose on average by nearly 7 percent annually; meanwhile, inflation, which had reached triple-digit levels in the late 1980s and had resurged in 1991, was reduced to 17 percent by the end of 1992 (Table 29). During the first half of 1993, however, there was a marked relaxation in the implementation of macroeconomic policies. A sharp jump in spending fueled a widening of the fiscal deficit, while policies to promote commercial bank lending led to an annual increase of 73 percent in domestic credit to the nongovernment sectors. Fiscal and credit policies began to be tightened under the Fund-supported economic program adopted in the second half of the year: as a result, the overall budget deficit, at 6 percent of GDP, was only about ½ percent of GDP above the program target; and net State Bank credit to banks fell sharply in December 1993. Nevertheless, the performance criterion for the year on net domestic assets was exceeded by a large margin.

Economic growth, estimated at 8 percent for 1993, was slightly higher than expected under the program. The demand pressures were reflected in a weakening in the balance of payments rather than in domestic inflation, as the external current account deficit grew by 8 percentage points to 9 percent of GDP during the year, while the consumer price index rose by only 5 percent. Net international reserves declined by almost $500 million in 1993, bottoming out in the third quarter of the year.

Through the first quarter of 1994, economic activity continued to be buoyant, as industrial output increased at an annual rate of 12 percent. Inflation was slightly higher than expected, but the program projection for the year was still regarded as attainable. The deceleration in domestic credit growth and the modest rebuilding of international reserves that had begun in the last quarter of 1993 continued.

In its discussion, the Board noted the continued strong output growth in 1993 and the further reduction in inflation. Directors regretted the financial policy slippages, but they were encouraged by the authorities' tightening of macroeconomic policies aimed at bringing the program back on track.

Table 29
VIET NAM: SELECTED ECONOMIC INDICATORS
(Annual percent change unless otherwise noted)

	1991	1992	1993[1]	1994[2]
Domestic economy				
Real domestic demand	4.6	7.0	16.5	. . .
Real GDP	6.0	8.3	8.0	8.0
Consumer price index (period average)	83.1	37.8	8.3	6.8
External economy				
Exports, f.o.b. (in millions of U.S. dollars)	2,042	2,475	2,850	3,362
Imports, f.o.b. (in millions of U.S. dollars)	2,105	2,535	3,505	3,875
Current account balance (in percent of GDP)[3]	–2.5	–0.8	–9.0	–6.1
Overall balance (in millions of U.S. dollars)	–50	268	–1,106	–169
External debt (in millions of U.S. dollars)[4]	2,739	3,775	4,024	. . .
Debt-service ratio (in percent of exports of goods and services)	20.2	22.4	26.8	12.7
Real effective exchange rate	–18.4	28.6	–1.7	. . .
Financial variables				
Overall fiscal balance (in percent of GDP)[5]	–2.0	–2.7	–6.0	–4.5
Gross national saving (in percent of GDP)	9.1	11.3	5.3	8.8
Gross capital formation (in percent of GDP)	11.6	12.0	14.3	14.9
Broad money (end-period)	78.7	33.7	19.0	21.3
Interest rate (three-months savings rate)	49.1	26.2	18.2	. . .

Note: Data in the table reflect information available at the time of the Board discussion.
[1]Estimated.
[2]Projected.
[3]Excluding official transfers.
[4]Convertible currency only.
[5]On cash basis; excluding grants.

Directors commended the steps taken to control domestic credit expansion—in particular, the imposition of bank-by-bank credit ceilings and quantitative limits on State Bank refinancing, as well as the recent increases in refinancing rates and stricter enforcement of reserve requirements. Looking to the future, the Board encouraged the authorities to develop indirect instruments of monetary control and welcomed the plan to establish soon an auction for government securities.

On the fiscal side, Directors endorsed the revenue and expenditure measures included in the 1994 budget to reduce the fiscal deficit below the program target. However, they expressed concern that the financing of the deficit would involve commercial external borrowing contracted on inappropriately short terms. Directors therefore urged the Government to try to mobilize additional domestic nonbank finance and external concessional aid. The Board also considered that, if financing shortfalls persisted, the authorities should implement the contingency fiscal measures built into the program.

The Board welcomed the headway made in structural reform, including the consolidation and closing of state-owned enterprises, and urged that further progress be made in revising the legal framework. The authorities were also urged to continue developing the social safety net and to move quickly to liberalize the import permit and licensing system.

Directors supported the authorities' intention to implement a market-determined exchange rate regime. They called on the Government to rebuild reserves in 1994 following the sharp reduction in 1993, including by making adjustments to demand-management policies if necessary. Directors commended the authorities on improving Viet Nam's relations with the international financial community since the clearance of its arrears to the Fund. They also commented that the authorities should press forward with the regularization of Viet Nam's relations with all creditors.

The Board considered that a firm commitment to macroeconomic stabilization, coupled with a more vigorous implementation of structural reforms, could enable Viet Nam to attain medium-term balance of payments viability. It was hoped that a good track record under the Fund-supported program would pave the way toward agreement on an ESAF arrangement for further use of Fund resources.

Zimbabwe

In September 1994, the Board discussed the 1994 Article IV consultation with Zimbabwe. The discussion took place at a critical stage of Zimbabwe's economic and adjustment program, when a swift tightening of public sector financial policies was needed to strengthen the growth prospects of the private sector and the sustainability of the trade, financial, and exchange reforms, as well as to ensure the continuation of Fund support under the ESAF and the extended Fund facility.

Despite a drought-induced recession and adverse terms of trade developments, Zimbabwe has made significant progress since 1991 in implementing its structural adjustment program. Measures to liberalize agricultural pricing and marketing were introduced in July 1993 and March 1994, including the deregulation of the domestic maize market. In the financial area, the authorities began a review of central banking legislation, designed to strengthen bank supervision and modernize monetary control instruments. Also, the reform of the exchange and trade system implemented in January 1, 1994 moved Zimbabwe closer to the goal of currency convertibility.

In the real sector, a strong recovery in agricultural production fueled an economic upturn in the second half of 1993, which gained momentum in the first half of 1994 as a resurgence in the manufacturing and mining sectors more than compensated for the drought-induced fall in agricultural sector growth (Table 30). Real GDP growth for the year was targeted at 4–5 percent. However, the rate of inflation, which had fallen to almost 18 percent by the end of 1993, rose to 25 percent in May 1994, owing in part to the depreciation of the official exchange rate and the large increase in administered health fees earlier in the year, as well as to the growth in broad money occasioned by the monetary financing of public sector deficits.

In their discussion, Directors cautioned that the structural adjustment measures had not been accompanied by the strengthening of macroeconomic policies envisaged in the medium-term economic and adjustment program. In consequence, there had not been a restoration of macroeconomic stability in line with the liberalization of the trade and exchange system. Large budget deficits and the associated large demand for domestic financing had put strong pressure on financial markets, which in turn had kept interest rates high, crowded out the demand for private sector credit, thwarted the envisaged reduction in the inflation rate, and delayed the supply response to the structural reforms. Directors underscored the need to bring public sector financial policies under control in order to enhance the credibility and the long-term sustainability of the reform program. In that context, Directors stressed that the 1994/95 budget policies appeared inadequate to achieve the objectives of limiting the fiscal deficit to about 5 percent of GDP and significantly reducing the domestic financing require-

Table 30
ZIMBABWE: SELECTED ECONOMIC INDICATORS
(Annual percent change unless otherwise noted)

	1991	1992	1993[1]	1994[2]
Domestic economy				
Domestic demand	...	...	...	...
Real GDP	4.3	–6.2	2.1	4.5
Unemployment rate	...	...	...	...
Consumer price index	23.6	42.7	25.4	23.2
External economy				
Exports, f.o.b. (in millions of U.S. dollars)	1,786	1,531	1,584	1,711
Imports, f.o.b. (in millions of U.S. dollars)	1,700	1,782	1,462	1,515
Current account balance (in percent of GDP)[3]	–7.1	–10.7	–2.1	–1.2
Overall balance (in millions of U.S. dollars)	–125	–127	174	24
External debt (in percent of GDP)	53.8	69.5	76.8	75.2
Debt-service ratio (in percent of exports of goods and services)	22.0	28.3	29.6	28.4
Real effective exchange rate	–35.4	36.2	–1.4	...
Financial variables[4]				
General government balance (in percent of GDP)[5]	–9.6	–7.6	–11.1	–7.7
Gross national saving (in percent of GDP)	16.6	4.9	16.6	18.1
Gross national investment (in percent of GDP)	25.2	19.8	21.9	22.7
Broad money	16.7	21.4	38.0	...
Interest rate (three-month CDs)	25.5	37.0	29.0	...

Note: Data in the table reflect information available at the time of the Board discussion.
[1]Estimated.
[2]Projected.
[3]Including transfers.
[4]Fiscal years ending June.
[5]Excluding grants.

Box 10

FUND POLICY EXPERIENCES AND ISSUES IN THE BALTIC COUNTRIES, RUSSIA, AND OTHER COUNTRIES OF THE FORMER SOVIET UNION

In March 1995, the Board reviewed policy experiences and issues in the Baltic countries, Russia, and other countries of the former Soviet Union.

Appropriate Policy Approach

Directors noted an encouraging degree of consensus on the appropriate policy approach between the Fund and the Baltic countries, Russia, and the other countries of the former Soviet Union. In this regard, there was a strong consensus on the need to accelerate structural reform, as well as for rapid stabilization to improve the output performance in these economies. Although progress in stabilization and reform overall had been mixed, significant progress had been made in a number of countries. The Board generally agreed that the successful cases were largely the result of bold, comprehensive, and coherent reform strategies. Directors thus indicated a clear consensus that credible commitment to stabilization and reform policies was essential for the success of these policies. They agreed that gradualism had not proved a viable alternative.

Output Decline and Stabilization

The decline in output in this group of countries since the dissolution of the Soviet Union had raised concerns about the design of policies. In this regard, however, Directors observed a positive correlation between lower inflation and smaller output decline. They emphasized that the experience in the Baltic countries clearly demonstrated the beneficial effects of sustained stabilization combined with structural reform: inflation had fallen to relatively low levels, and growth had resumed. Directors found little evidence that the output declines in these countries were exacerbated by unduly contractionary monetary and fiscal policies. At the same time, the need to contain the fiscal deficit to avoid crowding out the emerging private sector under tight monetary conditions was underscored by a number of Directors. All Directors recognized that the rate of money growth remained the single most important determinant of the inflation rate over the medium term.

Directors agreed that the revenue decline was to an important extent an inevitable consequence of the transition to a market economy. This decline, however, complicated the task of stabilization and needed to be reversed. They further noted that pegging the exchange rate had been a successful stabilization tool in Estonia and in some central European countries.

ment of public sector deficits. They therefore urged the authorities to act quickly to tighten substantially fiscal policy and accelerate the pace of public sector reform.

The Board called for a special effort to improve tax administration and broaden the tax base to compensate for the prospective revenue losses from the tax reductions and exemptions introduced in the first half of 1994. Directors emphasized, however, that fiscal adjustment should be focused primarily on limiting government expenditures, especially on the wage bill, subsidies, and transfers. In particular, Directors considered that the recent large wage increases added a new urgency to the need to implement a targeted reform of the civil service.

The Board emphasized that the expeditious reform of public enterprises was also integral to the successful implementation of fiscal policy. Directors regretted that the Government would increase net lending to parastatals in 1994/95 without resolving the issues necessitating that assistance, including the financial problems of the Grain Marketing Board. To that end, they called for a more realistic and flexible pricing policy and a review of the Grain Marketing Board's role as buyer of last resort for maize. In addition, Directors welcomed the establishment of a cabinet committee on privatization and its decision to sell shares in publicly listed companies; they urged the committee to act quickly to allow for timely decisions on privatization and divestiture.

Directors noted that in those circumstances the burden on monetary policy had increased; despite the authorities' efforts, reserve money growth had exceeded the program target. Directors observed that a tightening of fiscal policy and public sector operations should expand the room for private sector financing. They also called for greater reliance on indirect instruments of monetary control and cautioned against monetary expansion arising from the quasi-fiscal operations of the central bank.

The Board commended the important steps taken to reform the exchange and trade system in 1994, including unifying the exchange rate, abolishing all foreign exchange surrender requirements, liberalizing current external payments, and limiting access to official foreign exchange. Zimbabwe formally accepted Article VIII obligations, with effect from February 3, 1995.

Economies in Transition

The Fund's surveillance of transition economies covers three relatively distinct groups of countries: central and eastern Europe and the Baltic countries, Russia, and the other countries of the former Soviet Union (see Box 10). Although each group displays unique characteristics, broader commonalities tie them together in terms of the effort to transform their formerly centrally planned economies into market-oriented ones.

Among the central and eastern European countries and the Baltic countries, the Board concluded Article IV consultations during the year with Croatia, the Czech Republic, Estonia, Hungary, Latvia, the Slovak Republic, and Slovenia. As in 1993, discussions were held against a general backdrop of improving economic performance, particularly with respect to the control of inflation, budgetary consolidation, privatization, and liberalization of the trade and payments systems. With a few exceptions, Directors underlined their satisfaction with the progress in fiscal consolidation throughout the region.

Virtually all these countries had embarked on serious stabilization and reform efforts. It was noted in the Board that those that had adopted more advanced programs, such as Albania, the Czech Republic, Poland, and Slovenia, had witnessed a rapid decline in inflation and had resumed growth. These countries were expanding at a pace approaching or exceeding average growth in the European Union. Despite a head start, performance has been mixed in Hungary. Although overall fiscal performance indicators had improved considerably in the more advanced central and eastern European economies, fiscal imbalances remained relatively large (see Box 11).

In the macroeconomic area, although inflation in all these countries had been brought down substantially from rates that once bordered on hyperinflation, it would continue to pose a challenge in a number of them; and throughout the region, excepting the Czech Republic, severe fiscal pressures remained. There were also wide variations in what had been achieved in structural reforms. Regarding privatization, in almost all of these countries more than half of GDP originated in the private sector. The Czech Republic had registered particularly impressive gains on this front, with the private sector producing roughly two thirds of output. Directors nevertheless indicated that additional efforts needed to be made in transforming the structure of these economies through support of privatization and entrepreneurship. A reinvigorated reform process and a further reduction of government involvement in the economy would clearly be essential for achieving further market liberalization.

Directors expressed support for the outward-oriented strategies adopted by these countries. They

Box 11

ECONOMIES IN TRANSITION: FISCAL DEVELOPMENTS

The May 1994 Board discussion on fiscal developments in economies in transition reflected a wide consensus on the critical role played by fiscal policy in these programs in supporting the needed front-loaded stabilization effort while leading the way toward market-oriented reforms. Most Directors further agreed that pragmatism was required in the design of stabilization and structural reform measures. They further stressed, however, that simultaneous action was required on several major fronts, since reforms in one area could easily be undermined by setbacks in other areas. In that context, Directors welcomed the pragmatism of the Fund's approach to such issues as tax reform while generally agreeing that there was further scope for reducing the relative size of the public sector in these countries.

Fiscal Federalism

Several speakers observed that, with the collapse of central planning, pressure for a more decentralized approach to public finance was inevitable. While welcoming the potential gains in efficiency that could come from such an approach, they cautioned that moves in the direction of fiscal federalism would need to be accompanied by a clear and balanced assignment of responsibility for both expenditure and revenue. The point was also made that issues related to local government finance, and the direction of fiscal policy more generally, in the transition economies would be difficult to resolve in the absence of a firm decision by the countries themselves on the appropriate role of the government in the economy. Directors noted that in many of the countries under review, the fiscal balance had tended to deteriorate after the first year of the program as the pace of reform accelerated. Clearly, a large and increasing government borrowing requirement would impose a heavy burden during the transition, raising complex issues of financing and sustainability.

Pragmatism in Policy Design

In view of the different conditions and experiences of transition economies, most Directors felt that pragmatism was required in the design of stabilization and structural reform measures. The point was also made that fiscal policy in the economies in transition had only recently been pried loose from its subordinate role in the system of central planning, and that in many respects the administrative capacity and institutional structures of a market economy had yet to be developed. Directors thus encouraged the staff to focus future technical assistance work on administrative capacity and institution building, particularly in the areas of tax administration and public expenditure management.

Directors expressed a range of views on the effectiveness of tax-based incomes policies. A few speakers noted that such policies had proved useful in some cases; several others expressed skepticism, however, noting that tax-based income policies had not contributed significantly to containing inflation, while they had acted as an obstacle to greater wage differentiation and a more decentralized system of wage determination.

had all taken major strides toward integrating themselves into the global market economy. As stabilization had taken hold, capital inflows had substantially increased in some of these countries. In the Czech Republic and the Slovak Republic, for example, large net inflows had reduced or eliminated the need for exceptional balance of payments financing. Directors expressed support of further trade liberalization steps, as seen in reduced import duties or future commitments to reduce them.

In September 1994 the Board concluded an Article IV consultation with Russia. Among other countries of the former Soviet Union, the Board concluded Article IV consultations during 1994/95 with Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Moldova, Tajikistan, Turkmenistan, Uzbekistan, and Ukraine. Directors expressed concern about the continuing external and domestic instabilities plaguing a number of these countries. The Board likewise credited several of them, however, with putting forward plausible economic stabilization programs. While Directors expressed disappointment with the pace and content of various stabilization and reform programs, they placed equal stress on maintaining the Fund's dialogue with the various national authorities.

Particular concerns were voiced about the lax stance of fiscal policy throughout the region. For a number of countries, Directors called for more resolute efforts to curb subsidies and devise more effective revenue-enhancing measures. Although a few countries had made a promising beginning in advancing structural reform, Directors indicated that additional steps would have to be taken to ensure an effective transition from a state-run to a market-oriented economy. They considered that sustainable progress in macroeconomic stabilization would be in jeopardy unless the momentum of structural reforms was accelerated and stricter financial discipline was imposed on the enterprise sector. Such steps should include restructuring or closure of loss-making enterprises, acceleration of the privatization program, elimination of tax and tariff exemptions, and the introduction of effective bankruptcy and antimonopoly legislation.

Noting the introduction of new national currencies, Directors stressed that the effectiveness of new monetary arrangements would be determined by the overall success of stabilization measures designed to strengthen monetary discipline within a framework of prudent fiscal and incomes policies. The Board welcomed progress that had been made toward trade liberalization throughout the region and urged the authorities to continue to reduce export quotas and taxes.

Directors saw a pressing need for firm monetary and fiscal policies as crucial to achieving price stabilization. With respect to monetary policy, the Board welcomed efforts to increase interest rates to positive levels in real terms and to unify the exchange rate. Other measures recommended included tighter control over the government deficit, a restrictive monetary policy, and the imposition of hard-budget constraints on state enterprises. More generally, Directors warned against gradual approaches to reform and stabilization. Although the existing security and political situation in many of these countries made adoption of bold measures difficult, the Board urged the authorities to carry forward such programs where conditions allowed.

Croatia

The Executive Board met in October 1994 to discuss Croatia's Article IV consultation and approved its requests for an 18-month stand-by arrangement and a first purchase under the STF, for amounts totaling SDR 130.8 million. This discussion took place one year after the introduction of a stabilization initiative designed to reduce inflation sharply, improve financial discipline, and restore monetary control. The proposed stand-by arrangement envisaged a consolidation of the success on the inflation front while encouraging a resumption of economic growth. In addition, the authorities planned to intensify reconstruction, put into place an adequate social safety net, and strengthen Croatia's external position and normalize relations with external creditors.

The first step in the stabilization initiative was the adoption by the National Bank of Croatia of a monetary policy based on tight and publicly announced targets for base money. After allowing an initial depreciation of some 20 percent, the central bank announced that it would prevent the dinar/deutsche mark exchange rate from depreciating beyond announced intervention limits through end-1993. A new interbank foreign exchange market was then introduced, and individuals were given the right to buy unlimited foreign exchange for current account transactions from the banking system in order to increase confidence in the dinar. As confidence in the program grew, substantial remonetization took place. The authorities responded by allowing their targets for the growth of base money to be exceeded, and from mid-November 1993 onward the exchange rate was used as the nominal anchor. A new currency, the kuna, was introduced on May 30, 1994.

The stabilization program has been successful, with inflation dropping abruptly and with only limited negative effect on economic activity (Table 31). Consumer prices fell by 2.7 percent between end-October 1993 and July 1994.

Fiscal receipts as a proportion of GDP increased sharply, as a result of lower inflation, the elimination of most tax exemptions, and strong measures to reduce tax evasion. However, expenditures also increased, with the result being an overall balanced fiscal position. The Government imposed a tight incomes policy, and wage bill limits for the Government and majority state-owned enterprises were generally observed.

Broad money rose by about 30 percent between October 1993 and June because the velocity of money fell sharply as inflationary expectations improved. Although exports and imports were below 1993 levels in the first quarter of 1994, they had increased by the time of the Board discussion. Official reserves increased from $613 million at end-1993 to $866 million at end-June 1994.

Table 31

CROATIA: SELECTED ECONOMIC INDICATORS

(Annual percent change unless otherwise noted)

	1991	1992	1993[1]	1994[2]
Domestic economy				
Real GDP	–14.4	–9.0	–3.2	1.8
Real consumption	. . .	. . .	–1.2	2.0
Real gross fixed investment	. . .	. . .	0.6	7.0
Unemployment rate (end of period; in percent)	15.5	17.8	17.4	16.5
Consumer price index (Dec.–Dec.)	249.5	937.3	1,149.7	–2.5
External economy (in millions of U.S. dollars)				
Exports, f.o.b.	3,292	4,597	3,904	4,065
Imports, c.i.f.	–3,828	–4,461	–4,666	–4,874
Current account balance	–590	823	278	76
External debt (end of period)	2,978	2,736	2,638	2,897
Official reserves (end of period)	—	167	613	1,149
Financial variables				
Central government budget revenues (in percent)	15.0	20.4	20.3	26.8
Central government budget expenditures (in percent)	19.6	21.1	21.1	27.1
Cash deficit	–4.6	–0.6	–0.8	–0.3
Broad money	. . .	569	1,093	45
Deposit money bank interest rates				
Average deposit rate (end of period)	. . .	434.5	27.4	3.8
Average credit rate (end of period)	. . .	2,332.9	59.0	16.5

Note: Data in the table reflect information available at the time of the Board discussion. Interest rates are average annual rates in December (1992–93) and May (1994).

[1]Estimated.

[2]Projected.

In their discussion, Directors congratulated the Croatian authorities for reducing inflation to very low levels, cutting the fiscal deficit sharply, building up international reserves, and moving toward the introduction of market mechanisms to the economy, all despite the difficult security situation. The aims of the authorities to encourage continued economic growth, maintain price stability, increase the reconstruction effort, implement a social safety net, and normalize relations with external creditors as soon as possible were all strongly endorsed by the Board. Directors were optimistic that the ambitious inflation target could be met.

However, Directors noted, there were significant risks to the program, with the most important being the political and security situation in the region. Steadfast commitment to the program's objectives was essential to success. For example, an overextension of credit to, or excessive wage payments by, majority state-owned enterprises could cause inflation to rise. Therefore, Directors stressed, it was important to impose effective budget constraints on enterprises by breaking the links between banks and loss-making enterprises, and incomes policy had to be strictly implemented. While larger-than-expected foreign exchange inflows could be seen as a vote of confidence, they might also threaten the inflation targets. Sterilized intervention might be used to offset those inflows in the short term, but the authorities' capacity in that area was limited, and they should advance their timetable for the introduction of marketable government securities.

Directors urged the authorities to accelerate the privatization program—most large enterprises were still publicly owned, although many small and medium-sized enterprises had been privatized—and to speed up the reform of the banking system and the structural reform program.

Kazakhstan

The Board discussion on Kazakhstan took place in November 1994 against the background of a decisively changed economic and financial situation from early 1993, when the country was part of the ruble area. On November 15, 1993, Kazakhstan had moved

Table 32
KAZAKHSTAN: SELECTED ECONOMIC INDICATORS
(Annual percent change unless otherwise noted)

	1991	1992	1993	1994
Domestic economy				
Real GDP	−13.0	−14.0	−12.0	−25.0
Unemployment rate	—	0.3	0.5	0.7
Consumer prices (annual average)	91.0	1,381	1,662	1,880
External economy				
Exports, f.o.b. (in billions of U.S. dollars)	. . .	4	4.8	3.3
Imports, c.i.f. (in billions of U.S. dollars)	. . .	9.0	5.2	4.1
Current account balance (in percent of GDP)	−6.4	−24.1	−7.1	−9.1
External debt (in billions of U.S. dollars)	. . .	. . .	1.8	2.5
Real effective exchange rate[1]	. . .	. . .	100.0[2]	141
Financial variables				
General government balance[3]	−7.9	−7.4	−1.2	−6.9
Broad money (M2)	210.7	388.5	691.9	562.8
Interest rate[4]	. . .	. . .	240	230

Note: Data in the table reflect information available at the time of the Board discussion.
[1]An increase indicates a real appreciation of the currency.
[2]At the time of the introduction of the national currency (November 1993).
[3]In relation to GDP.
[4]The refinance note of the National Bank of Kazakhstan at the end of the year.

to monetary independence with the introduction of its own currency, the Tenge. Faced with high inflation and declining output, the Kazakh authorities in early 1994 launched a major stabilization program to improve the financial situation and reinforce structural reforms.

By mid-1994, the program, after being derailed, was back on track. The authorities drastically tightened the fiscal position, strictly limited credit expansion and raised interest rates to positive levels in real terms, and further improved the management of macroeconomic policy. Substantial progress had also been made toward full price liberalization; the trade regime was further liberalized; and the privatization program was enlarged.

By the third quarter of 1994, inflation had been sharply reduced, the exchange rate had stabilized, and external reserves had risen. The overall budget balance, including quasi-fiscal operations, had turned from a deficit of 16 percent of GDP in the first half of 1994 to a surplus of 4 percent (Table 32).

In their discussion, Directors welcomed the progress that had been made since May 1994 toward financial stabilization. They commended the authorities for the significant tightening of monetary and fiscal policies, which had been successful in sharply reducing the monthly rate of inflation. Nonetheless, Directors observed that the rate of inflation was too high. Concerned at the sharp fall in the ratio of tax revenue to GDP, which had reached an unsustainable low of 14 percent, Directors urged the authorities to intensify further their collection efforts, to reduce widespread tax exemptions, and to proceed with tax reform.

Directors also expressed concern over the authorities' resort to across-the-board sequestration of expenditures and delays in payments. They emphasized that such measures were unsustainable and undesirable and that prolonged cuts in investment and maintenance outlays could have major repercussions for growth. In this context, Directors noted that a broadening of the tax base and strict expenditure restraint, together with an improved structure for government outlays, would be important in achieving a durable fiscal position.

Directors were unanimous in their view that the authorities had not moved strongly enough to impose financial discipline on, or restructure, the state enterprise sector. They considered that unless the momentum of structural reforms was accelerated and stricter financial discipline imposed on the enterprise sector, sustainable progress in macroeconomic stabilization would be jeopardized. Directors stressed that vigorous action in enterprise reform was critical to further the progress toward financial stability and resumption of growth. In particular, the authorities were urged to avoid further delay in implementing the privatization program.

The recent tightening of monetary policy and efforts toward financial sector reform in 1994 were noted by Directors. Several welcomed the planned introduction of new prudential regulations, the strengthening of banking supervision, and the restructuring of several specialized banks. Strong support was expressed for further reduction of credit and monetary growth rates in 1995 and for keeping interest rates positive in real terms. However, rising arrears to the banking system were viewed as a threat to the stability and credibility of the financial system.

Directors welcomed the substantial progress that had been made toward trade liberalization and urged the authorities to continue reducing export quotas and taxes. They noted that the balance of payments position remained under pressure. In view of low domestic saving, Directors encouraged the authorities to make strong efforts to attract foreign direct investment.

Directors agreed that a further reduction in inflation should be given high priority; to achieve this, domestic bank financing would need to be strictly limited in 1995, while wage restraint and exchange rate stabilization would also contribute. Some Directors stated that possible plans to move to a fixed exchange rate regime were premature. Directors urged the authorities to undertake a vigorous and more sustainable adjustment effort in 1995. It was noted that every effort should be made to ensure that social expenditures were not adversely affected by sequestration.

On the whole, Directors observed that, despite extremely difficult economic conditions and external developments, progress had been made in the overall direction and pace of economic reform policies since the last Article IV consultation in April 1993, although slippages had occurred in both macroeconomic policies and key structural reforms. They agreed that the direction and targets of the current stabilization and structural reform program deserved continuing Fund support.

Subsequent to the Board discussion and against the background of a less than fully satisfactory performance at the end of 1994, in early 1995 the Kazakh authorities launched a new economic program for 1995. This program aimed at reducing the monthly inflation rate to around 1 percent by July 1995, and at accelerating systemic reforms, with special focus on enterprise restructuring. To achieve these objectives, the authorities sought to limit the overall fiscal deficit to 3.5 percent of GDP, with less than 1 percent of GDP in domestic bank financing; further, there would be strict limits on the growth of monetary aggregates. In order to accelerate enterprise restructuring, the authorities were planning to establish, in close cooperation with the World Bank, a Rehabilitation Bank, which would oversee the finances as well as the restructuring of selected, highly indebted state enterprises. Macroeconomic policies were tightened considerably in the 1995 program, and as a result the monthly inflation rate was reduced to below 3 percent in May 1995; a number of important structural measures were also taken. (This program served as a basis for the approval by the Board of a new 12-month stand-by arrangement for Kazakhstan in early June 1995.)

Table 33
LATVIA: SELECTED ECONOMIC INDICATORS
(Annual percent change unless otherwise noted)

	1991	1992	1993	1994[1]
Domestic economy				
Real GDP	–8	–35[2]	–15[2]	2[2]
Consumer prices (end-period, percentage change)	262	960	35	20
External economy				
Exports, f.o.b. (in millions of U.S. dollars)	6,421[3]	831	998	1,031
Imports, c.i.f. (in millions of U.S. dollars)	5,258[3]	1,046	1,159[2]	1,365
Current account balance (in millions of U.S. dollars)	2,356[3]	21	150[2]	–83
Financial variables				
General government financial balance (in millions of Lats)	9	—	—[2]	–39
Gross national saving (in percent of nominal GDP)	. . .	26	19[2]	14
Gross domestic investment (in percent of nominal GDP)	. . .	25	12	17
Broad money (in millions of Lats)	100	251	462	650

Note: Data in the table reflect information available at the time of the Board discussion, unless otherwise indicated.
[1]Projected.
[2]Data revised subsequent to the Board discussion.
[3]Figures for 1991 are distorted owing to exchange valuation effect.

Latvia

Since regaining its independence in 1991, Latvia has been engaged in a massive effort to transform its economy to a market-based system. At the time of the Board discussion in July 1994, an economic recovery was under way. Inflation was expected to moderate further in 1994, after having declined rapidly to a rate of 35 percent in 1993 from about 960 percent in 1992 (Table 33). Similarly, positive real GDP growth was projected for 1994; revised data indicated that the real GDP growth rate had fallen a further 15 percent in 1993 from the 35 percent drop in 1992. Despite economic indicators showing that economic activity had bottomed out during 1993, open unemployment continued to increase, reaching 6½ percent by the end of March 1994.

Although structural reform lagged behind macroeconomic stabilization, substantial progress was made in a number of areas, including the rehabilitation and privatization of the banking system and liberalization of prices and of the exchange and trade system.

The Government elected in mid-1993 continued the comprehensive economic program launched in mid-1992, which focused on macroeconomic stabilization, but with more emphasis on reinforcing reform over the medium term. At their discussion, Directors commended the authorities for their continued firm commitment to the overall aims of the economic program supported by a stand-by arrangement and by purchases under the STF. Directors expressed their confidence that the Government, despite a difficult political and economic environment, would persevere with stabilization and reform.

For sustainable growth, Directors agreed that price stability remained a prerequisite. Consequently, a firm monetary policy remained crucial to the economic recovery under way. At the same time, Directors recognized that the impact of capital inflows, together with the deficiencies of financial markets and monetary policy instruments, made it difficult to manage monetary aggregates. This underscored the need for continued efforts to develop financial markets and policy instruments. In this context, Directors welcomed the continued commitment to exchange rate flexibility in Latvia. A number of Directors encouraged the authorities to carefully consider the possibility of some further appreciation of the nominal exchange rate in the event that currency inflows into the Bank of Latvia resumed. Some Directors felt, however, that caution should be used in this respect and that the exchange rate could more explicitly serve as a nominal anchor in Latvia.

Directors emphasized that strong government support would be needed to meet the objectives of monetary policy. Most important, they felt, was that the deficit of the general government would need to be kept within the limit envisaged under the 1994 budget. They urged the authorities to stand ready to take further revenue-enhancing measures should the budgetary targets become endangered. Expenditures would also need to be monitored, Directors noted.

The recent developments in tariff legislation were viewed with concern by Directors, since they fell short of the comprehensive overhaul called for. Directors pointed out the benefits to Latvia of maintaining a relatively liberal trade system and encouraged the authorities to resist domestic pressures for protection. In that context, Directors noted that the tariffs on many agricultural goods remained high and urged the authorities to move ahead forcefully to further rationalize the tariff system.

Directors welcomed the progress that had been made in banking supervision and in the restructuring and privatization of the former commercial branches of the Bank of Latvia. Improvements in the banking system and the system of financial intermediation should lead to better prospects for saving and investment.

Directors, encouraged by the removal of most legal obstacles for the privatization of medium-sized and large-scale enterprises, urged the authorities to speed up reform in this key area, where progress had so far been disappointing. By late April 1994, 200 such projects had been approved, of which 85 had been completed; in contrast, two thirds of small-scale enterprises were now privatized.

The Board welcomed Latvia's decision to accept the obligations of Article VIII of the Fund's Articles of Agreement.

Russia

Russia's economic performance during 1993 and the first half of 1994 was considered during the Board's Article IV discussion in September 1994. Officially recorded real GDP declined by 12 percent in 1993 and by 17 percent in the first half of 1994 over the same period the previous year (Table 34). However, the actual fall in output, which was concentrated in the industrial sector, was probably less. This was because of the rapid growth of the private economy, which was only partially captured in the official statistics. Genuine structural change—as reflected in conversion from military to civilian output, development of the financial sector, and increased private retail trade—progressed, albeit slowly.

Monthly inflation declined steadily after late summer 1993 to a low of 5 percent in July 1994, reflecting a tightening of financial conditions since late 1993. Average real wages remained broadly unchanged from 1992, at about half the late 1991 level. The rate of open unemployment increased only barely, and was 6 percent at end-July 1994.

Fiscal developments were uneven, with the fiscal policy stance fluctuating considerably throughout 1993. As revenue performance began to deteriorate in mid-1993, the authorities relied increasingly on sequestration as a means of limiting cash expenditures, which led to substantial budgetary arrears. The cash deficit of the general government dropped to 5.7 percent in 1993, but by mid-1994 it had increased over the 1992 level to 8.3 percent, as a result of continued weak revenue performance and despite a significant compression of outlays.

The growth of base money and ruble broad money trended downward throughout 1993 and the first quarter of 1994. Nominal interest rates were less than the rate of inflation during most of 1993 but increased sharply during the second half of the year, so that positive real interest rates were achieved by the end of the year.

In 1993, Russia recorded a trade surplus in its balance of payments with countries outside the former Soviet Union, mainly as a result of a significant fall in imports. However, this surplus declined sharply in the first half of 1994, as imports picked up and an increase in energy exports was more than offset by a sharp contraction in other exports, especially of machinery. In its trade with other countries of the former Soviet Union, Russia registered a surplus in 1993, with the volume of trade continuing to decline in 1994. Trade liberalization proceeded, although slower than planned under the program supported by a second purchase under the STF.

Russia's official external debt at end-1993 was 26 percent of GDP, of which 90 percent was inherited by Russia from the Soviet era. Gross official reserves reached two months' worth of total imports by end-1993. The ruble appreciated over 200 percent in real terms between end-1992 and end-1993 and another 7 percent during the first half of 1994.

About two thirds of state-owned enterprises had been privatized by the middle of 1994. Increased importance was attached in mid-1994 to enterprise reform and restructuring, with the issuance of several relevant decrees. However, progress on land reform continued to be slow.

In their discussion, Directors welcomed the significant progress toward macroeconomic stabilization and structural reform. Tightened fiscal policies in late 1993 and early 1994 had helped to cut inflation earlier than envisaged, but monetary policy also played a critical role, and the fiscal progress needed to be consolidated by the achievement of positive real interest rates.

Table 34

RUSSIA: SELECTED ECONOMIC INDICATORS

(Percent change over the corresponding period in previous year, unless otherwise noted)

	1991	1992	1993	Jan.–June 1994[1]
Domestic economy				
Real GDP	–13	–19	–12	–17
Registered unemployed (end of period, in percent of labor force)	0.1	0.8	1.1	1.6
Consumer prices (average)	93	1,353	896	546
External economy[2]				
Exports (in billions of U.S. dollars)	53.2	41.6	46.3	19.3
Imports (in billions of U.S. dollars)	44.5	37.2	34.3	16.6
Current account balance (in billions of U.S. dollars)	3.2	–5.7	2.3	–3.1
Overall balance (in billions of U.S. dollars)	. . .	–13.3	–14.4	–9.4
Scheduled debt service (in billions of U.S. dollars)[3]	7.7	14.4	19.7	10.2
Real exchange rate (July 1992 = 100; rate during last month of period)	. . .	89.5	274.3	295.2
Financial variables				
General government balance (cash basis, in percent of GDP)[4]	–16.0	–6.9	–5.7	–8.3
Gross national saving	. . .	. . .	29.1	19.0[5]
Gross national investment	. . .	. . .	25.3	20.1[5]
Ruble broad money	. . .	545	442	52
Refinance rate of Central Bank (end of period, in percent)[6]	20	80	210	155

Note: Data in the table reflect information available at the time of the Board discussion.

[1]Preliminary.

[2]The data relate to Russia's external relations with countries outside the former U.S.S.R.

[3]In 1991, Russia's 61 percent share of the debt service of the former U.S.S.R. is used.

[4]Includes the federal and local governments and the extrabudgetary funds; excludes unbudgeted import subsidies associated with foreign disbursements.

[5]Projections, for year as a whole.

[6]Uncompounded annual rate.

Directors indicated that an important immediate concern was the worsening fiscal outlook for the second half of 1994. There were major weaknesses in both government revenues and expenditure policies. Failure to adhere to the fiscal targets of the program supported by a second purchase under the STF would fuel inflationary expectations and damage the credibility of the Government's economic strategy. Directors noted with regret that many of the new revenue measures provided for under the program had not been implemented. A top priority of the 1995 budget should be to arrest the revenue decline. Directors also encouraged the authorities to develop a medium-term fiscal strategy to take account of the major structural changes in the economy with the aim of reducing the fiscal deficit over time. As part of that strategy, a strengthened and better-targeted social safety net, including an increase in unemployment benefits, would be essential.

Directors commended the authorities on their continued commitment to a free and unified exchange rate system and cautioned that the schemes for monitoring export proceeds and import payments not interfere with current account convertibility, since confidence factors had a key role in reversing capital flight and encouraging foreign direct investment. While welcoming the steps taken recently to liberalize external trade, Directors regretted that the commitment to reduce export duties had been only partially implemented and encouraged the reduction of import duties and the abolition of energy export quotas. Directors also encouraged the authorities to establish a timetable for acceptance of the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement.

Directors noted the continued progress in privatizing state enterprises and encouraged the authorities to keep up the momentum in that area. However, they were concerned by the increase in enterprise arrears since late 1993, which partly reflected the absence of hard budget constraints.

Russia's balance of payments and external debt situation remained difficult, Directors noted, and the significant loss of reserves resulting from exchange market intervention was cause for concern. Directors welcomed the progress in regularizing Russia's relations with its creditors and, given Russia's important role as a creditor itself, urged the authorities to clarify issues regarding outstanding debt and arrears to Russia by other countries of the Commonwealth of Independent States.

Directors noted with concern that the strong points in Russia's performance had not obviously been reflected in increased confidence at home, or on the part of foreign investors. It was therefore important to stave off any perception of a loss of momentum in the reform effort. Directors emphasized the vital stake that the world economic community had in the success of Russia's reforms and urged the authorities to set the stage for renewed economic growth and a sustained improvement in living standards by intensifying their stabilization efforts and accelerating structural change. They encouraged the authorities to undertake a bold adjustment effort in 1995 that could be supported by the international financial community.

Subsequent to the Board discussion, the financial policy stance deteriorated steadily during the second half of 1994. Beginning in July, the fiscal outcome worsened significantly compared with the objectives of the program (see above). The deficit of the general government reached 11¼ percent of GDP in the third quarter—double the program target—and net credit to the government shot up in tandem, ending the quarter well above the program ceiling. During the last quarter of 1994, the fiscal situation became increasingly precarious, leading to the events of "Black Tuesday" (October 11), when the ruble depreciated by more than 20 percent. Although the ruble rebounded the following day, the loss of confidence in the currency and the absence of any signs of fiscal correction resulted in a sharp rise in the velocity of money. The behavior of velocity (and inflation) was further exacerbated by the issuance of a substantial volume of special Treasury obligations at below-market interest rates to enterprises, which in essence functioned as a means of payment for government outlays. Reflecting the authorities' desire to avoid a repeat of "Black Tuesday," monetary policy become more restrictive toward end-1994, and there was a major tightening in January 1995. A stringent monetary stance has been maintained since then, with encouraging results in terms of lower inflation and increases in gross international reserves of the Central Bank of Russia. In April 1995, the Board approved Russia's request for a stand-by arrangement (see section on Fund Support for Member Countries).

Slovenia

The Board met in August 1994 to discuss Slovenia's Article IV consultation. The discussion took place as the Slovene economy showed signs of increasing vigor after returning to growth in 1993 following two years of contraction (Table 35). Downward pressures on output stemming from the disintegration of the former Socialist Federal Republic of Yugoslavia and from the move toward a market economy were supplanted during 1993 by buoyant real aggregate demand. Real GDP, which had fallen by 15 percent during 1991–92, turned around in 1993 to rise by 1 percent; growth in 1994 was estimated at 4–5 percent.

Real aggregate demand increased by 6 percent in 1993, led by a rise of 11 percent in private consumption that was fueled by real wage increases. Investment activity also recovered in 1993, but net capital formation remained negative for the third consecutive year. The rapid expansion in aggregate demand spilled over almost wholly into greater import demand, and domestic output growth was confined to the service sector. Real activity continued to contract, albeit at a slower pace, in the agricultural and manufacturing sectors, although signs of recovery were evident in industrial output during the second half of 1993.

Inflation declined dramatically in 1993, reflecting a slower expansion in reserve money and a substantial increase in real money demand. Despite significant administrative price adjustments, retail price inflation fell to 23 percent (December–December) by the end of 1993 from 93 percent at the end of 1992. Although overall output expanded, employment in the nongovernment sectors continued to fall, and the unemployment rate reached 15½ percent by the end of 1993.

A stronger-than-expected revenue performance, arising from the high rate of real wage growth, led to a small budget surplus of $^1/_2$ of 1 percent of GDP in 1993 rather than to the deficit of 2 percent of GDP envisaged in the 1993 budget. As a result of a deterioration in the trade account, the current account surplus shrank markedly in 1993, declining to nearly $1^1/_2$ percent of GDP from $7^1/_2$ percent in 1992.

Structural reforms during 1993 included the initiation of bank rehabilitation, including partial recapitalization, which enabled affected banks to generate operating surpluses for the first time. Losses of socially owned enterprises relative to GDP were halved from the previous year, but progress on privatization was slow.

In their discussion, Directors complimented the Slovene authorities for the progress made in returning early to real GDP growth, reducing inflation, and increasing foreign exchange reserves. They said the authorities could be commended on the success of monetary policy, which had been supported by a strong fiscal stance and a hardening of the budget constraints on socially owned enterprises.

But Directors remarked that additional steps were needed to consolidate these achievements. They advocated restraint in aggregate demand growth and recommended a more cautious budgetary stance, particularly given the role that continued fiscal surpluses could play in support of anti-inflationary monetary management. Some Directors considered that undue attention to the maintenance of a given real exchange rate could make more difficult the task of lowering inflation, and they suggested the adoption of a nominal exchange rate anchor. Nevertheless, on balance the new incomes policy and the stronger external position offered an opportunity for a slower rate of crawl of the exchange rate without undue erosion of external competitiveness and growth prospects. Several Directors encouraged the authorities to reduce the degree of indexation in the economy, especially of financial assets and wages, and, in particular, backward-looking indexation.

Directors noted the need to secure the basis for long-term growth through continued structural reforms, and they supported the authorities' outward-oriented growth strategy, particularly the open trade regime. However, the slow pace of ownership transformation was viewed as an impediment that resulted in low levels of investment, structural account surpluses, and an upward bias in wage settlements. Directors urged the authorities to accelerate the pace of privatization, and they supported continued budgetary expenditure on structural reforms.

Directors emphasized the importance of developing an efficient domestic financial market but recognized that access to foreign financial markets was hindered by external debt problems arising from the dissolution of the former Yugoslavia. Directors welcomed the progress made toward regularizing relations with official creditors. Directors encouraged the authorities to

Table 35
SLOVENIA: SELECTED ECONOMIC INDICATORS
(Annual percent change unless otherwise noted)

	1991	1992	1993	1994[1]
Domestic economy				
Aggregate demand	. . .	–20.0	6.0	. . .
Real GDP	–9.3	–6.0	1.0	4–5
Employment (in thousands)	839.0	783.4	760.1	749.0
Unemployment (in percent of labor force; end of period)	10.1	13.4	15.5	14.6[2]
Real net wages (average)	–10.9	–8.9	16.4	1.5[3]
Retail prices (end of period)	247	93	23	13
External economy				
Merchandise exports[4]	–6.0	8.1	–8.9	1.2
Merchandise imports[4]	–12.6	—	5.7	–3.4
Trade balance (in percent of GDP)	–2.1	6.4	–1.1	1.2
Real effective exchange rate[5]	. . .	–9.0	2.6	3.0[6]
Financial variables				
Overall government balance (in percent of GDP)	2.7	0.2	0.5	–0.5–0
Broad money (end of period)	. . .	125.1	63.3	56.7[6]
Real lending rate (in percent)	. . .	18–27	19–21	17–18[7]
Real deposit rate (in percent)	. . .	4–7	7–8	8–9[7]

Note: Data in the table reflect information available at the time of the Board discussion.
[1]Projected.
[2]April 1994.
[3]Based on actual developments during 1994:I and assuming wage ceilings and inflation objective are observed.
[4]Prior to 1992, excluding exports and imports for processing and trade with former Yugoslav republics. Imports expressed on c.i.f. basis for 1991, and on f.o.b. basis for 1992–94.
[5]Depreciation = (–). Based on 1992 export trade weights of six major OECD trading partners.
[6]May 1993 to May 1994.
[7]June 1994.

Table 36

UKRAINE: SELECTED ECONOMIC INDICATORS
(Annual percent change unless otherwise noted)

	1992	1993	1994 Estimated	1994 Revised[1]
Domestic economy				
Domestic demand	–17	–20	. . .	. . .
Real GDP	–17	–17	–23	–23
Unemployment rate (in percent)	0.2	0.3	. . .	0.3
Consumer price index	1,210	4,735	842	891
External economy (in billions of U.S. dollars)				
Exports, f.o.b.	11.3	12.8	12.5	11.8
Imports, c.i.f.	11.9	15.3	15.1	14.2
Trade balance	–0.6	–2.5	–2.6	–2.4
Overall balance	–2.7	–1.1	–0.6	–1.8
External debt (end of period)	3.5	4.1	7.5	7.1
Debt-service ratio (in percent)	0.1	1.3	. . .	12.4
Exchange rate (end of period; Krb/$)				
Official	638	12,610	. . .	104,200
Auction rate	749	25,000	. . .	104,200
Financial variables				
General government balance (in percent of GDP)	–29.3	–9.7	–9.1	–8.6
Net investment (real percent change)	–36	–17	. . .	. . .
Broad money[2]	921	2,103	361	465
Real broad money	–51	–79	23	13
National Bank of Ukraine refinance rate (end of period)	80	240	. . .	252

Note: Data in the table reflect information available at the time of the Board discussion unless otherwise indicated.

[1]Data revised subsequent to the Board discussion.

[2]Foreign currency deposits valued at parallel exchange rates.

sustain the recently accelerated pace of discussion with commercial bank creditors.

Ukraine

The Board met in October 1994 to discuss the Article IV consultation with Ukraine and approved the authorities' request for a first purchase under the STF (see section on Fund Support for Member Countries).

Economic activity in Ukraine declined in 1993 (Table 36) and was projected to continue to decline in 1994. Net material product in the first nine months of 1994 fell by 20 percent compared with the same period in 1993. Although open unemployment remained negligible, by mid-1994 some 15 percent of the labor force was estimated to be underemployed.

Fueled by sizable monetary expansion, the monthly rate of inflation accelerated from about 40 percent in the first quarter of 1993 to over 65 percent during the last quarter. Inflation then fell sharply to 4–5 percent a month in the second and third quarters of 1994. However, there had been no administered price adjustments since December 1993, and there were indications that cost pressures were mounting in the face of a renewed acceleration in the rate of monetary expansion and a rapid deterioration in the underlying budgetary situation. Real wages fell by some 60 percent during 1993 and were subsequently broadly unchanged.

Because of a shift in traded-goods prices toward world levels since 1992, Ukraine's heavy dependence on imported energy resulted in a sharp deterioration in its terms of trade and a considerable widening of its current account deficit. At the same time, the economy had suffered substantial capital flight. In 1993 and 1994, the balance of payments gap was closed partly through a sizable compression of nonenergy imports, but primarily through resorting to payments arrears. The accumulation of arrears during the first nine months of 1994 brought Ukraine's debt to some $7 billion at the end of September. Mirroring the acute shortage of foreign exchange, the rate of exchange in the cash market (the only free market since late 1993) had depreciated very sharply.

In October 1994, Ukraine announced a program of radical reform that included unification of the exchange rate, a reduction in the budget deficit, cuts in industrial subsidies, wide-ranging liberalization of the economy, and mass privatization.

In their discussion, Directors recognized the grave economic situation facing the Ukrainian authorities and welcomed the strong policy measures taken by the Government shortly before the Board meeting, which had signaled to the international community the Government's resolve to implement the necessarily comprehensive and ambitious program. Such implementation was seen as requiring improvements in governance, administrative capacity, and internal coordination. Directors emphasized the program's risks, including those of fiscal slippage, nonsupport by parliament, and shortfalls in international support. They urged the Ukrainian authorities to move as soon as possible to a stand-by arrangement and to extend both the scope and the time horizon of the stabilization and reform policies.

Directors welcomed the emphasis on liberalization and structural reform measures, which were essential and should be extended even further. For example, the Government had a leadership role to play in the areas of privatization and developing a propitious environment for entrepreneurship. At the same time, Directors welcomed the targeting of social support to protect the very poor from the impact of price and exchange market liberalization.

It was noted that the budget would have to play a critical role in achieving the program's appropriately ambitious inflation targets. While Directors welcomed the aim to cut expenditure and limit bank financing of the deficit and the expenditure measures, they viewed this as representing first steps toward adjustment, given the projected size of the deficit. They underscored the need to reduce the role of government in the economy further. Directors also expressed concern about the large increases in money and credit, and they emphasized the need to raise interest rates further to positive levels.

The Board welcomed recent measures to liberalize the external sector. They saw the unified exchange rate as essential for the strengthening of exports, the restoration of confidence, and an early reversal of capital flight. They emphasized that significant progress toward economic stabilization and structural reform was necessary before a fixed exchange rate should be introduced.

Directors agreed that the expression of support for Ukraine by bilateral and multilateral creditors gave sufficient assurance that the external financing gap for the fourth quarter of 1994 would be closed. The large prospective external financing gap in 1995 reinforced the case for the Government to move quickly on a program that could be supported under a stand-by arrangement to begin in early 1995. Only then would it be possible to mobilize the substantial external support that was required, Directors stressed. Such an arrangement was approved by the Board on April 7, 1995 (see section on Fund Support for Member Countries).

Fund Support for Member Countries

In 1994/95 the Fund approved stand-by arrangements for 17 countries, extended arrangements for 3 countries, and ESAF arrangements for 11 countries. Twelve countries made purchases under the STF, and 2 countries obtained financing under the compensatory and contingency financing facility (CCFF). Fund financial facilities and policies are described briefly in Box 12; member countries' use of Fund facilities in 1994/95 is described further below. In addition to the amount of assistance provided to the member country under the Fund's facilities, the specific objectives of, and the macroeconomic and structural policies addressed by, the Fund program are set forth. The macroeconomic policies cover both monetary and fiscal measures; structural policies may include, depending on the particular country, financial sector reforms, social issues (such as social safety nets and pension reform), privatization, labor market reforms, and legal reforms (such as bankruptcy laws), among others.

In addition, during the year the Board reviewed performance under programs supported by stand-by and extended arrangements; the Fund's role in financing stabilization and reform in the economies in transition; the Fund's involvement in structural reforms, including member countries' adoption of indirect instruments of monetary policy (such as open market operations, rediscount facilities, and reserve requirements); issues surrounding the Fund's possible financial support for currency stabilization funds; and how the Fund might better assist members in coping with sudden market disturbances, in a way consistent with its catalytic role.

Review of Experience with Stand-By and Extended Arrangements

The Board periodically reviews member countries' performance under Fund-supported adjustment programs to assess their effectiveness. During 1994/95, the Board looked at programs supported by its traditional financing at market-related terms—specifically, stand-by arrangements (short-term credits) and extended arrangements (longer-term credits).

The first part of the review, at a June 1994 Board meeting, focused on overall economic results; specific policy issues and outcomes in the fiscal, financial programming, exchange rate, and structural reform areas; and techniques of monitoring and evaluating programs. The conclusion of the review, at a November seminar, was devoted mainly to a broad discussion of the aims of Fund-supported programs and how policy approaches might be modified to improve their effectiveness, particularly in securing an earlier and stronger response of output and employment.

Preparatory to the Board review in June, the staff examined the record of countries for which such arrangements had been approved between mid-1988 and mid-1991—45 arrangements in 36 countries.[6] Program design took a three-pronged approach involving (1) reining in domestic demand through fiscal and credit restraint (for example, controlling public borrowing and money creation and moderating public spending and raising revenues), (2) mobilizing external financing to support the program (and often to clear external arrears and to provide debt relief), and (3) adopting structural reforms to promote a supply response and improve the efficiency of resource use. In general, compliance with agreed-upon policy changes was high: countries adjusted policies broadly as envisaged, although there was substantial variation

[6]Forthcoming in the Fund's Occasional Paper series.

among countries, and some suffered subsequent reversals.

In both the June 1994 discussion and the November seminar, Directors focused on two core issues. First, did the three-pronged approach place too much stress on achieving a short-term balance of payments adjustment, subordinating domestic goals of longer-term growth and better living standards to that of external equilibrium? Second, did the one-year program planning horizon inhibit consideration of medium-term problems and effects?

Macroeconomic Performance and Program Objectives

In their June meeting, Directors observed that the countries under review had notably improved their external positions and addressed debt difficulties: official reserves had risen, half the countries with external arrears had substantially cleared them, some countries had benefited from capital inflows, and current account positions had converged toward sustainable levels of projected capital inflows. By contrast, changes in domestic economic performance were less impressive. Although growth had on average risen during the period, investment and saving ratios had improved little, and developments in inflation had been mixed.

A number of Directors indicated that the more impressive performance of the external accounts was not surprising, since in almost all cases it was the pressure of a severe external financing problem that led countries to seek Fund assistance in the first place.

Although some Directors wondered whether the objective of Fund support should not be defined narrowly as short-run balance of payments adjustment, most Directors urged that Fund programs should support a broader array of macroeconomic aims over the medium term. These Directors recognized a potential conflict in the short term, since the fiscal and monetary policy measures often needed for stabilization and external adjustment could depress growth in the short run. Favorable effects on investment, saving, and output tended to come with longer lags; it might take consistent performance over a period before stabilization and reform policies became credible in the minds of savers and investors.

This mix of aims and time horizons had a number of implications for program design, which the Board articulated at its November seminar:

- Programs should not be too ambitious in their short-term projections for growth and investment, and there should be no illusions that countries could normally expect large improvements in both the external position and growth in the short run. Nevertheless, the external position was much less likely to be sustainable if growth remained low over the medium term. In that context, careful attention should be given to an appropriate balance of policies.
- Programs should be framed in a medium-term context. The forward-looking nature of private sector decision making meant that the effectiveness of policies in the short term depended on their medium-term consistency and credibility. In terms of procedure, a number of Directors suggested that a document like the Policy Framework Paper used for SAF and ESAF arrangements would be a suitable vehicle for ensuring a medium-term perspective and intensified collaboration with the World Bank. Other Directors held that less formal instruments would be suitable, especially in cases in which an external crisis required urgent action.
- Programs should strive for a transparent and predictable timetable for structural reform to foster credibility and thereby encourage a timely private sector response. From the outset, programs should give priority to a coherent set of structural measures, institution building, and removal of distortions that would stimulate supply response and investment. Staff reports should explicitly discuss the potential costs of settling for "second-best choices"—those that are easier to implement but compromise longer-term growth and policy objectives.

Adequacy of Fund financing was addressed in both sessions. In June, there was agreement that the more a country allowed its economy to deteriorate before undertaking adjustment with external support, the more difficult the adjustment would be. A number of Directors stressed the importance of external finance in facilitating adjustment with growth, although some supported the view that the staff may have placed too much emphasis on generating external finance. At the November seminar a number of Directors noted that, in their view, Fund-supported programs sometimes suffered from inadequate financing; other Directors emphasized that stronger financing, which could now be secured under the new access policy, should lead to stronger programs and eliminate some of the delays in adjustment efforts.

Specific Policy Issues and Outcomes

Most of the review of specific policy issues and outcomes, based on the staff studies, took place in June, with several important follow-up discussions at the November seminar.

On *fiscal policy*, Directors welcomed the substantial progress in addressing fiscal imbalances during the programs reviewed. Reductions in fiscal deficits, together with a shift from bank to nonbank financing of the budget, helped to redress the overall saving-investment imbalances and restrain government absorption of bank credit. More generally, stronger and more predictable fiscal positions had fostered the

Box 12
FUND FACILITIES AND POLICIES

The Fund provides financial assistance to its members through several facilities and policies tailored to members' needs. The size of the Fund's financial support and the conditionality attached to it vary according to the nature of the macroeconomic and structural problems that the member seeks to address and the Fund facility or policy designed to meet this need. Access to Fund resources is determined in relation to a member's quota. In October 1994—in order to give confidence to members that the Fund would be able to respond quickly and on an appropriate scale in support of strong programs of economic adjustment—the Board increased for three years the annual access limit in the General Resources Account (GRA) from 68 percent to 100 percent of quota.

Regular Facilities

Credit tranche policies. The Fund's credit under its regular facilities is made available to members in four tranches or segments of 25 percent of quota. For first credit tranche purchases, members are required to demonstrate reasonable efforts to overcome their balance of payments difficulties. Upper credit tranche purchases are normally associated with stand-by arrangements. These typically cover periods of one to two years and focus on macroeconomic policies—such as fiscal, monetary, and exchange rate policies—aimed at overcoming balance of payments difficulties. Performance criteria to assess policy implementation—such as budgetary, credit, and external debt ceilings and targets for international reserves—are applied during the period of the arrangement, and purchases are made in quarterly installments. Repurchases are made in three and one-fourth to five years.

Extended Fund facility. In addition to stand-by arrangements, the Fund makes credit available for longer periods under extended Fund facility arrangements. Under this facility, the Fund supports medium-term programs that generally run for three years (up to four years in exceptional circumstances) and are aimed at overcoming balance of payments difficulties stemming from macroeconomic and structural problems. Typically, a program states the general objectives for the three-year period and the specific policies for the first year; policies for subsequent years are spelled out in program reviews. Performance criteria are applied, and repurchases are made in four and one-half to ten years.

Special Facilities

Systemic transformation facility (STF). This was a temporary facility created in response to the needs of the economies in transition from centrally planned to market-based systems. It provided financial assistance to eligible members experiencing balance of payments needs resulting from severe disruptions in their traditional trade and payments arrangements. It was created in

more stable financial conditions essential to better prospects for growth and investment.

At their November seminar, Directors voiced the concern that more attention needed to be paid to the quality of fiscal adjustment—specifically, how the structure and level of revenues and spending might affect prospects for investment and growth. Significant efforts in this direction were already being made: the staff study showed that, on average, fiscal adjustment fell about equally on raising revenues and cutting expenditures, that planned revenue increases were largest where initial revenue ratios were lowest, and that it was important to design revenue measures so as to minimize disincentive effects. However, fiscal targets had not been regularly reported in a medium-term framework, and ad hoc, mid-course corrections fell most heavily on spending, especially capital spending. In order to achieve growth objectives, it was recommended that effective tax reform measures be prepared early. Directors had earlier agreed on the need for more concrete analyses in programs of sustainable fiscal positions and for encouraging authorities to formulate spending priorities within a medium-term framework. Even more essential, Directors now emphasized, was wholehearted government commitment to, and ownership of, the program.

In June, Directors affirmed the importance of the *financial program* in overall program design, noting that restraining credit growth had proved effective for achieving external sector goals, particularly increasing official reserves. Some Directors expressed concern that credit ceilings could even have been too tight, resulting in high real interest rates and potentially destabilizing capital inflows. More generally, credit ceilings had tended to be less effective for controlling money growth—and, ultimately, inflation—in programs that attached high priority to building reserves and preserving competitiveness. To deal with the latter, programs might benefit from more explicit benchmarks for some monetary aggregate.

With regard to *exchange rate anchors*, on the positive side the Board observed that exchange rate anchors could help to achieve rapid price stabilization or maintain price stability in low-inflation countries. On the negative side, if not supported by strong financial policies, a nominal anchor could weaken competitiveness and produce unsustainable pressures on reserves. As one Director put it, an exchange rate anchor should not be used when the preconditions were not there. Thus, the efficacy of an anchor should be carefully assessed in the specific circumstances of an individual country; it required judgments about market perceptions, the sustainability of tight financial policies, and the balance between external and inflation objectives. Directors urged that each program present the authorities with a careful accounting of

April 1993 and was in effect through April 1995. Access to the facility was limited to not more than 50 percent of quota and could be in addition to financing obtained under other Fund facilities, and the repurchase period was the same as that for the extended Fund facility.

Compensatory and contingency financing facility (CCFF). The purpose of this facility is twofold. The compensatory element provides resources to members to cover shortfalls in export earnings and services receipts and excesses in cereal import costs that are temporary and arise from events beyond the member's control. The contingency element helps members with Fund arrangements to maintain the momentum of reforms when faced with a broad range of unforeseen adverse external shocks, such as declines in export prices, increases in import prices, and fluctuations in interest rates. Repurchases are made in three and one-fourth to five years.

Buffer stock financing facility. Under this facility the Fund provides resources to help finance members' contributions to approved buffer stocks. Repurchases are made in three and one-fourth to five years.

Emergency Assistance

In addition to balance of payments support under its regular and special facilities, the Fund provides emergency assistance in the form of purchases to help members meet balance of payments problems arising from sudden and unforeseeable natural disasters. Such purchases do not involve performance criteria or the phasing of disbursements, and repurchases must be made in three and one-fourth to five years.

Facilities for Low-Income Countries

Structural adjustment facility (SAF) and enhanced structural adjustment facility (ESAF) arrangements. These enable the Fund to provide resources on concessional terms to support medium-term macroeconomic adjustment and structural reforms in low-income countries facing protracted balance of payments problems. The member develops and updates, with the help 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. Within this framework, detailed yearly policy programs are formulated and are supported by SAF or ESAF arrangements. ESAF arrangements differ from SAF arrangements in the scope and strength of structural policies, and in terms of access levels, monitoring procedures, and sources of funding. There was broad consensus in the Board at an April 1995 meeting that an ESAF-type facility should continue to be available, provided that the revolving nature of the Fund's resources and the monetary character of the Fund were respected. Directors also agreed that the basic modalities of the existing ESAF had worked well and should be retained. (See section on Continued Fund Assistance Through the ESAF.) SAF and ESAF programs include quarterly benchmarks to assess performance. The rate of interest on SAF and ESAF loans is 0.5 percent, and repayments are made in five and one-half to ten years.

advantages and drawbacks of using or not using an explicit nominal exchange rate anchor.

Directors regarded *structural reforms* in many countries as essential for strong and sustainable growth and discussed them at length in June. In addition to the structural issues in the fiscal areas mentioned above, Directors commented on structural reforms in the financial sector, labor markets, and public enterprises, as follows.

Vigorous *financial sector reforms* and the general shift to positive real interest rates in most of the countries under review were welcomed as steps that would strengthen the efficiency of resource allocation. Directors expressed concern, however, about the high levels of real interest rates and the widening of spreads between deposit and lending rates observed in several programs. Although episodes of high real interest rates had in general been only temporary, Directors cautioned that such developments could delay the response of private investment and could lead to banks taking excessive risks. To minimize those threats, Directors stressed that programs should try to ensure that supportive policies, such as adequate prudential standards for bank lending and a sizable reduction in public sector borrowing, accompany financial liberalization.

Rigidities in *labor markets* and insufficient job creation had featured as serious problems in many of the countries under review. Often these problems had not been adequately addressed or analyzed during programs. To a large extent, this situation reflected serious weaknesses in, and frequently the outright absence of, data on employment and nongovernment wages. Because these issues were central to economic growth, Directors urged the staff to encourage authorities to step up efforts to collect adequate data on wages and employment and to give more prominence to an analysis of these issues in program documents.

Although Directors welcomed the advances that had been made in structural reforms, many observed that the actual *sequencing of reforms* had reflected political and administrative constraints rather than optimal sequencing insofar as it was understood. Nevertheless, Directors recognized that it was important to seize opportunities for reform on as broad a front as possible, unless there were sequencing considerations that clearly militated against a specific approach. In that connection, Directors pointed to several areas in which action had been slow: improving prudential controls and bank supervision, addressing weak bank portfolios, privatization, and restructuring expenditure. They stressed the need to press harder for action in these areas and to provide technical assistance if appropriate.

Because structural measures often required some time to take effect, many might not be achieved without sustained support. In this effort, it was important for the Fund to collaborate closely with the World Bank on issues that lay within the Bank's expertise and mandate. For example, some Directors felt that the analysis of labor market policies should be addressed directly by the World Bank, although others viewed these policies as central to the effectiveness of macroeconomic adjustment and, thus, requiring greater focus in Fund reports.

Monitoring and Evaluating Programs

Directors agreed that the techniques for monitoring programs—with their emphasis on ensuring compliance with the financial program, preventing external financing gaps, and pursuing structural reforms—supported the broad approach to adjustment. While seeing little need for change, Directors urged that performance criteria be as simple and transparent as possible. With regard to structural reform, they emphasized that no monitoring technique could substitute for the authorities' commitment to change; overseeing progress in this area was often better handled through reviews than through specific performance criteria. Also, they suggested that more information on the use and effectiveness of prior actions be covered. The number of waivers that had been required drew comment, although Directors noted that, on balance, waivers had provided appropriate flexibility to the application of conditionality, particularly in those countries making satisfactory overall progress.

Many Directors reiterated their long-standing desire to have a separate evaluation unit in the Fund, while others saw no need for one, and still others indicated a desire to consider the specific structure of such a unit.

Agenda for Further Research

At the conclusion of the November seminar, the Board agreed that several issues within the Fund's primary responsibility required further study. Among them were how the combination of initial conditions, external environment, macroeconomic and structural policies, and key rigidities in the economy had affected the path of saving, investment, and output during the adjustment phase. In light of the forward-looking nature of investment decisions, the study would have to examine the credibility and medium-term consistency of policies. Another important topic of the investigation would be an in-depth examination of the structural aspects of fiscal adjustment.

Most Directors agreed that it would be useful to examine the experiences of a number of both successful and less successful cases of growth-oriented adjustment from a longer-term perspective, with a view to understanding the lags in policy effects and the dynamics of saving, investment, and growth. There was also some support for examining a few countries that had carried out adjustment policies without Fund financial involvement.

Member Countries' Use of Fund Facilities

Albania

Financial Support

Second annual ESAF arrangement in the amount of SDR 14.12 million was approved on September 21, 1994.

Program Objectives

Create conditions for sustained revival of growth with declining inflation (growth rate of 8 percent projected for 1994, and 6 percent for 1995). Reduce inflation to about 24 percent in 1994 and to 10 percent in 1995. Raise gross official reserves to three months of imports of goods and services. Improve balance of payments position. Work toward eliminating external arrears.

Policies

Fiscal policy aimed at further reducing domestic credit to the Government while increasing public investment through improved tax collections and control of current spending. Fiscal consolidation and strict limits on credit to public enterprises formed the basis for monetary policy consistent with the inflation targets.

Major structural reforms under the ESAF have included privatizing agricultural land, housing, and small shops; decontrolling most prices; liberalizing the trade and exchange system; establishing a liberal foreign investment regime; and developing the legal framework for a market economy.

To address social costs, the Government established a social safety net. Job creation promoted by encouraging private economic activity and foreign investment. The Government undertook to address environmental degradation and lack of access to clean water.

Algeria

Financial Support

SDR 731.52 million was approved on May 27, 1994, of which SDR 457.2 million was under a stand-by arrangement, and SDR 274.32 million was under the CCFF to offset a shortfall in export earnings and an excess in cereal import costs.

Program Objectives

Reduce underlying inflation. Attain real GDP growth of 3 percent. Limit overall treasury deficit to 3.3 percent of GDP.

Policies

The dinar was depreciated by 75 percent, supported by tight monetary policies and higher interest rates. Fiscal policy aimed at sharply reducing the overall deficit based on wage restraint and a reduction in transfers; strengthening the tax system; and implementing various revenue measures.

Structural policies included a liberalization of the trade and exchange systems; administered price adjustments and liberalization; public enterprise and bank restructuring; a shift toward indirect monetary policy instruments; and introduction of a managed float for the dinar. These policies were accompanied by an overhaul of the social safety net to improve targeting and support public enterprise restructuring.

Argentina

Financial Support

Extended Fund facility (EFF) arrangement extended to fourth year on April 6, 1995, and the amount was increased by SDR 1,537.1 million, for a total of SDR 4,020.25 million. The three-year EFF was approved on March 31, 1992.

Program Objectives

Restore liquidity in the financial sector, raise domestic saving, and re-establish confidence in the Government's ability to defend the fixed exchange rate that is at the heart of the Convertibility Plan. Rate of growth is assumed to slow to 2–3 percent, and inflation to $3\frac{1}{2}$ percent. The current account deficit is projected to narrow to 2 percent of GDP.

Policies

Fiscal policy for 1995 consists of a temporary 3 percentage point increase in the value-added tax (VAT) rate, increases in import duties, a broadening of the tax base, reform of the wealth tax, unification of employer social security contribution rates across sectors, and improvements in tax administration. The monetary strategy for 1995 envisages a reversal of the decline in bank deposits. Structural policies included further steps toward privatization, labor market reform, and a bankruptcy law.

Armenia

Financial Support

A first purchase under the STF for SDR 16.9 million was approved on December 15, 1994. It represents Armenia's first use of Fund resources.

Program Objectives

Create conditions for sustained noninflationary growth so as to raise living standards. Strengthen public finances and reduce inflation to 1 percent a month. Increase gross international reserves by the end of 1995. Promote rapid export growth and encourage foreign investment.

Policies

Monetary policy was tightened to reduce inflation and increase gross international reserves. On the fiscal side, measures were implemented to enhance revenues and reduce expenditures, with an emphasis on broadening the tax base and directing social spending to the neediest segments of society.

Structural reform efforts included liberalizing the exchange and trade regimes, further liberalizing prices, creating the legal framework needed for a market economy, and pursuing privatization. Authorities undertook to establish a social safety net.

Azerbaijan

Financial Support

A first purchase of SDR 29.25 million under the STF was approved on April 19, 1995. This purchase represents Azerbaijan's first use of Fund resources.

Program Objectives

Stabilize prices quickly, creating an environment of low inflation, conducive to a resumption of economic growth. Limit the decline in real GDP to 6 percent, reduce monthly inflation to about 2 percent by the end of 1995, and limit the external current account deficit to less than 10 percent of GDP and restore a sound external reserve position to the central bank.

Policies

The Government undertook to implement a tight monetary and credit policy. Net credit to the Government from the banking system would be limited, reserve requirements have been raised, and interest rates would be maintained at positive real levels. The focus of fiscal policy would be to increase the efficiency of the tax administration and step up efforts to collect tax arrears.

On the structural reform front, the Government took measures to improve the functioning of the market. It unified and liberalized the exchange rate regime, eliminated the state order system, liberalized the trade regime, abolished bread price subsidies, and adjusted energy prices. The Government undertook to complete price liberalization as well as develop and implement a program of privatization. The Government's social reform plan entailed restructuring the social safety net, targeting cash transfers, and improving the unemployment benefit system.

Belarus

Financial Support
A second drawing under the STF, for SDR 70.1 million, was approved on January 30, 1995.

Program Objectives
Stabilize the economy by reducing the monthly rate of inflation to 1 percent by the end of 1995. Narrow the external current account deficit to 5.7 percent of GDP. Take decisive steps toward creating a market economy.

Policies
The Government's budgetary policy was set to contribute to stabilization by limiting the fiscal deficit to about 3 percent of GDP and domestic financing of the deficit to no more than 2 percent of GDP. Monetary policy would aim to limit the expansion in base money and bank credit and to maintain positive real interest rates.

Structural reforms included price liberalization and adjustment of remaining administered prices for utility services. Food prices would be allowed to reflect market forces, and domestic energy prices their full import costs. Credit allocation would be made increasingly on market terms. Privatization of small and large state enterprises would be accelerated. The Government would continue to finance an adequate social safety net to shield vulnerable groups of the population against the impact of price liberalization.

Bolivia

Financial Support
A new three-year ESAF arrangement for SDR 100.96 million and the first annual arrangement thereunder, for SDR 33.7 million, were approved on December 19, 1994.

Program Objectives
Real economic growth of about $4\frac{1}{2}$ percent was assumed in 1995. Reduce inflation to $6\frac{1}{2}$ percent, and increase net international reserves. Improve resource allocation.

Policies
The Government agreed to maintain sound fiscal and monetary policies and to implement comprehensive structural reforms.

Structural reforms included increasing private sector investment and improving efficiency of resource use. Control of the largest public enterprises would be transferred to the private sector through capitalization and privatization. Education, pension, civil service, and judicial systems were to be reformed. To address social issues, the coverage and quality of basic education and health were to be expanded.

Bulgaria

Financial Support
Augmentation of SDR 69.74 million was approved on September 12, 1994 under the stand-by arrangement for SDR 69.74 million that was approved on April 11, 1994.

Program Objectives
Create the conditions for sustainable growth, including accelerating structural reform. Reduce inflation considerably. Strengthen international reserves.

Policies
The firming of fiscal and incomes policy stance was expected to reduce pressures on prices and on the exchange rate.

Progress in structural reforms included acceleration of privatization and passage of a modern bankruptcy law. Restoration of access to private capital flows was expected to improve growth and employment prospects.

Cambodia

Financial Support
A three-year ESAF arrangement for SDR 84 million and the first annual arrangement thereunder, for SDR 28 million, were approved on May 6, 1994.

Program Objectives
Achieve real economic growth of 7–8 percent a year, raise the level of official foreign reserves, and increase domestic and foreign investment.

Policies
Fiscal and monetary restraint to be combined with a strengthening of institutions, a public investment program supported by concessional financing from abroad, and broader structural reforms. Tight financial policies will avert need for monetary financing of the budget. Growth in liquidity would thus be curtailed and inflation held in check.

Structural reforms included reform of the financial sector, introduction of a more liberal foreign investment law, and more cautious foreign borrowing. Other planned measures include reforming the civil service, restructuring the military, and privatization. On the social front, the geographic base for economic development would be broadened and a targeted social safety net created. Another priority is environmental policy to conserve forested areas.

Congo

Financial Support
A stand-by arrangement for SDR 23.16 million was approved on May 27, 1994.

Program Objectives
Increase the average rate of real GDP growth to 5 percent a year by 1995–96. By 1996, reduce inflation to pre-devaluation levels and narrow the external current account deficit to 14 percent.

Policies
The change in the parity of the CFA franc and accompanying macroeconomic policies and structural reform were expected to accomplish objectives. A key element of the reform was an improvement in public finances. Other elements included broadening domestic tax base to raise revenues and rationalizing expenditures by restructuring and downsizing civil service and tightening policy on subsidies and transfers. Fiscal policy would aim at reducing excess domestic treasury borrowing, ensuring credit to productive activities, and limiting credit to public enterprises.

Key structural reforms included restructuring and streamlining public enterprises, disengaging government from the market, liberalizing the regulatory framework and labor market, and completing banking rehabilitation. Government addressed social issues by temporarily suspending import taxes on some commodities and freezing low-income rents and the price of kerosene. The Government planned to focus expenditure on infrastructure investment, retraining, and severance pay schemes.

Croatia

Financial Support
SDR 130.8 million was approved on October 14, 1994, of which SDR 65.4 million was under a stand-by arrangement and SDR 65.4 million was under the STF. A second STF drawing of SDR 65.4 million was approved on April 10, 1995.

Program Objectives
Achieve economic growth of 3 percent a year in 1995. Stabilize inflation at about 2.6 percent by the end of 1995 and strengthen the external position while normalizing relations with external creditors. Increase reconstruction effort. Reduce central government deficit to 0.3 percent of GDP in 1994 and 0.5 percent in 1995 through financing from multilateral institutions.

Policies
Under fiscal policy, monetary financing of fiscal deficit would be eliminated, credit access of loss-making enterprises restricted, and incomes policy tightened.

Structural reforms included restructuring banks and enterprises and accelerating privatization. Ongoing public sector reform emphasized strengthening expenditure control, tax administration, and budget planning. On the social front, a social safety net would be introduced to protect the most vulnerable groups.

Ecuador

Financial Support
A stand-by arrangement for SDR 130 million was approved on May 11, 1994. Augmentation of SDR 43.9 million and disbursement of set-asides were approved on November 22, 1994 to support operations to reduce debt and debt service to external commercial creditors.

Program Objectives
Strengthen foundation for sustained growth by maintaining a real GDP growth rate of 3 percent in 1994 and 4 percent in 1995, lowering inflation to 20 percent in 1994 and to less than 15 percent in 1995, and restoring medium-term external viability. Increase net international reserves by $275 million in 1994 and by $300 million in 1995.

Policies
Fiscal policy was designed to limit public sector deficit to 0.5 percent of GDP in 1994 and further improve public sector finances in 1995. Monetary and credit policies were designed to be consistent with inflation goals and the targeted gain in reserves.

On the structural side, the Government embarked on a program to increase private sector participation in telecommunications, hydrocarbons, and electricity. Customs services were simplified and certain activities privatized. A law to simplify the wage structure was proposed, and steps to reduce labor market rigidities would be considered. Public spending was reoriented toward the social sectors.

Equatorial Guinea

Financial Support
A second annual ESAF arrangement for SDR 3.68 million was approved on May 2, 1994.

Program Objectives
Accelerate economic growth, contain inflation at 35 percent, and improve the overall balance of payments. Reduce external current account deficit.

Policies

Under fiscal policy, measures to enhance revenue and restrain expenditure would shift the overall fiscal balance to a surplus of 1.7 percent of GDP. Monetary and credit policy would support economic expansion and control inflationary pressures.

Strengthened macroeconomic and structural adjustment policies, including tightening financial and incomes policies and deepening reforms in agriculture, public administration, public enterprises, and the financial sector, would permit achievement of medium-term goals. The Government undertook to address social issues through medium-term reforms, which aim at improving the well-being of the rural population.

Estonia

Financial Support

A second STF purchase for SDR 11.625 million was approved on January 9, 1995. A stand-by arrangement (precautionary) for SDR 13.95 million was approved on April 11, 1995.

Program Objectives

In 1995, achieve real economic growth of 6 percent, led by exports and investment. Inflation is expected to decline further to 26 percent, and the external current account deficit is targeted at about 5 percent of GDP.

Policies

The main elements of the program are the continuation of a tight fiscal stance aimed at a balanced financial position of the general Government; firm adherence to the principles of the currency board arrangement; maintenance of a liberal exchange and trade system; continuation of structural reforms aimed at strengthening the development of the private sector; and financial sector reform.

Ethiopia

Financial Support

A third annual SAF arrangement for SDR 14.12 million was approved on November 9, 1994.

Program Objectives

Increase rate of economic growth to about 5.5 percent. Limit the rate of inflation to about 10 percent. Contain the external current account deficit, including official transfers, to 3.4 percent of GDP. Maintain gross official reserves at about five months of imports.

Policies

Macroeconomic policies included holding expansion of broad money to a rate below that of nominal GDP growth and reducing the fiscal deficit. Fiscal policy was tightened in 1994/95, although provision was made for increased funding for economic and social services. Tax reforms were implemented to strengthen the medium-term fiscal position and help simplify and rationalize the fiscal environment for the private sector.

Structural reforms focused on tax administration reform, civil service reform, liberalization of foreign exchange markets, and privatization. On the social side, the Government increased the allocation for services and undertook to allocate funds for severance payments and to extend credit to retrenched workers starting small businesses.

Georgia

Financial Support

A first purchase under the STF for SDR 27.75 million was approved on December 15, 1994. It represents Georgia's first use of Fund resources.

Program Objectives

Halt hyperinflation and reduce monthly rate of inflation to 1 percent by the end of 1995. Stabilize the national currency while strengthening Georgia's gross reserve position.

Policies

Fiscal policy aimed at strengthening revenue performance through tax measures as well as through tight expenditure controls, elimination of subsidies, and mobilization of resources through domestic sales of in-kind grants provided by donors. The Government undertook a tight monetary policy and sought to refinance or reschedule its external obligations on concessional terms. To facilitate the transition to a market economy, solidify the foundation for growth, and attract foreign investment.

Structural reforms entailed restructuring the government apparatus, imposing hard budget constraints on enterprises, modernizing the financial system, establishing a legal basis for private property rights, and accelerating privatization. To address social costs, the Government made assistance available to pensioners and some low-paid employees, with special provisions for children 16 and under, single mothers, and refugees.

Guinea

Financial Support

A second annual ESAF arrangement for SDR 17.37 million was approved on September 23, 1994.

Program Objectives

Expand output and employment, achieve a viable external position, and establish a supportive environment for private sector development. Achieve, for 1994 and 1995, real GDP growth of 4.5 percent and contain inflation at 4 percent.

Policies

Macroeconomic policies were designed to strengthen progress toward macroeconomic stability, further liberalize foreign exchange market, and increase the momentum of monetary policy and financial sector reforms as well as of judicial and other structural and institutional reforms. Fiscal policy aimed at lowering budget deficit and increasing domestic saving, thereby reducing external current account deficit, and at promoting economic growth by strengthening incentives and increasing outlays on basic infrastructure.

Structural policies emphasized improving environment for private sector activities and scaling back the public sector through privatization or restructuring of enterprises. Emphasis of social reforms was on providing more basic health and education services and on protecting the environment.

Guinea-Bissau

Financial Support

A three-year ESAF arrangement for SDR 9.45 million and the first annual arrangement thereunder, for SDR 3.2 million, were approved on January 18, 1995.

Program Objectives

In 1995, achieve 3.3 percent economic growth, cut inflation to 15.5 percent, and limit the external current account deficit to 20 percent of GDP. Limit the overall deficit to less than 23 percent of GDP in 1995.

Policies

The essence of fiscal policy would be to enhance government revenue performance along with expenditure restraint by containing the government wage bill and capital outlays. To complement fiscal effort, monetary and credit policies would be tightened.

The structural reform effort would focus, in 1995, on reforming the legal and regulatory framework, rehabilitating the energy sector, improving transportation, and accelerating public enterprise and civil service reform. The focus of social reform would be to strengthen the provision of health and primary education services.

Guyana

Financial Support

A new three-year ESAF arrangement for SDR 53.76 million and the first annual arrangement thereunder, for SDR 17.9 million, were approved on July 20, 1994.

Program Objectives

Achieve average growth of 5 percent a year, reduce inflation to 4 percent by 1996, and maintain gross international reserves at seven to eight months of imports.

Policies

Fiscal policy would focus on simplifying the tax system and eliminating exemptions from import duties and income taxes, and allowing prices to be determined by market forces. No price controls would be introduced.

Structural policy involved restructuring or privatizing public enterprises, reforming the financial system, and addressing public sector skill shortages. On the social front, the program focused on infrastructure and nutrition projects and on projects to supply medical needs and provide food. Another priority was conservation of the ecological balance.

Haiti

Financial Support

A stand-by arrangement for SDR 20 million was approved on March 8, 1995.

Program Objectives

Reduce inflation to 15 percent a year and increase net international reserves by $45 million. Real GDP is projected to grow by 4.5 percent, mainly on the basis of a large increase in public investment of 7.2 percent of GDP, to be financed through external aid.

Policies

Fiscal strategy was designed to widen the fiscal deficit temporarily so as to meet immediate reconstruction and rehabilitation needs and alleviate poverty while introducing measures to address the underlying fiscal imbalance and providing for restrained wage and financial policies.

Structural measures included simplifying the tariff regime, introducing a new petroleum pricing policy, initiating public enterprise divestiture, and reforming the state electricity company. Social reforms included small projects aimed at rehabilitating the social and economic infrastructure.

Honduras

Financial Support

A second annual ESAF arrangement for SDR 20.34 million was approved on January 30, 1995.

Program Objectives

Achieve export-oriented economic growth of 4.5 percent a year during 1995–97, lower inflation to 12 percent in 1995 and to 5 percent in 1997, and increase national saving relative to GDP to 19.5 percent in 1997. Increase gross international reserves to three to three and one-half months of imports by 1997 and reduce the external public debt.

Policies

Fiscal strategy called for lowering the underlying fiscal deficit by reducing generalized subsidies, increasing utility rates, and adopting tax revenue measures.

Structural policies included reforming the public sector, rationalizing government expenditure, and privatizing or restructuring major enterprises and services. Resource allocation and growth prospects would be improved through structural reforms in the agriculture, energy, financial, and transportation sectors. The social safety net included assistance with short-term employment and financing for small-scale projects in social and economic infrastructure and social services.

Jordan

Financial Support

An EFF arrangement for SDR 127.8 million was approved on May 25, 1994. The arrangement was increased by SDR 25 million on September 14, 1994 and by a further SDR 36.5 million on February 13, 1995.

Program Objectives

Sustain GDP growth at 5.5 percent. Contain the annual rate of inflation at 5 percent. Further reduce the external current account deficit by about 3 percentage points to 9.7 percent of GDP and increase central bank foreign exchange reserves to the equivalent of two and four-tenths months of imports.

Policies

Fiscal policy sought to further reduce the budget deficit while enhancing the quality of public expenditures. Fiscal policy would be supported by a firm monetary stance.

Structural policies would consist of tax reforms to enhance revenue elasticity and efficiency of the tax system and a switch to indirect monetary control and development of monetary programming techniques. The financial, exchange, and trade systems would be further reformed. Social safety net measures included better targeting of expenditures through wider use of a coupon-based system for selected basic food items and providing direct income support to poor families.

Kyrgyz Republic

Financial Support

A three-year ESAF arrangement for SDR 70.95 million and the first annual arrangement thereunder, for SDR 23.7 million, were approved on July 20, 1994.

Program Objectives

Limit the decline in real GDP to about 5 percent in 1994, with growth resuming in 1995. Limit monthly inflation to no more than 3.5 percent by the end of 1994 and to 2.5 percent or less by mid-1995. Reduce the current account deficit to just under 11 percent of GDP in 1995.

Policies

Fiscal policy included measures to enhance revenues and contain expenditures. These measures would be reinforced by the establishment of a treasury with centralized payments, expenditure control, cash management, and fiscal reporting. Monetary and credit policies were designed to be consistent with inflation targets.

Structural reforms were formulated to accelerate, and improve the transparency of, privatization; reform state enterprises; complete price and trade liberalization; and reform the legal, regulatory, and institutional framework. The Government undertook to implement a social assistance program, providing unemployment compensation and protecting basic and priority social services from expenditure cuts.

Lao People's Democratic Republic

Financial Support

A second annual ESAF arrangement for SDR 11.73 million was approved on January 25, 1995.

Program Objectives

For 1995, achieve real economic growth of 7 percent, reduce inflation to 5 percent, and further narrow the external current account deficit to about 12 percent of GDP. Achieve an overall balance of payments surplus sufficient to increase gross official reserves to about two and one-half months of imports.

Policies

Fiscal policy would be tightened, and adequate resources would be provided to social sectors and infrastructure. Monetary policy was formulated to contain inflation and maintain external viability.

To promote private sector activity, the Government would continue such structural reforms as privatizing and streamlining civil service, introducing a simplified tariff structure, and strengthening fiscal management and the legal framework. Social efforts would focus on providing essential social and economic infrastructure.

Latvia

Financial Support

A second STF purchase for SDR 22.875 million was approved on July 15, 1994. A stand-by arrangement (precautionary) for SDR 27.45 million was approved on April 21, 1995.

Program Objectives

The program for 1995 seeks to lay a firm foundation for sustained economic growth, contain inflation at 15 percent (end of period), maintain external viability, increase real GDP by 5 percent, and achieve an external current account deficit of 3 percent of GDP.

Policies

The program aims to reduce the overall fiscal deficit by almost 2 percent of GDP through a sharp curtailment of government net lending to public enterprises. Monetary policy was formulated to contain inflation.

Structural reform will entail privatization and introduction of a draft law on bankruptcy for enterprises. The authorities are committed to reforming the financial sector and to promoting an efficient and competitive banking system. The Government undertook to implement social reforms, including introducing a funded pension system.

Lesotho

Financial Support

A stand-by arrangement (precautionary) for SDR 8.37 million was approved on September 23, 1994.

Program Objectives

Achieve real growth rate of 11–12 percent and contain inflation at no more than 8 percent. Reduce the current account deficit to about 1.7 percent of GNP and build up net foreign exchange reserves.

Policies

Fiscal policy was designed to attain an overall budget surplus of 2.8 percent of GNP, and monetary policy, consistent with inflation and balance of payments targets, was designed to enhance efficiency in financial intermediation.

Core structural reforms were to establish a framework for privatization and reform the civil service. In agriculture, production of high-value export crops would be encouraged through pricing and marketing policies. Key social measures were to reform education and health care systems and work toward reducing the population growth rate.

Lithuania

Financial Support

An EFF arrangement for SDR 134.55 million was approved on October 24, 1994.

Program Objectives

Achieve an economic growth rate of 6¾ percent in 1995. Reduce inflation from 72 percent in 1994 to 25 percent in 1995. Reduce external current account deficit to 3 percent of GDP in 1995 from 4 percent in 1994.

Policies

Tight fiscal policy and maintenance of currency board arrangement at unchanged exchange rate parity are pillars of the program.

To develop the private sector, structural policies emphasized privatization, financial sector reform, and the legal framework. Other priorities were development of a strong, efficient banking system; legislation on bankruptcy, registration, and foreclosure of loan collateral; and enterprise accounting rules. Institutional reform was directed at the pension system, social benefits, and unemployment compensation.

Malawi

Financial Support

A stand-by arrangement for SDR 15 million was approved on November 16, 1994.

Program Objectives

Arrest the deterioration in real GDP. Reduce inflation to 26 percent. Contain the external current account deficit at about 13.7 percent of GDP. By the end of the program period, increase foreign exchange reserves to one and three-tenths months of imports.

Policies

Fiscal policy was formulated to limit the budget deficit by broadening the revenue base and strengthening procedures for monitoring and controlling expenditures. Indirect monetary policy instruments would be used to slow inflation and reduce pressure on the balance of payments and exchange rate.

Structural reforms would include removing restrictions on domestic trading of agricultural commodities and promoting private sector participation in fertilizer wholesale and retail activities. To mitigate social problems, short-term steps would include limiting increases in food prices and improving the availability of basic social services.

Mali

Financial Support

A third annual ESAF arrangement for SDR 29.46 million was approved on April 11, 1995.

Program Objectives

Achieve a real GDP growth rate of about 5 percent. In 1995, reduce average rate of inflation to 8 percent and lower the external current account deficit to 14.5 percent of GDP.

Policies

Continued sound fiscal and monetary policies and a deepening of structural reforms are crucial for achievement of medium-term objectives. Fiscal policies would focus on improving revenue performance and continued restraint in spending. Priorities included increasing total receipts by improving the tax and customs administrations, eliminating exemptions, widening the VAT base, and combating fiscal fraud. Total expenditure would be contained by limiting the growth of the wage bill and curtailing nonessential expenditures.

Structural reforms would focus on supporting private sector development, encouraging investment, and the creation of enterprises. Public enterprise reform would be accelerated and agricultural reform strengthened. The authorities would continue to promote regional trade and economic integration. The Government's social policies emphasized increasing the standard of living, reducing poverty, and improving natural resource management and the urban environment. It would also focus on improved provision of primary education and health services.

Mauritania

Financial Support

A new three-year ESAF arrangement for SDR 42.75 million and the first annual arrangement thereunder, for SDR 14.3 million, were approved on January 25, 1995.

Program Objectives

For 1995, achieve real GDP growth of 4.3 percent, an average inflation rate of 3.5 percent, and a reduction in the external current account deficit to 9.6 percent of GDP.

Policies

Fiscal and monetary restraint was a key element of the program, accompanied by prudent credit policies and progress toward market-determined interest rates. Strict expenditure control would be observed, and measures would be introduced to make the tax system more efficient.

On the structural side, the program provided for expanding the tax base, reducing fraud, lowering distortions, and introducing a value-added tax. The Government undertook a review of public expenditure to establish priorities. Other structural reforms included further privatization, strengthening the supervisory capacity of the central bank, reforming the fisheries sector, and reducing impediments to private sector investment. On the social front, expenditure would be redirected toward improving health and education services.

Mexico

Financial Support

A stand-by arrangement for an amount of SDR 12,070.2 million was approved on February 1, 1995, of which SDR 5,289.9 million was disbursed on approval.

Program Objectives

Address the current liquidity problem caused by short-term obligations falling due. The conversion of short-term debt should reverse the overshooting of the currency depreciation. Reduce the external current account deficit to 0.9 percent of GDP in 1995. Lower the annualized rate of inflation to about 20 percent in the fourth quarter of 1995 from more than 60 percent in the first quarter.

Policies

The Government undertook to strengthen the basis for the recovery and help reduce inflation. To this end the authorities are committed to maintaining tight financial policies in 1996, including a fiscal surplus. The Government will also maintain restraints on wages, prices, and credit, which should help stabilize financial and exchange markets, thereby boosting saving and helping reduce imports.

Monetary policy sought to limit the growth of net domestic assets of the Bank of Mexico and reduce the rate of credit expansion by development banks. For the present, the Bank of Mexico has adopted a floating foreign exchange policy. The authorities are firmly committed to avoiding any measures that would limit exchange market convertibility. Under the floating exchange rate regime, sound monetary and fiscal policies are expected to restore confidence in the new peso, permitting a recovery in the exchange rate.

Structural reforms under the program reinforced the privatization strategy, focusing in 1995 on basic infrastructure.

Moldova

Financial Support

A CCFF drawing for SDR 12.2 million was approved on December 19, 1994.

Program Objectives

Defray excess cost of cereal imports for the 12 months ending June 1995 and continue working toward objectives outlined in stand-by arrangement approved in December 1993.

Financial Support

A stand-by arrangement for SDR 58.5 million was approved on March 22, 1995.

Program Objectives

For 1995, achieve economic growth of 1.5 percent, reduce the annual rate of inflation to about 10 percent from 116 percent in 1994, and contain the deficit in the current account of the balance of payments.

Policies

The Government undertook to implement structural and economic reforms to increase production in the industrial sector, work toward eliminating interenterprise arrears in the state enterprise sector, and reduce pressure on the balance of payments.

Fiscal policy in 1995 focused on reducing the budgetary deficit by adjusting tax rates and strengthening tax administration and arrears collections. Overall expenditure levels would be reduced, except those for health care and education to be maintained as part of the Government's social reform strategy. Monetary policy would remain tight and would rely increasingly on indirect, market-based instruments of control.

Structural reforms would concentrate on accelerating privatization, encouraging private investment, and enhancing the role of market forces in resource allocation.

Mongolia

Financial Support

A second annual ESAF arrangement for SDR 11.13 million was approved on November 23, 1994.

Program Objectives

Achieve real economic growth of 3.5 percent in 1995 and reduce annual rate of inflation to 17 percent by the end of 1995. Further strengthen net international reserves. Raise the current budget surplus by an additional 1 percent of GDP over the level achieved in 1994.

Policies

Fiscal policy for 1995 would focus on raising the surplus through a combination of measures to strengthen revenue—improved tax administration and efforts to broaden tax base—and contain current expenditure—wage restraint, subsidy cuts, and rationalization of social outlays. Monetary policy aimed at containing credit expansion in line with inflation and balance of payments objectives.

Structural policies included improving public infrastructure, reforming the public enterprise sector, and fostering private sector investment. Other structural reforms consisted in privatizing state-owned entities and improving conditions for the expansion of privatized entities and the broadening interbank foreign exchange market. To address the social costs of adjustment, the Government undertook to develop a more comprehensive social safety net.

Mozambique

Financial Support

A fourth annual ESAF arrangement for SDR 29.4 million was approved on June 15, 1994.

Program Objectives

Achieve annual average real GDP growth of 6 percent, reduce inflation steadily, and reduce the external current account deficit relative to GDP.

Policies

Through appropriate fiscal and monetary policies, the Government focused on returning the economy to a path of sustainable recovery and on strengthening the transformation to a competitive market basis.

The Government took steps to reduce the budget deficit and cut outstanding debt to the banking system. Tight monetary policy would support the reduction in the inflation rate.

Structural reforms consisted in lifting price controls and reforming the public enterprise and financial sectors, including restructuring the banking system, and in accelerating the privatization of large public enterprises. The aim of social policies was to generate employment, finance health and education projects, improve farmers' living standards, and resettle the returning population.

Nicaragua

Financial Support

A three-year ESAF arrangement for SDR 120.12 million and the first annual arrangement thereunder, for SDR 40 million, were approved on June 24, 1994.

Program Objectives

Achieve real GDP growth of 2 percent in 1994 and 3 percent in 1995. Limit inflation to about 10 percent in 1994 and to less than 8 percent in 1995. Increase gross international reserves to two and one-half months of imports by the end of 1995. Strengthen the saving position of the combined public sector by about 4 percent of GDP in 1994–95.

Policies

Fiscal policy was designed to strengthen the saving position through revenue actions and improvements in tax and customs administration. Monetary and credit policies were designed to be consistent with program's balance of payments and inflation targets.

Key structural reforms included measures aimed at resolving the property rights issue to establish the basis for private investment and sustained economic growth; continuing the privatization of state-owned corporations, reducing the high operating costs of state-owned banks, and improving loan recoveries; and implementing labor market reforms to increase flexibility. The Government addressed social issues by improving the provision of primary health care and education services and by implementing an environmental action plan.

Philippines

Financial Support

An EFF arrangement for SDR 474.5 million was approved on June 24, 1994.

Program Objectives

Achieve a growth rate of about 3.5–4.5 percent, reduce inflation to 8.5 percent by the end of 1994, and limit the current account deficit to less than 5 percent of GNP while rebuilding gross international reserves to three months of imports.

Policies

Through fiscal consolidation, the Government focused on reducing the public sector deficit and domestic debt. To reinvigorate the banking system, the Government undertook to open it to foreign competition and reduce taxation on intermediation. The Government would achieve macroeconomic stabilization through consistent and appropriate financial policies.

Structural reforms, designed to liberalize the economy, included measures to expand and strengthen the private sector, particularly by deregulating the oil sector, removing the majority of quantitative import restrictions, and completing the privatization program. To alleviate poverty, social services and infrastructure programs have been directed toward the neediest. Other social policies focused on improving health and nutrition services and providing affordable housing to the poor.

Poland

Financial Support

A stand-by arrangement for SDR 545 million was approved on August 5, 1994. Augmentation of SDR 148.3 million for interest support and disbursement of SDR 135 million in set-asides were approved on October 26, 1994.

Program Objectives

Reduce inflation from 24 percent in 1994 to 16 percent in 1995. Over the same time frame, reduce the fiscal deficit as a proportion of GDP from 4 percent to $3^1/_4$ percent. Contain the trade deficit at about 2 percent of GDP. Sustain economic growth of about 5 percent a year to reduce unemployment. Protect international reserves.

Policies

Fiscal policy would focus on increasing equity by making the tax system more progressive, widening the tax net, and raising minimum pensions. Fiscal policy would also reduce inflation by progressively reducing credit from the banking system to finance the deficit. Monetary policy was formulated to reduce inflation, strengthen confidence in the zloty, and protect international reserves.

Key structural reform elements were to reduce public dissavings, encourage investment, contain consumption, strengthen financial discipline, and improve the economy's competitiveness. Priorities included privatization, financial sector reform, and social expenditure reform. Social priorities included improved targeting of programs, introducing unemployment insurance, and concentrating public works and retraining where long-term unemployment rate was highest.

Romania

Financial Support

SDR 320.5 million was approved on May 11, 1994, of which SDR 131.97 was under a stand-by arrangement and SDR 188.525 million was under the STF.

Program Objectives

Reduce the rate of inflation from some 300 percent in 1993 to under 70 percent in 1994 and to less than 30 percent in 1995. Build the foreign exchange reserves of the central bank from less than $100 million to $1 billion by the end of 1995. Maintain the budget deficit at less than 2.5 percent of GDP.

Policies

The Government agreed to implement tight monetary policies so that interest rates would remain positive in real terms. Fiscal policy would be directed to holding budget deficit to prudent levels, implying a modest domestic financing requirement in both program years. The Government undertook to monitor a modern tax system with a profits tax that protects the tax base against inflation.

Structural reforms implemented to date include removal of consumer price controls and bringing energy prices, except to households, in line with international prices. A bankruptcy law has been submitted to parliament, and the Securities Exchange is to be operational by the end of June 1995. To protect the most vulnerable segments of the population, the Government set out to improve the targeting and delivery of social expenditures.

Russia

Financial Support
A stand-by arrangement for SDR 4,313.1 million was approved on April 11, 1995.

Program Objectives
In 1995, reduce inflation quickly to an average monthly rate of 1 percent in the second half of the year and accelerate the transformation to a market economy, thereby setting the stage for a sustained recovery of output and living standards over the medium term. With public dissaving programmed to fall sharply, the external current account is expected to improve by $1/2$ of 1 percent of GDP by the end of 1995. Gross international reserves are projected to increase to almost two months of imports.

Policies
Tightening of monetary policy and a substantial cut in the fiscal deficit are expected to support program objectives. Key elements of fiscal policy included restricting net credit from the monetary authorities to the Government and eliminating both credits from the central bank to finance the budget deficit and net credit to banks. Excise rates on gas and crude oil would be raised, compliance improved, the gas tax increased, and the coverage of zero-rated imports reduced. Real cuts in spending would reduce the ratio of expenditure to GDP.

Wide-ranging structural reforms would be implemented—measures to liberalize the trade regime and the oil sector—to facilitate the move to a market economy. Other reforms entailed completing liberalization of the export regime and maintaining an open policy on imports. Privatization would be strengthened and banking sector reform continued. The Government's social strategy involved reforming the pension system, social insurance, health care, unemployment benefits, and education, with a view to improving targeting to the most needy.

Senegal

Financial Support
A new three-year ESAF arrangement for SDR 130.8 million and the first annual arrangement thereunder, for SDR 47.6 million, were approved on August 29, 1994, following cancellation of a stand-by arrangement.

Program Objectives
Achieve real GDP growth of 2.4 percent in 1994 and 4.5–5.0 percent in 1995. Limit inflation to 39 percent in 1994 and to 8 percent in 1995. Contain the external current account deficit at 9.8 percent of GDP in 1994 and lower it to 7.8 percent in 1995.

Policies
Restrained fiscal policy included measures to enhance revenues and restrain expenditures, notably by strengthening tax and customs administration. Monetary policy called for prudent credit policy consistent with program objectives.

Structural policies aimed at liberalizing labor legislation, prices, and external trade; increasing the efficiency and diversification of the agricultural sector; and rationalizing public sector operations and stepping up public enterprise reform. Social policies focused on improving living standards and reducing poverty. A social safety net, aimed at protecting the poorest households, and basic health and education services would be improved. Environmental issues, including halting land degradation and improving natural resource management, were also to be addressed.

Slovak Republic

Financial Support
SDR 180.15 million was approved on July 22, 1994, of which SDR 115.8 million was under a stand-by arrangement and SDR 64.35 million was a second drawing under the STF.

Program Objectives
Slow inflation to 12 percent in 1994 and to 8 percent in 1995. Stabilize real GDP in 1994 and achieve growth of 2 percent in 1995. Further strengthen the official foreign reserve position to two and one-half months of imports by the end of 1995. Reduce the fiscal deficit from 4 percent in 1994 to 3 percent in 1995, down from 7.5 percent in 1993.

Policies
Macroeconomic policies included fiscal consolidation—to be accomplished through cuts in transfers and subsidies to enterprises, improved targeting of social transfers, and indirect tax increases; a prudent monetary policy, accompanied by market-determined interest rates and wage restraint; and maintaining the koruna exchange rate as a nominal anchor.

Structural reform supported economic stabilization through privatization, financial sector reform, restructuring of state enterprises, and private sector development.

Togo

Financial Support

A new three-year ESAF arrangement for SDR 65.16 million and the first annual arrangement thereunder, for SDR 21.7 million, were approved on September 19, 1994.

Program Objectives

Achieve economic growth of 11.7 percent in 1994 and 8.3 percent in 1995. Reverse the recent decline in tax revenue, improve the structure of expenditure, and raise the revenue-to-GDP ratio to 16 percent in 1995. The current account deficit would be significantly reduced to less than 8.5 percent of GDP by 1996.

Policies

The primary goal of fiscal policy in 1994–95 was to reverse the decline in tax revenue and improve the structure of expenditure.

Structural reforms involved strengthening tax administration, introducing a VAT, and extending the tax base in the informal sector. Others focused on streamlining cotton marketing, restructuring the phosphate company, and accelerating privatization by liquidating loss-making enterprises and selling nonstrategic corporations. To improve social conditions, measures were taken to ease the impact of price adjustments on vulnerable segments of the population. Expansion of Food for Work project and reinforcement of credit union network that supports small projects would be considered.

Turkey

Financial Support

A stand-by arrangement for SDR 509.3 million was approved on July 8, 1994. The arrangement was extended and increased by SDR 101.2 million on April 21, 1995.

Program Objectives

Balance the external current account, rebuild international reserves, and reduce inflation while maintaining the liberal economic system that has underpinned Turkey's strong growth performance over the past decade.

Policies

The Government's program contained a comprehensive package of fiscal measures designed to achieve a sharp reduction in the public sector borrowing requirement. Monetary policy was set to limit the pace of exchange rate depreciation to levels consistent with inflation targets.

Sustainability of the fiscal adjustment was to be ensured through structural reforms, including privatization, social security reforms, and reduced government intervention in agriculture. Proceeds from privatization were to be used in part to compensate workers adversely affected by the restructuring of state enterprises.

Uganda

Financial Support

A new three-year ESAF arrangement for SDR 120.51 million and the first annual arrangement thereunder, in the amount of SDR 33.5 million, were approved on September 6, 1994.

Program Objectives

Achieve a real GDP growth rate of 5.5 percent. Contain inflation at 7.5 percent a year in 1994–95. Reduce the external current account deficit to 6.6 percent of GDP while increasing gross international reserves to three and eight-tenths months of imports. Reduce the overall budget deficit by almost 3 percentage points, to 7.7 percent of GDP.

Policies

The Government recognized the need for strong policies to strengthen the domestic economy and improve resource allocation, including measures to promote the expansion and diversification of exports, increase saving by boosting the revenue effort, and maintain positive real interest rates.

Structural reforms undertaken include improving efficiency of the tax system, enhancing its administration, and broadening the tax base. The Government formulated a strategy to reduce poverty and has increased budgetary allocations, in real terms, for basic social services.

Ukraine

Financial Support

A first purchase under the STF for SDR 249.33 million was approved on October 26, 1994.

Program Objectives

Arrest and begin to reverse an alarming buildup in inflationary pressures. Begin to liberalize the economy, in particular the price system and the exchange and trade regime. Shelter the poor against the impact of the program.

Policies

Fiscal policy aimed at containing the budget deficit to less than 9½ percent of GDP in 1994. A credit freeze was introduced on bank credit to nongovernment. The multiple exchange rates were unified and current account convertibility established. The scope of export quotas was sharply reduced, as well as the Government's intervention in setting domestic prices.

Financial Support
A stand-by arrangement for SDR 997.3 million and a second STF drawing for SDR 249.33 million were approved on April 7, 1995.

Program Objectives
Bring monthly rates of inflation down quickly to low single digits by midyear and to about 1 percent by the end of 1995. Strengthen the performance of exports, in particular by removing administrative obstacles. Press ahead with market-oriented structural reform.

Policies
The 1995 budget aims at containing the deficit to no more than 3.3 percent of GDP, with appropriate tax measures and expenditure cuts, particularly on government subsidies and loans. Spending on the social safety net was raised to protect the poor against the adjustment measures. As part of its structural reform effort, the Government further liberalized prices and exports, launched a mass privatization program, and improved the governance of state enterprises. The Government sought and reached a rescheduling agreement with its creditors to defer most of its debt-service obligations and outstanding arrears.

Uzbekistan

Financial Support
A first purchase under the STF for SDR 49.875 million was approved on January 25, 1995.

Program Objectives
Advance the process of transforming the economy from a centrally planned to a market-based system. Reduce the monthly rate of price increases to 4–5 percent by mid-1995 and to 2 percent by the end of 1995. Limit the decline in real GDP to 4 percent. Hold consolidated deficit to $3^1/_2$ percent of GDP.

Policies
Monetary and credit policies involved limiting the amount of credit provided from the central bank to commercial banks and maintaining positive real interest rates in the banking system.

The authorities' structural policies included liberalizing prices further, phasing out direct budgetary subsidies, and initiating privatization. To address social issues, the Government initiated, under a targeted social safety net, a program of allowances for low-income families.

Viet Nam

Financial Support
A three-year ESAF arrangement for SDR 362.4 million and the first annual arrangement thereunder, for SDR 120.8 million, were approved on November 11, 1994, following cancellation of the stand-by arrangement. A second STF drawing for SDR 12.08 million was approved on June 8, 1994.

Program Objectives
Maintain real GDP growth of 8 percent in 1995. Reduce the rate of inflation to 7 percent. Further strengthen the external position by raising the level of gross official reserves to ten weeks of imports.

Policies
Fiscal framework included restrained financial policies, an intensification of market-based reforms, an increase in investment levels, and mobilization of foreign and domestic saving. Monetary and credit policies would be designed to support the program's inflation and balance of payments objectives. There would be no government recourse to credit in 1995, and credit to state enterprises would be limited.

The structural reform agenda emphasized restructuring tax and expenditure policies, strengthening financial markets and the banking sector, and further liberalizing the trade and exchange system. The Government aimed to complement these reforms by restructuring the state enterprise sector and developing the legal framework. The Government addressed social issues by initiating training and credit programs to assist laid-off workers.

Role of the Fund in Financing Economies in Transition

In June 1994, the Board discussed the role of the Fund in financing the economies in transition. The Managing Director welcomed the broad support for a temporary increase in the annual access limit applying to stand-by and extended arrangements. Although most Directors felt that the proposed increase in access under stand-by and extended arrangements provided sufficient scope for the Fund to be responsive in appropriate circumstances, other Directors thought that a somewhat larger increase in the annual access limit was needed.

Several Directors observed that the Fund's catalytic role made it possible to provide relatively more financing in individual cases where warranted by strong policies and large balance of payments need. Directors generally agreed that the Fund's catalytic role would not be consistent with the Fund substituting for other potential sources of financing.

The Board took a number of steps to adapt the STF. Directors agreed to lengthen the interval between purchases to 18 months, with the understanding that the second purchase would be made before the end of December 1995. Directors also decided to extend the deadline for first purchases to April 30, 1995. Although the Board considered the possibility of extending the STF, Directors agreed to let the facility expire at the end of April 1995 as initially envisaged.

At an April 1995 Board review of the STF's performance, Directors agreed that the facility had played a very useful role in allowing the Fund to provide financial assistance to members at an early stage in the transformation process, and in helping them to begin the process of stabilization, market-oriented reform, institution building, and establishing working relations with the Fund and other creditors and donors. Overall, the facility had served as an effective "paving mechanism."

Although progress toward concluding Fund arrangements had taken longer than expected in some cases, Directors agreed that most of the countries that had used the facility on a stand-alone basis had subsequently adopted a Fund arrangement with upper credit tranche conditionality, and the others were expected to move to such arrangements in the near future. For other countries that had made STF purchases in the context of a stand-by arrangement, the facility had provided resources on longer repurchase terms and, in some cases, in greater amounts than would have been available solely under a stand-by arrangement.

The Adoption of Indirect Instruments of Monetary Policy

Beginning in the late 1970s, industrial countries that had made use of direct instruments of monetary policy, such as credit controls, interest rate ceilings, and directed credits, began to phase them out, moving toward full reliance on indirect instruments, including open market operations, rediscount facilities, and reserve requirements. A similar process has started in developing countries and transition economies. The shift toward indirect instruments is now a widespread phenomenon, reflecting both the general consensus in favor of market mechanisms and the growing integration of the world economy and world capital markets.[7]

The implementation of indirect monetary instruments can be seen as the counterpart in the monetary area to the widespread move to enhancing the role of price signals in the economy as a whole. Both have the same objective of improving market efficiency. Moves toward the use of indirect instruments are taking place in an increasingly open economic environment, with widespread adoption of current account convertibility and progress in moving to full convertibility, where direct instruments have become less effective, leading to inefficiencies and disintermediation. Without indirect instruments of monetary policy, authorities might find it more difficult to counter problems, thereby impeding their efforts to stabilize the economy.

In their December 1994 discussion of the adoption of indirect instruments of monetary policy, Directors agreed that introduction of such instruments would enhance the prospects for efficient financial intermediation; however, they emphasized the need for a pragmatic approach to the replacement of direct controls by indirect instruments. Many stressed the importance of stable economic conditions and of a sustainable fiscal position to facilitate the successful introduction of indirect instruments of monetary policy.

Directors noted from staff case studies that countries that made a gradual transition to indirect instruments generally suffered fewer setbacks than those that moved rapidly. However, the better success record for a gradual transition was not an argument for delaying the start of the transition. Rather, it reinforced the message that adoption of indirect instruments was a complex process, that countries needed to make careful preparations for the transition to indirect instruments, and that policymakers should ensure that necessary supporting measures are in place before the monetary authorities move to sole reliance on indirect instruments. Several Directors cautioned against the premature shift to such instruments. They noted that such a shift would not by itself introduce the degree of competition needed for the financial markets to respond adequately to interest rate and other signals. Furthermore, in some economies where there was little competition in the financial sector, and where capital flows were restricted, it might not be feasible to rely exclusively on market signals to operate monetary policy. Directors therefore recommended a pragmatic approach that would not attempt to complete the shift too quickly.

Directors agreed that the use of indirect instruments allowed for effective monetary control and gave authorities a broader choice of targets than was possible with direct instruments. Although countries would put differing emphasis on the various instruments, the transition generally had a number of common characteristics. At an early stage a monetary authority could

[7]A staff report on this issue is published in *Indirect Instruments of Monetary Control*, forthcoming in the Fund's Occasional Papers series.

impose and enforce reserve requirements and begin to develop market-based indirect instruments, such as auctions of short-term treasury or central bank securities and auctions of central bank credit. Once primary markets were established, monetary authorities should seek to foster secondary market development. Not only would this further encourage financial deepening in the economy, but it would also enable the monetary authorities to refine their techniques of operation of monetary policy.

Directors observed that the transition to indirect instruments should be seen as part of more comprehensive moves toward monetary and financial liberalization. They stressed the importance of concomitant reforms, including the establishment of effective banking supervision. In some cases, a restructuring of the banking system was necessary to address the problem of nonperforming loans and to make the system more competitive. Directors also noted that the transition period was likely to be one of particular vulnerability in the banking system. They agreed that appropriate prudential standards for the banking system should therefore be an integral part of any transition program.

Directors stressed the link between a move to indirect monetary instruments and the development of financial markets, with causality working in both directions. The early introduction and experimental use of indirect instruments could be essential in developing these markets. At the same time, fairly seamless money and interbank markets were essential to the eventual full use of indirect instruments. Measures to encourage interbank activity, particularly measures to develop payments and settlement systems, were often essential.

With the Fund's increasing involvement in structural reforms—including those in the financial and monetary spheres—progress toward the adoption of indirect instruments of monetary policy has been an element in a number of recent Fund-supported programs. The Fund's involvement in such reforms reflects the recognition of the fact that the mere setting of monetary targets cannot guarantee their achievement if capacity is lacking and the appropriate institutional infrastructure is not in place, regardless of the degree of commitment of the authorities. Directors supported the provision of technical assistance, from the Fund and other sources, in helping central banks to benefit from international experience. In their discussion of the implications for Fund conditionality and the design of Fund-supported programs of a shift from direct to indirect means of monetary control, several Directors recommended that performance criteria be defined in terms of a range of estimates rather than a single point estimate.

Policies on Currency Stabilization Funds

Directors met in December 1994 to offer preliminary considerations and suggestions on the Fund's involvement in currency stabilization funds as a basis for constructing a more precise proposal for consideration at a subsequent Board discussion.

Many Directors expressed general interest and support for Fund financing of currency stabilization funds, but others were skeptical of the need for special policies in that area. Directors expressing interest in Fund financing of such funds said that those operations would be consistent with the purposes of the Fund and could in certain circumstances significantly help members adopting strong anti-inflationary programs by providing an important element of additional confidence to nominal exchange rate anchors. They agreed, however, that a currency stabilization fund should be an instrument of infrequent use. The Directors who questioned the need for the Fund financing of currency stabilization funds thought that the Fund could adequately support members' exchange rate policies—including policies involving nominal exchange rate anchors—under existing policies. In that connection, several Directors suggested that further work was needed to differentiate clearly the type of situations in which Fund support for currency stabilization funds would be both appropriate and effective.

The Board agreed that currency stabilization funds could be effective only in the context of strong stabilization programs. They also emphasized that resources available through that instrument should never be used for general balance of payments financing, but only for short-term intervention—in tandem with appropriate macroeconomic measures—to counter short-term foreign exchange market pressures. Several Directors added that, in that regard, limited or no recourse to a currency stabilization fund during a stabilization program would be fully consistent with program objectives.

With respect to the exchange rate regime to be supported through currency stabilization funds, a number of Directors saw the instrument as potentially most effective when used with a nominal exchange rate peg supported by a comprehensive stabilization program aimed at reducing inflation rapidly. Other Directors, however, considered that a currency stabilization fund could be used to support a crawling peg or some other arrangement less fixed than a peg. Some Directors suggested that such funds could also be useful to members aiming either to unify their exchange rates or to strengthen exchange rate stability by adopting a nominal anchor. It was agreed, in any event, that providing financing for currency stabilization funds would not indicate a general preference by the Fund for fixed exchange rate regimes.

The Board supported the general proposition that currency stabilization funds should be available only in connection with Fund arrangements of upper credit tranche conditionality, but views differed regarding how those funds would be linked to arrangements in practice. It was understood that, regardless of the approach chosen, it would be possible to use currency stabilization funds in tandem with ESAF arrangements.

Most Directors considered that a maximum access limit of 100 percent of quota for a currency stabilization fund—as an upper limit, not a target—should allow the Fund sufficient scope to support such operations. However, other Directors expressed concern that introducing special policies in support of currency stabilization funds could lead to undue risks and channel additional resources to a narrow segment of the membership.

In recognition of those potentially high risks, most Directors thought that a tranche mechanism, under which as many as seven purchases could be made in progressively smaller tranches, would provide scope for flexibility while safeguarding the Fund's resources. However, several Directors suggested that fewer—perhaps three or four—and larger tranches would be simpler and more flexible in practice, and thus less discouraging to prospective users.

On reconstitution, most Directors considered that the combination of a repurchase expectation of 3 to 6 months and a 12-month repurchase obligation period would help to ensure that stabilization fund resources would be used as intended.

Directors agreed that members using currency stabilization funds should adhere to additional reporting requirements on a continuing basis; the Fund, for its part, would need to ensure that the flow of information related to those funds was treated with the utmost confidentiality while accelerating its documentation and decision-making procedures.

The Board asked the staff to examine further possible means to offset or reduce the transaction costs associated with currency stabilization funds. With respect to financing modalities, most Directors considered that in the present circumstances the Fund's ordinary resources could support such funds. Some Directors noted that the GAB would be potentially available under certain conditions, while a few Directors expressed interest in exploring possible cofinancing arrangements.

Ability to Assist Members Affected by Sudden Market Disturbances

The world economy is now characterized by highly integrated global financial markets and by the trend for more and more countries to liberalize their capital accounts. However, along with the benefits of greater capital mobility—including the potential for the markets to exert positive discipline on countries' economic policies—there are concerns about the high degree of volatility of capital flows and exchange rates. Improvements in countries' domestic policies are the ultimate key to reducing excessive exchange rate volatility, since resort to capital controls or taxes to stem "speculative" capital flows is likely to be counterproductive. But there may be some role for intervention, together with adjustments to domestic monetary conditions, in maintaining orderly market conditions in the very short term.

The Board met in November 1994 to consider interest in, and possible means for, the Fund's extending prompt financial support to member countries that might experience very short-term balance of payments or exchange market pressures, despite economic policies and prospects that the Fund had considered satisfactory. In the wake of the Mexican crisis of December 1994, and at the request of the Interim Committee in April 1995, the Fund has embarked on a further examination of how it might better assist member countries in coping with sudden market disturbances, consistent with the Fund's catalytic role.

Although such support could help a member country to reinforce appropriate policies and avoid resort to exchange restrictions in response to short-term market disturbances, short-term Fund financing for these purposes would pose difficult issues: how to distinguish between short-term and more fundamental imbalances; the magnitude of private capital flows relative to Fund resources; the risk of potentially financing sterilized intervention and thereby possibly delaying adoption of more appropriate domestic policies; whether the depth and efficiency of private markets would make Fund financial involvement unnecessary; whether any such involvement of the Fund could take place within the framework of existing facilities; and how to avoid use of such a short-term facility when other Fund facilities would be better suited to a member's situation.

Directors expressed differences about how best to assist members in these circumstances: whether to create a new facility in the Fund or to work to streamline procedures for approving assistance under existing facilities. They agreed, however, on the importance of ensuring that any changes that might be introduced would strengthen Fund surveillance and not risk damaging the Fund's credibility. There was broad agreement among Directors that the prospective demand for a new facility that would be well designed and that would take into account the various concerns expressed would be, almost by definition, limited. But even if the cases would be infrequent, it was noted, the ability for the Fund to respond if such need arose would be worth further consideration.

Although Directors agreed that efforts to improve the capacity of the Fund to assist members that were faced with short-term market pressures while these countries were implementing sound policies should be continued, in their November 1994 discussion they deferred any decision on a possible short-term financing facility in the Fund. As noted above, in light of the Mexican experience and at the Interim Committee's request, the Board was to resume discussion of the question at a later date.

Technical Assistance and Training

Access to technical assistance and training is becoming an increasingly valuable benefit of Fund membership. The global revolution in favor of market-oriented economics and the widening implementation of structural adjustment policies have increased member countries' requests for Fund assistance. Through the technical assistance and training programs, members can draw on the Fund's experience in formulating and implementing sound financial and economic policies. In response to the growing diversity of members' needs, the Fund has broadened the scope of its technical assistance and has set up an accounting framework to channel financial support from donors to technical assistance activities.

An indication of the growing importance of technical assistance to Fund member countries lies in the increasing number of requests for Fund assistance (Table 37). Since 1990, technical assistance activities have risen by about 75 percent, from 170 person-years to an estimated 299 person-years in 1994/95. The momentum of this trend has been sustained by the problems and requirements of countries undergoing structural adjustment and systemic transformation: approximately half the Fund's total annual technical assistance has been provided to African, European, and Asian countries in transition.

To support the rebuilding of economies severely disrupted by civil disorder, during 1994/95 the Fund mounted coordinated efforts to provide prompt policy and operational advice to countries in need. In such situations, governmental institutions must be re-established, and the capacity of national staff to sustain ongoing activities developed. Such cases require the preparation of thorough project plans encompassing virtually all sectors of technical assistance within the Fund's purview. In supplying technical assistance, the Fund often serves as a focal point for the integration of activities by the donor community in the areas of fiscal, monetary, and economic statistics.

The Board's review of technical assistance in February 1994 included an examination of the criteria for setting priorities among requests for assistance, in which some Directors stressed assessment of a recipient's track record in using past assistance (*Annual Report, 1994*, pages 125–26). In setting priorities, the Fund takes into account many aspects of a country's current status, particularly the government's commitment to enacting change and the successful absorption of past technical assistance.

In the Board review, a number of Directors favored introducing charges for technical assistance services. The Fund has traditionally requested a contribution from the recipient country for the placement of long-term technical assistance advisors. The primary purpose of such reimbursements is to demonstrate the country's commitment to the work of the advisor, and only secondarily to help defray the cost of the advisor.

Directors also called for improved technical assistance coordination with the World Bank to maximize institutional synergy and avoid duplication. Coordination between the Bank and the Fund continues to be strengthened. In several countries this had led to the development of multiyear technical assistance programs, with the Fund initiating the preliminary work and the Bank financing further implementation.

In the past few years, the Fund has concluded general technical assistance agreements with the United Nations Development Program (UNDP) and the Japanese Government, as well as several individual country agreements with the World Bank and the European Union. A number of bilateral donors have also supported Fund-executed technical assistance by making cash contributions to UNDP/Fund projects. Recently, to accommodate the growing interest of other potential donors in supporting Fund technical assistance, the Executive Board approved the establishment of a Technical Assistance Framework Account under which separate subaccounts can be established to facilitate the receipt and administration of contributions from such donors (see Appendix V).

In the following sections, technical assistance and training provided by individual departments are described briefly. Further details appear in Appendix III.

Table 37
TECHNICAL ASSISTANCE DELIVERY
(In person-years)

	1992/93 Actual	1993/94 Actual	1994/95 Estimate
Fund technical assistance budget	**188.8**	**194.0**	**217.3**
Staff	90.0	100.9	109.8
Headquarters-based consultants	21.2	20.5	22.6
Experts	77.6	72.6	84.9
External technical assistance resources	**55.0**	**68.6**	**81.9**
United Nations Development Program	28.9	19.3	17.5
Japan	20.3	40.1	52.0
Other	5.8	9.2	12.4
Total technical assistance resources	**243.8**	**262.6**	**299.2**
Total resources provided, by department			
Monetary and Exchange Affairs Department	96.8	105.7	130.3
Fiscal Affairs Department	82.5	94.8	97.5
Statistics Department	40.5	35.5	40.8
IMF Institute	11.2	13.0	14.8
Legal Department	7.7	7.5	9.0
Other	5.0	6.0	6.6
Total regional use by department	**242.9**	**243.3**	**273.7**
African Department	71.0	63.8	61.9
Central Asia Department	24.6	25.6	26.3
European I Department	24.3	24.6	27.4
European II Department	60.2	65.9	77.2
Middle Eastern Department	10.6	11.5	18.9
South East Asia and Pacific Department	17.8	15.6	24.8
Western Hemisphere Department	34.4	30.9	29.0
Interregional	—	5.4	5.6
Unallocated reserves	—	—	2.6
Nonregional use	**0.9**	**19.3**	**25.5**
Total technical assistance resources	**243.8**	**262.6**	**299.2**

IMF Institute

The *IMF Institute* offers training to officials from member countries through residential courses at Fund headquarters and at the Joint Vienna Institute, shorter overseas courses and seminars, lecturing assistance for other training institutions, scholarships for junior officials, and briefings for visiting officials in Washington. It works closely with Fund area departments in identifying countries in need of training programs and in selecting candidates for such programs.

During 1994/95, the Institute provided training to some 1,248 people through its courses and seminars at headquarters and the Joint Vienna Institute. Some of these courses and seminars were organized in collaboration with the Fund's Fiscal, Legal, Monetary and Exchange Affairs, Policy Development and Review, and Statistics Departments.

Training in Washington and Vienna was complemented by 30 short overseas training courses on financial analysis and programming, and 10 overseas seminars for senior officials, as well as lecturing assistance for three regional training institutions; these activities covered some 1,100 participants. There was continued emphasis on training officials from economies in transition in Europe, the former Soviet Union, and Asia: in particular, 14 courses and 6 seminars were organized for central and eastern Europe, the Baltic countries, Russia, and other countries of the former Soviet Union, as well as an orientation course at Fund headquarters for senior officials from these countries. In the rest of the world, courses, often on a regional basis, were offered mainly for countries that either had Fund-supported programs or were in the process of preparing such programs. This was in line with the Institute's emphasis on working closely with area departments to dovetail its training efforts with the operational work and priorities of the Fund. Cofinancing for this training was provided by the European Union to provide support for the Institute's overseas training activities in Africa, the Caribbean, and the Pacific region and by the UNDP on a global basis; further support was received through cooperative arrangements with the Arab Monetary Fund, Asian Development Bank, Islamic Development Bank, and the World Bank, as well as from the Governments of France, Japan, and Portugal.

Longer-term investment in the education of officials is being made by the Japan–IMF Scholarship Program for Asia. This has been enhanced by an introductory course in China for Asian economies in transition, to prepare candidates for both the Scholarship Program and the comprehensive (five-month) courses at the Joint Vienna Institute. Both the Scholarship Program and the introductory course are financed by grants from the Government of Japan. This program provides young officials with the opportunity to study in Japan and Australia, and, with the assistance of Australia, New Zealand, and certain Asian countries, to carry out subsequent internships in the region.

Fiscal Affairs Department

In 1994/95 the *Fiscal Affairs Department* provided technical assistance to over a hundred member countries. Total assistance measured in terms of person-years was a little (some 6 percent) higher than in 1993/94. The small increase reflected an expansion in assistance to central and eastern European countries, the Baltic countries, Russia, and other countries of the former Soviet Union and to countries in Africa.

The pattern of assistance showed a further increase in the use of experts drawn from the department's panel. There were over 270 such expert assignments in 1994/95. Within this total, the number of long-term resident expert assignments (for six months or longer) increased to 66 (54 in 1993/94). Many of the expert assignments (both short-term and long-term) were financed externally: indeed, such financing now accounts for more than half the total funding for experts. The principal sources of external finance remained the Administered Technical Assistance Account Japan and the UNDP, although the World Bank also made a growing contribution.

The department's technical assistance activity was devoted mostly to tax and customs administration and public expenditure management. Together, these accounted for nearly 80 percent of total technical assistance provided. The department also continued to provide fiscal policy advice, with approximately the same number of missions as in the previous year in the areas of tax policy, social safety nets, and social security, as well as missions in new fields, including fiscal policy management and fiscal federalism. Institution-building projects, particularly the development of computerized systems for tax administration and treasury operations, remained important, especially in former centrally planned economies.

The geographical pattern of assistance was diverse. The total assistance provided to Africa, the Baltic countries, Russia, other countries of the former Soviet Union, eastern Europe, and Latin America all grew in 1994/95. Moreover, the department was also able to respond quickly to emergency situations—providing advice to Rwanda and Haiti in early 1995—while continuing to assist in the West Bank/Gaza Strip.

Legal Department

During 1994/95, the *Legal Department* provided technical assistance in the areas of central banking, commercial banking, foreign exchange, fiscal affairs, bankruptcy, and securities law. This assistance included drafting legislation, commenting on draft legislation prepared by authorities of members, drafting implementing regulations, and providing other legal advice in these areas of the law. Much of this assistance was to members with economies in transition from central planning that are seeking advice to establish an appropriate legal framework for a sound fiscal structure, for modern financial sector institutions, and for market-oriented financial transactions. During the financial year, the Legal Department provided advice to 54 member countries, often in regard to more than one area of legislation, including participation in 55 missions to 30 member countries.

Monetary and Exchange Affairs Department

During 1994/95, the *Monetary and Exchange Affairs Department* maintained an active technical assistance program of missions, seminars and workshops, and expert assignments while furthering its role of coordinating technical assistance with other organizations. Major areas of technical assistance advice included new currency issues and reform, foreign exchange management and operations, central bank organization and management, central bank accounting, clearing and settlement systems for payments, monetary operations and money market development, monetary analysis and research, and banking regulation and supervision. Technical assistance provided by departmental staff was supplemented by almost 30 person-years of short-term expert assignments, and 60 person-years of long-term expert assignments.

In carrying out its activities, the department undertook 106 advisory missions, 14 technical assistance workshops, and 518 short-term expert assignments while engaging 138 long-term expert assignments (including renewals). Assistance was provided to all regions of Fund membership, but a strong, comprehensive technical assistance effort was maintained in some countries in central and eastern Europe, the Baltic countries, Russia, and other countries of the former Soviet Union. This latter group of countries absorbed about 33 percent of all advisory mission assignments, almost 80 percent of workshops, and about 52 percent of all short-term expert assignments. Central and eastern Europe absorbed over 17 percent of staff advisory missions, and about 10 percent of short-term expert assignments. The largest number of long-term expert assignments were placed in Africa, with over 37 percent of such assignments.

The department continues to play a strong catalytic and coordinating role in central bank technical assistance. This role has been viewed as valuable by both donors and recipients. In this regard, it works closely with cooperating central banks and other multilateral and bilateral institutions. For example, the department co-chairs the International Steering Committee on Payment System Reform in Russia. Through this Committee, assistance on payment system reform is mobilized and coordinated. Similarly, the department is coordinating a training project, funded by the European Union, for the Central Bank of Russia with the support of nine cooperating central banks. Similar projects are expected to take place in other countries of the former Soviet Union. The department's technical assistance program is also being enhanced by the provision of external funding from the UNDP, the Administered Technical Assistance Account Japan, the European Commission, and other sources.

Statistics Department

Technical assistance by the *Statistics Department* reached a peak in 1993/94 when the department mounted 150 missions, 15 of which were multisectoral. This level of technical assistance was maintained during 1994/95, with an equal number of technical assistance missions that included 13 multisectoral missions.

As in recent years, the needs of the countries in transition continued to influence the scope and composition of the department's technical assistance program in 1994/95. About 47 percent of the department's technical assistance during this period was directed to central and eastern European countries, the Baltic countries, Russia, and other countries of the former Soviet Union, compared with about 68 percent in 1993/94. This trend reflected in part the progress achieved in developing the statistical systems in these countries to meet the needs of a market-oriented economy, through intensive technical assistance provided in recent years. Missions to these countries focused on providing follow-up technical assistance to strengthen their capacity to produce macroeconomic statistics according to international standards and involved about 44 percent of the trips taken by staff, headquarters-based consultants, and outside experts during the year.

In addition to providing technical assistance to the transition countries, the department increased the level of technical assistance to other regions in 1994/95, fielding 79 missions involving 135 trips, compared with 49 missions involving 106 trips in the previous year. Technical assistance also continued to be provided through participation of staff of the department in 16 missions of other departments, 5 of which were to countries of the former Soviet Union.

An important component of the department's program in the Baltic countries, Russia, and other countries of the former Soviet Union in 1994/95 was the placement of long-term multisectoral statistical advisors in some countries to work closely with relevant statistical agencies. The multisectoral advisors for the Baltic countries, Russia, and Ukraine remained in their posts for a second year during 1994/95. A multisectoral statistical advisor for Kazakhstan was appointed in September 1994.

The work of the Steering Committee on the Coordination of Technical Assistance in Statistics in the Baltic countries, Russia, and other countries of the former Soviet Union continued in 1994/95. Meetings of the Steering Committee were held in June and September 1994, and in February 1995. In April 1995, a joint meeting was held by Goskomstat-Russia and the Steering Committee in Moscow on cooperation in statistics with the Russian Federation. The Fund continued to provide technical support to the Steering Committee and acted as focal point agency for balance of payments, monetary accounts, government finance, and consumer price statistics. The Fund is responsible for managing the Steering Committee's data base, which was developed by the Fund in 1993 as a subsidiary to the Register of the Organization for Economic Cooperation and Development (OECD). The data base provides interactive access to technical assistance activities in statistics, either completed or planned, by the members of the Steering Committee, other international organizations, and bilateral agencies, thereby simplifying technical assistance planning and avoiding duplication of effort.

During 1994/95, the Steering Committee continued its efforts to improve coordination; to establish priorities for statistical development in the Baltic countries, Russia, and other countries of the former Soviet Union in the near and long term; and to identify new ways of advancing dialogue and implementing recommendations in the future. The Chairman of the Steering Committee has also consulted bilateral providers of technical assistance to keep them abreast of the Committee's activities.

Treasurer's Department

The *Treasurer's Department* provides technical assistance to members on the establishment and maintenance of Fund accounts, the Fund's financial organization and operations, and on matters related to transactions by members with the Fund. Such technical assistance has increased considerably in recent years, primarily reflecting the needs of the new members of the Fund. Treasurer's Department staff participated in a number of technical assistance missions in 1994/95, including a seminar at the Joint Vienna Institute on accounting for Fund transactions for officials of the Baltic countries, Russia, and other countries of the former Soviet Union. Staff also prepared several aide-mémoire for new members on accounting matters.

Bureau of Computing Services

In 1994/95, the *Bureau of Computing Services* provided technical assistance to nine member countries in the modernization of computer systems in their central banks or finance ministries. Owing to a limited budget and restricted staff resources, the bureau has a narrowly focused technical assistance program. It provides for a few short-term missions to member countries in direct support of the economic and financial work of the Fund. During 1994/95, missions were undertaken to Tanzania, Cambodia, the Lao People's Democratic Republic, Viet Nam, Georgia, Kazakhstan, the Republic of Yemen, and Haiti. The missions assist in the planning and development of computer systems for the processing, analysis, and reporting of economic, financial, and administrative information. Advice and guidance were also provided in the areas of technology infrastructure design and planning, economic information systems, central banking operations, tax administration, budget and treasury operations, and recovery planning in the event of a computer systems disaster.

During 1994/95 the Bureau received from member countries five delegations for technology training and occasional visitors for shorter technical discussions. Various short technology seminars and demonstrations were based on the Fund's application systems and areas of expertise. As a result of the expanding role of technology within member country institutions, and with the growth of networks and associated applications, requests to the Fund for short-term computer technical assistance are expected to continue to increase. Such assistance would involve overall guidance in the development of computer systems for the collection, storage, and processing of economic and financial data and would facilitate easy access to, and exchange of data and documents between, member countries and the Fund. Demand by member countries for training at Fund headquarters on the Fund's computer applications and infrastructure technology is also expected to increase.

Fund Financial Operations and Policies

Commitments of Fund financial resources were at record levels in 1994/95, as the Fund moved rapidly to provide assistance to Mexico, Algeria, Argentina, and other developing countries, as well as to Russia, Ukraine, and other countries in transition. Commitments under stand-by and extended arrangements amounted to SDR 15.4 billion during the year, more than the SDR 14.1 billion committed eleven years previously at the height of the debt crisis. Purchases (drawings) from the General Resources Account (GRA) totaled SDR 10.6 billion in 1994/95, double the level of 1993/94.

Of the total purchases, SDR 7.6 billion was drawn under stand-by arrangements, SDR 1.6 billion under extended arrangements, SDR 0.3 billion under the CCFF, and SDR 1.1 billion under the STF. The drawing by Mexico of SDR 5.3 billion was the largest in the history of the Fund and amounted to 300 percent of Mexico's quota. Other large drawings were made by Argentina (which made four drawings totaling SDR 1.3 billion), Algeria and Russia (SDR 0.7 billion each), and Ukraine (SDR 0.6 billion). In October 1994 the Board increased for a three-year period the annual limit on members' access to the Fund's general resources to 100 percent of quota from 68 percent. This limit could be exceeded in exceptional circumstances, as in the case of Mexico.

Cumulative commitments under SAF and ESAF arrangements totaled SDR 6.9 billion at the end of the financial year, compared with SDR 5.8 billion a year earlier. SAF and ESAF disbursements totaled SDR 0.6 billion in 1994/95, slightly below the level of the previous financial year.

Eritrea signed the Articles of Agreement on July 6, 1994, bringing total membership in the Fund to 179 countries.

By the end of the financial year, payments of quota increases under the Ninth General Review of Quotas had been completed by all members that had consented to their increases. Including the quotas of new members, these payments brought the total amount of Fund quotas to SDR 145.0 billion. In December 1994 the Committee of the Whole for the Tenth General Quota Review recommended that the review be completed without an increase in quotas. The Fund's liquidity and the adequacy of members' quotas will be kept under review in the context of the Eleventh General Review of Quotas.

By the end of 1994/95, the number of countries in protracted arrears to the Fund had fallen to eight, as Haiti eliminated its overdue obligations. Total outstanding overdue obligations were SDR 3.0 billion, roughly the same as a year earlier.

During the financial year, the Board held a number of discussions on the question of a new SDR allocation, the future of the SDR as an international reserve asset, and the need to address the situation of new Fund members that had not participated in previous allocations. These issues remain under review.

Membership

The Fund's membership increased to 179 members in 1994/95, when Eritrea became a member on

July 6, 1994. Two countries of the former Socialist Federal Republic of Yugoslavia—the Federal Republic of Yugoslavia (Serbia/Montenegro) and the Republic of Bosnia and Herzegovina—have not yet completed arrangements for succession to membership in the Fund. A membership mission to Brunei Darussalam took place in late April 1995, and a formal application for Fund membership was received from the authorities on May 16, 1995. When these three countries have become members, the Fund will have 182 members.

Quotas, SDR Allocation, and Strengthening the Fund's Financial Resources

Quotas

On June 28, 1990, the Board of Governors adopted a resolution proposing a 50 percent increase in the total of Fund quotas under the Ninth General Review of Quotas. These quota increases began to come into effect in November 1992. Increases in quotas were proposed for all countries, except for Cambodia, which subsequently requested—and in March 1994 was granted—an ad hoc increase in its quota, following settlement of its arrears and normalization of its relations with the Fund.

Payments for quota increases amounted to SDR 84 million in 1994/95; SDR 21 million of this amount represented payments of the reserve asset portion, all of which was paid in SDRs. By the end of 1994/95, payments of quota increases under the Ninth Review had been completed by all members that had consented to their increases. Including also the quotas of new members, this brought the total amount of Fund quotas to SDR 145.0 billion. At the end of April 1995, six members had overdue obligations to the GRA and, as provided in Board of Governors Resolution No. 45–2 on the Ninth General Review of Quotas, cannot consent to their quota increases until their arrears are cleared.

In accordance with the Articles of Agreement, the Tenth General Review of Quotas was to have been completed by March 31, 1993, five years after the date on which the Ninth General Review should have been concluded (which formally occurred on June 28, 1990). In April 1993 the Board of Governors adopted a resolution extending the work on the Tenth Review and requesting the Executive Board to submit a report and proposals by December 31, 1994. The Committee of the Whole for the Tenth General Review met in March 1994. The Committee considered quota calculations using updated data through 1990 and a staff paper on the working of the quota formulas. The main conclusions of the Committee's deliberations were (1) that a considerable number of countries had actual quotas that were substantially out of line with their calculated quotas, suggesting that the restructuring of quotas under the Eighth and Ninth General Reviews should be continued; (2) that the quota formulas worked broadly as intended in that they provided a reasonably comprehensive measure of the relative economic size of member countries while reflecting their creditor/debtor characteristics; and (3) that technical changes to the working of the GDP variable in the quota formulas might be considered and that the operation of the formulas might be simplified. Several members of the Committee expressed concern that the share of developing countries, particularly the non-oil developing countries, in the total of actual and calculated quotas had exhibited a long-term decline.

The Committee of the Whole met again in December 1994. On the basis of a report from the Committee, the Executive Board concluded in December 1994 that the overall size of the Fund was for the time being sufficient to enable it to promote its purposes and fulfill its central role in the international monetary system effectively. In coming to this conclusion, the Board noted that the entry into effect of the Ninth General Quota Review in late 1992 had provided the Fund with substantial additional usable resources, which were available to meet the increased demands for Fund credit forecast in the coming period. Accordingly, the Board recommended that the Tenth General Review of Quotas be concluded without an increase in quotas. Nevertheless, the Board expressed its intention to closely monitor the liquidity position of the Fund and the continued adequacy of members' quotas in the context of the Eleventh General Review of Quotas.

The developments in Mexico and Argentina in late 1994 and early 1995, and the conclusion of discussions with a number of transition economy countries on adjustment programs to be supported by the Fund, have resulted in exceptionally large demands on the resources of the Fund and have heightened the importance of monitoring the Fund's liquidity position in the period ahead. The Executive Board agreed to continue its work on quotas as part of the Eleventh Quota Review, which is to be completed by March 1998. In its report to the Board of Governors in December 1994, the Executive Board indicated that it would examine such issues as the extent to which a number of countries have actual quota shares substantially out of line with their calculated quota shares, the long-term decline in the share of developing countries in the total of Fund quotas, the use of population and other new variables in the quota formulas, and the methodology used in calculating quotas for the successor states of the former Soviet Union.

SDR Allocation

Responding to a request contained in the Interim Committee declaration of April 30, 1993, the Executive Board has held numerous discussions on the question of an SDR allocation and the future of the SDR as an international reserve asset. In addressing the case for an allocation, Executive Directors assessed both the long-term global need for an allocation, under Article XVIII, to supplement existing reserve assets, as well as the question of a special allocation, which could be authorized under an amendment of the Articles, to provide a one-time allocation to members that have not received any SDR allocations or have not participated fully in past SDR allocations. The majority of Directors favored an allocation under Article XVIII, reflecting their assessment of a long-term global need for reserve supplementation based partly on the staff's projections that the demand for international reserves would expand by about SDR 400 billion by the year 2000. However, a substantial minority of Directors considered that such an allocation could not be justified since, in their view, a long-term global need to supplement existing reserve assets either did not exist or had not been adequately demonstrated. There was general consensus on the need for a special allocation to restore "equity" in the distribution of SDR allocations among Fund members, although many Directors reserved their position on such an allocation pending the outcome of further discussions on an allocation under Article XVIII.

In their report to the Board of Governors of September 23, 1994, Executive Directors presented four proposals regarding an allocation of SDRs. The Managing Director proposed for consideration an allocation of SDR 36 billion, which could encompass an allocation under the current Articles and a special allocation that would be authorized under an amendment of the Articles. Three other proposals were put forward by Executive Directors. A proposal was made by the Directors for the United Kingdom and the United States to ensure the equitable participation of all members in the SDR system through a onetime special allocation of SDR 12 to 16 billion, which would be authorized under an amendment of the Articles. Two other Executive Directors proposed a somewhat larger onetime special allocation, with the authorizing amendment of the Articles stating explicitly that the allocation was designed to maintain the role of the SDR in world reserves. A fourth proposal was put forward by a group of 11 Directors, which aimed to bring about full equity for all members in the allocation of SDRs by means of an initial allocation of SDR 14.5 billion under Article XVIII, followed by a special allocation of SDR 16 billion that would be authorized under an amendment of the Articles. At the Interim Committee meeting in Madrid on October 2, 1994, the Governors were unable to reach agreement on the modalities of an SDR allocation and requested that the issue be considered further by the Executive Board in advance of the Interim Committee meeting on April 26, 1995.

At the April 1995 meeting, the Interim Committee continued its consideration of SDR issues, in light of the Chairman's report on his consultations with members and the Executive Board's further discussions of these issues. In the course of those discussions, the Managing Director had suggested that some of the post-allocation redistribution schemes proposed in the latter half of the 1980s and the early 1990s be reexamined in the context of a general allocation, as a means of resolving the equity issue for the members that had not participated in previous SDR allocations. The Managing Director had also suggested that consideration be given to amending the Articles of Agreement in order to develop some of the safety net characteristics of the SDR, to make an instrument that could be activated at short notice to help meet balance of payments or liquidity problems of members. The Committee noted that there was not currently a basis for agreement on an allocation but requested the Executive Board to keep the matter under review. The Committee also requested the Fund to initiate a broad review, with the involvement of outside experts, of the role and functions of the SDR in the light of changes in the world financial system.

Strengthening the Fund's Financial Resources

In March and April 1995 the Board discussed the strengthening of the Fund's financial resources in light of the evolving role of the Fund, and in particular in relation to the envisaged strengthening of Fund surveillance and the Fund's present and prospective liquidity position. The Fund had, so far, been able to respond strongly with appropriate amounts of financing in support of members' strong programs of adjustment, including during the crisis in Mexico. The Board agreed that the Fund must continue to be in a position to help members deal with external financial difficulties and to provide support for their adjustment programs, if needed. The Fund's liquid resources—that is, its total holdings of SDRs and usable currencies—had begun to weaken, falling from SDR 68.7 billion in April 1994 to SDR 61.6 billion in April 1995. Although the liquidity position remained adequate (see below), current projections suggested a further sharp weakening over the coming period. This projected deterioration in the liquidity position had implications for work in connection with the Eleventh General Review of Quotas and the adequacy of the Fund's present borrowing arrangements, including the GAB. At its meeting in April 1995, the Interim Com-

Box 13
OPERATIONAL BUDGET

In accordance with principles laid out in the Fund's Articles of Agreement, the Executive Board adopts, for each upcoming quarterly period, an operational budget specifying the amounts of SDRs and members' currencies to be used in purchases, repurchases, and other Fund financial operations and transactions.

Function

The currencies of members with strong balance of payments and reserve positions are made available for purchase by other members experiencing balance of payments difficulties. The issuers of strong currencies are obliged to convert them into one of the five freely usable currencies at the request of purchasing members. In exchange, strong members receive a claim on the Fund in the form of a reserve tranche position that can be drawn in case of balance of payments need.

Guidelines

The Executive Board has established guidelines governing the allocation of the amounts of currencies to be used in the Fund's operational budget. The present guidelines take into account members' gross holdings of gold and foreign exchange and their reserve tranche positions. In addition, a limit is placed on the use of a member's currency, such that the Fund's holdings of that currency will not fall below two thirds of its average holdings, expressed in percent of quota, of other members' currencies included in the budget. The Executive Board reviews these guidelines periodically to ensure that the objective of promoting balanced positions in the Fund over time is achieved. On the occasion of the most recent review, completed in February 1995, it was decided to continue to apply the present guidelines until the end of December 1996.

mittee agreed that the Fund's liquidity position was adequate at that time, despite the recent large demands on Fund resources, but noted that the liquidity ratio was projected to decline sharply over the next two years. It requested the Board to continue to review the adequacy of the Fund's resources and, in connection with its review of the role of the Fund, to carry forward its work on the Eleventh General Review of Quotas. The Committee also saw a need to examine the issues related to borrowing by the Fund from members and, in particular, the role of the GAB.

Fund's Liquidity and Access Policy

The Fund's liquidity position remained adequate during 1994/95, although there was a significant weakening toward the end of the year. The latter development reflected the substantial commitments of resources in the last quarter of 1994/95, including large stand-by arrangements for Mexico, Russia, and Ukraine, and the extension and augmentation of Argentina's existing extended arrangement (see below).

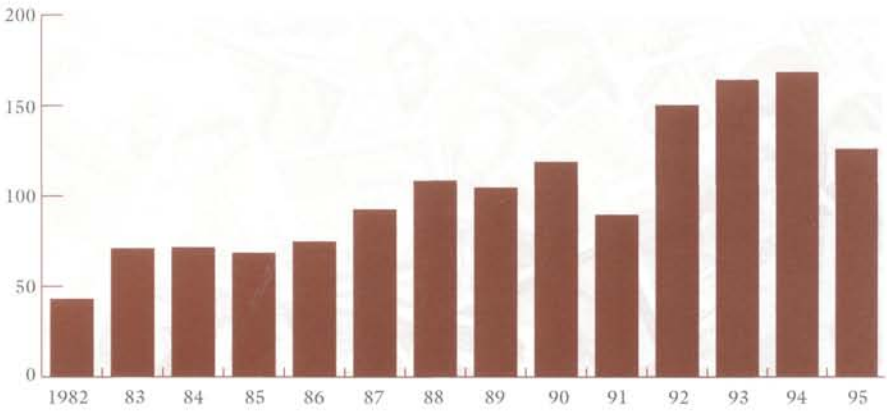
The liquid resources of the Fund consist of usable currencies and SDRs held in the GRA. Usable currencies, the largest component of liquid resources, are the currencies of members whose balance of payments and reserve positions are considered sufficiently strong to warrant the inclusion of their currencies in the operational budget for use in the financing of Fund operations and transactions (see Box 13). At the end of April 1995, the Fund's liquid resources amounted to SDR 61.6 billion, compared with SDR 68.7 billion a year earlier, primarily reflecting the large use of Fund resources during the last three months of 1994/95.

In assessing the adequacy of the Fund's liquidity, the stock of usable currencies is first reduced by the amount of resources committed under arrangements and expected to be drawn. The stock of usable currencies is reduced further to take into account the staff's assessment of the need to maintain working balances of currencies and of the possibility that the currencies of some members in relatively weak external positions could become unusable in financing Fund operations and transactions. After these adjustments were made, as of April 30, 1995, the Fund's uncommitted and adjusted usable liquid resources totaled SDR 42.5 billion, compared with SDR 54.3 billion a year earlier.

The Fund's liquid liabilities increased from SDR 32.4 billion as of the end of April 1994 to SDR 33.7 billion as of the end of April 1995, representing an increase in the reserve tranche positions of members from SDR 29.3 billion to SDR 31.7 billion, and a fall in outstanding Fund obligations under borrowing agreements from SDR 3.1 billion to SDR 2.0 billion. The ratio of the Fund's uncommitted and adjusted usable liquid resources to its liquid liabilities—the liquidity ratio—declined from 167.6 percent to 126.1 percent over the same period. (The evolution of the liquidity ratio since calendar year 1978 is shown in Chart 7.) The level of liquidity is still adequate, however, and projections based on current policies on access and access limits indicate that the Fund remains in a position to meet the anticipated substantial demands on its resources over the next few years, while maintaining sufficient cover against any encashment of liquid liabilities.

The Fund currently has no unused lines of credit and is scheduled to repay its remaining outstanding debt to lenders by end-March 1996. However, the Fund can borrow under the GAB (up to SDR 17.0 billion) and under an agreement with the Saudi Arabian Monetary Agency in association with the GAB (SDR 1.5 billion), when supplementary resources are needed to forestall or to cope with an impairment of the international monetary system.

Chart 7
THE FUND'S LIQUIDITY RATIO, 1982–95
(In percent; end of December)[1]



[1] Figure for 1995 is as of April 30.

Policies on access to Fund resources were reviewed by Executive Directors on several occasions during 1994, in the light of experience since 1990 and taking into consideration the prospective financing needs of member countries and the liquidity position of the Fund. Directors were guided in their work by the principle that strong programs deserve strong support from the Fund and the international community at large, and by the need to safeguard the monetary character and catalytic role of the Fund. On the basis of these reviews and the recommendation of the Interim Committee in its communiqué of October 1994, the Board decided that, for a period of three years beginning from October 24, 1994, the annual limit on access to the Fund's general resources under the credit tranches and under extended arrangements would be increased from 68 percent of quota to 100 percent of quota. This higher annual access limit under stand-by and extended arrangements would permit, and when needed would result in, increased actual access to the Fund's resources commensurate with the strength of programs. The cumulative access limit was left unchanged at 300 percent of quota.

The access limits are temporary in nature and are reviewed annually in the light of all relevant factors, including the magnitude of members' payments problems and developments in the Fund's liquidity. The access limits may be exceeded in exceptional circumstances—for example, in the case of the stand-by arrangement for Mexico approved on February 1, 1995, which exceeded both the annual and cumulative access limits.

Members' Use of Fund Resources and Credit Outstanding

During 1994/95 members' purchases from the GRA, excluding reserve tranche purchases,[8] amounted to SDR 10.6 billion, twice the 1993/94 level (Table 38; see also Appendix II, Table II.8). The sharp increase was due mainly to a purchase of SDR 5.3 billion by Mexico under a stand-by arrangement in February 1995. Purchases during the financial year consisted of a total of SDR 7.6 billion under stand-by arrangements (compared with SDR 1.1 billion in 1993/94), SDR 1.6 billion under extended arrangements (SDR 0.7 billion in 1993/94), SDR 0.3 billion under the CCFF (SDR 0.7 billion in 1993/94), and SDR 1.1 billion under the STF (SDR 2.7 billion in 1993/94).

The purchase by Mexico (SDR 5.3 billion), the largest single purchase in the history of the Fund, amounted to 300 percent of Mexico's quota. Other large purchases were made by Argentina (which made four drawings totaling SDR 1.3 billion), Algeria and Russia (SDR 0.7 billion each), and Ukraine (SDR 0.6 billion). A regional breakdown shows that purchases by Latin American countries amounted to SDR 6.7 billion; purchases by countries of the former Soviet Union and central and eastern European countries amounted to SDR 2.9 billion; African countries purchased SDR 0.7 billion, and Asian and Middle Eastern countries purchased SDR 0.3 billion.

Repurchases in the GRA during 1994/95 amounted to SDR 4.0 billion, compared with SDR 4.3 billion in the previous financial year (see Appendix II, Table II.9). Actual repurchases in 1994/95 were higher than the scheduled level of SDR 3.3 billion owing to voluntary advance repurchases made by the Czech Republic (SDR 639 million) and Poland (SDR 225 million). Also, Haiti's clearance of arrears to the Fund included SDR 15 million of repurchases. Scheduled repurchases, which peaked in 1987/88 following a significant expansion of Fund credit in the early 1980s, have declined in recent years, reflecting the lower use of Fund credit during the latter part of the 1980s

[8] Reserve tranche purchases made by three members in 1994/95 amounted to SDR 24 million, compared with purchases of SDR 84 million by ten members in 1993/94. Reserve tranche purchases represent members' use of their own Fund-related assets and not use of Fund credit.

Table 38
SELECTED FINANCIAL INDICATORS
(In millions of SDRs)

	Financial Year Ended April 30							
	1988	1989	1990	1991	1992	1993	1994	1995
	During period							
Total disbursements	4,562	2,682	5,266	6,823	5,903	5,877	5,903	11,178
Purchases by facility (GRA)[1]	4,118	2,128	4,440	6,248	5,294	5,284	5,241	10,592
Stand-by and first credit tranche	2,313	1,702	1,183	1,975	2,343	2,940	1,052	7,587
Compensatory and contingency financing facility	1,544	238	808	2,127	1,381	90	718	287
Extended Fund facility	260	188	2,449	2,146	1,571	2,254	746	1,595
Systemic transformation facility	—	—	—	—	—	—	2,725	1,123
Loans under SAF/ESAF arrangements	445	554	826	575	608	593	662	587
Special Disbursement Account resources	445	380	584	180	138	49	68	19
ESAF Trust resources	—	174	242	395	470	544	594	568
By region	4,562	2,682	5,267	6,823	5,903	5,877	5,903	11,178
Africa	955	701	1,289	577	740	377	1,185	1,022
Asia	804	469	525	1,714	1,476	1,806	690	383
Europe	—	338	268	1,960	1,516	1,343	3,258	2,896
Middle East	116	—	66	—	333	26	11	76
Western Hemisphere	2,688	1,174	3,119	2,572	1,838	2,325	758	6,801
Repurchases and repayments	8,463	6,705	6,399	5,608	4,770	4,117	4,509	4,231
Repurchases	7,935	6,258	6,042	5,440	4,768	4,081	4,343	3,984
Trust Fund and SAF/ESAF loan repayments	528	447	357	168	2	36	166	247
	End of period							
Total outstanding credit provided by Fund	29,543	25,520	24,388	25,603	26,736	28,496	29,889	36,837
Of which:								
General Resources Account	27,829	23,700	22,098	22,906	23,432	24,635	25,533	32,140
Special Disbursement Account	584	965	1,549	1,729	1,865	1,879	1,835	1,651
Administered accounts								
Trust Fund	1,129	682	326	158	158	158	105	102
ESAF Trust[2]	—	174	416	811	1,281	1,824	2,416	2,944
Percentage change in total outstanding credit	–11.7	–13.6	–4.4	5.0	4.4	6.6	4.9	18.9
Number of indebted countries	86	83	87	81	82	90	93	99

[1]Excluding reserve tranche purchases.
[2]Includes Saudi Fund for Development associated loans.

(Chart 8). Given the revolving nature and medium-term maturity of the Fund's balance of payments assistance, scheduled repurchases will soon begin increasing again as a result of the relatively higher level of purchases in the past few years.

Taking into account both purchases and repurchases, Fund credit outstanding in the GRA increased by SDR 6.6 billion, from SDR 25.5 billion as of April 30, 1994 to SDR 32.1 billion as of April 30, 1995. (Details are provided in Appendix II, Tables II.7 and II.10.) If net disbursements under the SAF and ESAF are also included (see below), Fund credit outstanding under all facilities increased by SDR 6.9 billion in 1994/95, from SDR 29.9 billion on April 30, 1994 to SDR 36.8 billion on April 30, 1995 (Chart 9). Total Fund credit outstanding is expected to continue to increase in the period immediately ahead as a result of the strong projected demand for use of the Fund's general and ESAF Trust resources.

Stand-By and Extended Arrangements

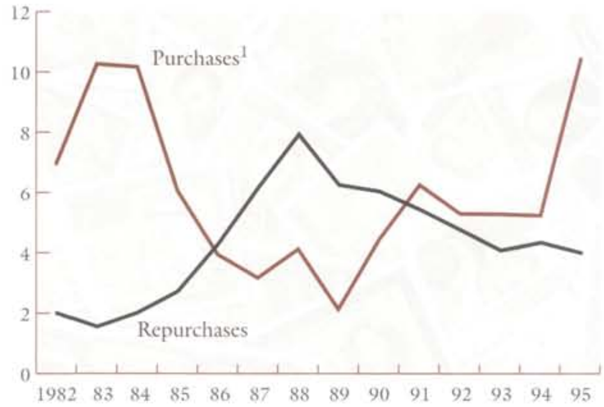
Seventeen stand-by arrangements totaling SDR 13.0 billion were approved during 1994/95. Although this number of arrangements was about the same as in

1993/94, the total amount of resources committed is unsurpassed in the Fund's history. Particularly noteworthy was the stand-by arrangement for Mexico approved in February 1995 for an initial amount of SDR 5.3 billion, to be augmented by up to SDR 6.8 billion (the equivalent of $10 billion at the time of approval of the arrangement) after a review of the arrangement scheduled to take place by end-June 1995. Arrangements with other Latin American and Caribbean countries, for a total amount of SDR 0.2 billion, were concluded with Haiti, following clearance of its arrears to the Fund, and Ecuador. Among the states of the former Soviet Union, arrangements involving commitments of 100 percent of quota were concluded with Russia (SDR 4.3 billion) and Ukraine (SDR 1.0 billion). In addition, eight stand-by arrangements totaling SDR 1.7 billion were approved for other countries of the former Soviet Union and central and eastern European countries (Croatia, Estonia, Latvia, Moldova, Poland, Romania, the Slovak Republic, and Turkey). Four arrangements totaling SDR 0.5 billion were concluded with African countries (Algeria, Congo, Lesotho, and Malawi). The Executive Board approved augmentations totaling SDR 0.3 billion for debt- and debt-service-reduction operations for Bulgaria, Ecuador, and Poland, as well as an increase of SDR 0.1 billion in the existing arrangement with Turkey. As of April 30, 1995, a total of 19 countries had stand-by arrangements with the Fund, with total commitments of SDR 13.2 billion and undrawn balances of SDR 5.8 billion.

Three new extended arrangements totaling SDR 0.8 billion were approved during 1994/95 for Jordan, Lithuania, and the Philippines, and the existing arrangement with Argentina was augmented by an amount equivalent to 100 percent of Argentina's quota. Altogether, the level of commitments under extended arrangements during 1994/95 was SDR 1.6 billion higher than in the previous financial year. As of April 30, 1995, nine countries had extended arrangements, with commitments totaling SDR 6.8 billion and undrawn balances of SDR 2.5 billion.

In total, commitments of Fund resources under stand-by and extended arrangements reached SDR 15.4 billion during 1994/95, which was larger than the SDR 14.1 billion committed in 1982/83 at the height of the debt crisis. The extraordinary level of commitments during 1994/95 was mainly due to the new arrangements with Mexico, Russia, and Ukraine, and the augmentation of Argentina's arrangement, which together amounted to SDR 12.1 billion. In addition, commitments to other countries amounted to SDR 3.3 billion, also a relatively high figure. The latter commitments were partly a reflection of the progress made by economies in transition in formulating macroeconomic and structural reform programs that could be supported under stand-by or extended arrangements, after initially making use of Fund resources under the STF.

Chart 8
GENERAL RESOURCES PURCHASES AND REPURCHASES, FINANCIAL YEARS ENDED APRIL 30, 1982–95
(In billions of SDRs)



[1] Excluding reserve tranche purchases.

Special Facilities

The Fund's special facilities consist of the CCFF, the buffer stock financing facility, which has not been utilized since 1984, and the STF.

Purchases under the CCFF, made by Algeria and Moldova, amounted to SDR 0.3 billion during 1994/95, compared with purchases of SDR 0.7 billion in 1993/94. Since the inception of the STF in April 1993, 20 members have made purchases under the facility, including 12 that have made two drawings each. Purchases under the STF totaled SDR 1.1 billion in 1994/95 (compared with SDR 2.7 billion during 1993/94) and were made by eight countries of the former Soviet Union, three central and eastern European countries, and one Asian country. The largest amount purchased in 1994/95 was by Ukraine (SDR 0.5 billion in two drawings).

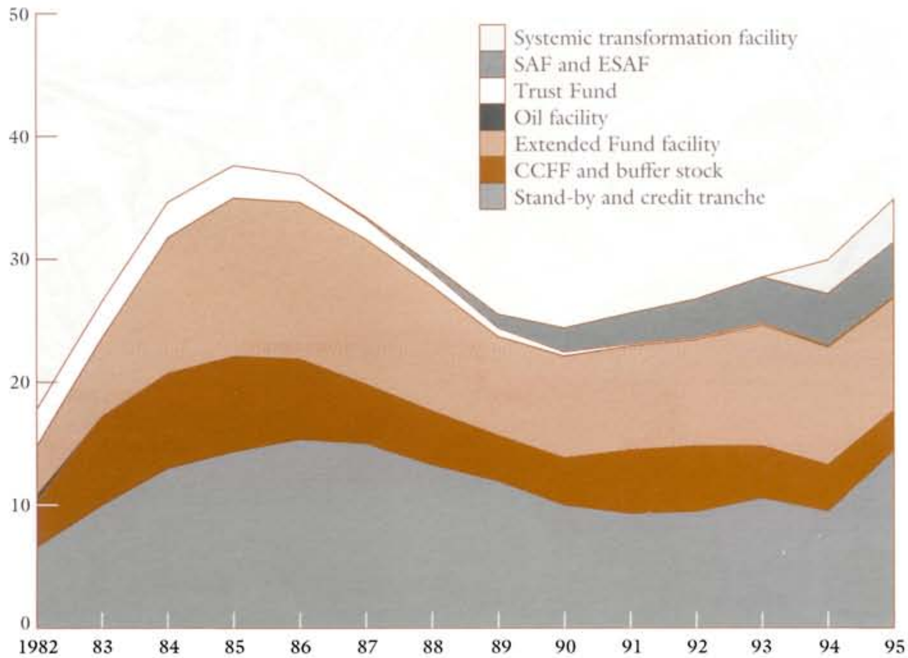
SAF and ESAF

During 1994/95 the Fund continued to provide concessional financial support to low-income members under the SAF and ESAF. As of April 30, 1995, 1 SAF arrangement and 27 ESAF arrangements were in effect. Eleven new three-year ESAF arrangements, totaling SDR 1.2 billion, were approved in 1994/95 for Bolivia, Cambodia, Guinea-Bissau, Guyana, the Kyrgyz

Chart 9

TOTAL FUND CREDIT OUTSTANDING TO MEMBERS (INCLUDING TRUST FUND, SAF, AND ESAF), FINANCIAL YEARS ENDED APRIL 30, 1982–95

(In billions of SDRs; end of period)



Republic, Mauritania, Nicaragua, Senegal, Togo, Uganda, and Viet Nam. An additional one-year arrangement was approved for Mozambique, as well as increased access under the arrangement with Honduras. Cumulative commitments under all approved SAF and ESAF arrangements (including actual disbursements under expired arrangements) totaled SDR 6.9 billion as of April 30, 1995, compared with SDR 5.8 billion as of April 30, 1994 (see Appendix II, Tables II.5 and II.6). SAF and ESAF disbursements during 1994/95 totaled SDR 0.6 billion, somewhat below the level in 1993/94, bringing cumulative disbursements through April 30, 1995 to SDR 5.0 billion.

The enlargement and extension of the ESAF Trust became effective on February 23, 1994 and is being supported by a broad cross-section of the Fund's membership. To date, commitments have been received from more than 40 countries. About half of the contributors are developing countries, which are providing almost 20 percent of the contributions to the ESAF Trust Subsidy Account. The target amount of lending for the enlargement is SDR 5 billion, which, together with the SDR 5.1 billion available prior to the enlargement, would raise the total lending capacity of the ESAF Trust to SDR 10.1 billion.

The commitment period for ESAF Trust loans to eligible members currently runs through December 31, 1996, with disbursements to be made through the end of 1999. Thus far, new commitments to the ESAF Trust Loan Account under the enlargement amounting to SDR 4.6 billion have been received from 11 countries, 3 of which are developing countries, and from the OPEC Fund for International Development. As of April 30, 1995, the Executive Board had approved 11 borrowing agreements, raising total loan commitments by lenders to the ESAF Trust under agreements approved by the Board to SDR 9.5 billion.

Contributions to the Subsidy Account enable the Trust to provide ESAF financing at a highly concessional rate of interest (currently 0.5 percent a year). Under the ESAF Trust enlargement, 43 members have agreed to make contributions to the Subsidy Account in the form of direct grants and deposits or investments at concessional interest rates. The commitments by 17 members to make investments or deposits for the benefit of the Subsidy Account are expected to generate SDR 0.2 billion in subsidies. Twenty-six other members have agreed to provide grants totaling SDR 1.1 billion. Contributions have been received from 11 members, and most other contributions have been finalized, while discussions are continuing with a few other contributors to confirm the modalities and timing of their contributions. In addition to these bilateral contributions, in 1994 the Board transferred a total of SDR 400 million from the Special Disbursement Account (SDA) to the Subsidy Account of the ESAF Trust. As of April 30, 1995, total disbursements from the SDA in support of SAF and ESAF arrangements amounted to SDR 2.0 billion.

The availability of resources in the Subsidy Account, net of subsidies already paid, rose from SDR 1,162 million as of April 30, 1994 to SDR 1,330 million as of April 30, 1995. The ESAF Trust made interest payments of SDR 98 million to lenders in 1994/95, of which SDR 12 million was financed by payments of interest by borrowers from the Trust and the balance of SDR 86 million was drawn from the resources of the Subsidy Account.

Details of SAF and ESAF arrangements, and borrowing agreements and subsidy contributions for the ESAF Trust, are provided in Appendix II (Tables II.5, II.6, and II.11).

Fund Charges, Remuneration, Net Income, and Precautionary Balances

At the beginning of a financial year, the Fund sets the rate of charge on the use of its resources as a proportion of the weekly SDR interest rate, so as to achieve a target amount of net income to add to its reserves. This method of setting the rate of charge was begun in 1989/90 and was adopted as a permanent procedure in 1993/94. It is designed to ensure that the Fund's operational income closely reflects its operational costs, which depend largely on the SDR interest rate, and thus to avoid the need for stepwise increases in the rate of charge in the course of a financial year in order to achieve the target amount of net income.

For 1994/95 the proportion of the rate of charge to the SDR interest rate was set at 115.1 percent in order to achieve a net income target equal to 5 percent of reserves at the beginning of the financial year, provided that any income in excess of the target would be used to reduce retroactively the rate of charge for the financial year. After a review of the Fund's income position at midyear, the proportion of the rate of charge to the SDR interest rate was reduced to 112.0 percent, in view of favorable developments in the Fund's income position. The average rate of charge on the use of Fund resources in 1994/95 was 4.81 percent before adjustments for burden sharing, which are discussed below.

The Fund pays remuneration to a member on the amount by which its norm for remuneration exceeds the Fund's holdings of its currency, excluding holdings that reflect the member's use of Fund credit. For each member, the norm for remuneration is calculated as 75 percent of the member's quota on April 1, 1978, plus any increases in quota consented to and paid after that date. For members joining the Fund after April 1, 1978, the norm is calculated as the weighted average of the norms applicable to all other members on the date of admission, plus any increases in the member's quota consented to and paid after that date. The rate of remuneration, before the adjustments under the burden-sharing mechanisms discussed below, is set at 100 percent of the SDR interest rate, which averaged 4.60 percent in 1994/95.

The various measures taken in recent years to strengthen the Fund's financial position against the consequences of overdue obligations were continued in 1994/95. First, a target amount of net income is added to the Fund's reserves each year. Second, the financial burden of overdue obligations is shared by debtor and creditor members: 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 financial year is borne by members paying charges on the use of Fund resources and by members receiving remuneration through adjustments to the rates of charge and remuneration, except that the adjustment to the rate of remuneration cannot reduce that rate to less than 85 percent of the SDR interest rate. These burden-sharing procedures have been extended by the Executive Board through 1995/96.

As part of the strengthened cooperative strategy to resolve the problem of protracted overdue obligations to the Fund, further adjustments (extended burden sharing) are made to the rate of charge and to the rate of remuneration (subject to the floor of 80 percent of the SDR interest rate stipulated in the Articles of Agreement). The resources so generated are placed in a second Special Contingent Account (SCA-2) and are intended to protect the Fund against risks associated with credit extended by the GRA for the encashment of rights earned in the context of rights accumulation programs (see below) and to provide additional liquidity to finance those encashments. The extended burden-sharing procedures were adopted in July 1990 and will remain in effect until a target level of resources of SDR 1 billion has been accumulated in the SCA-2. The adjustment for extended burden sharing added 4 basis points to the rate of charge in 1994/95. The adjustment to the rate of remuneration is set so as to yield three times the amount of resources generated by the adjustment to the rate of charge, subject to the floor to the rate of remuneration mentioned above.

When deferred overdue charges are settled, an equivalent amount is paid to members that paid higher charges or received lower remuneration under burden sharing. Settlements of deferred overdue charges amounted to SDR 36 million during 1994/95, bringing total cumulative refunds to SDR 680 million as of April 30, 1995. Balances in the SCA-1, which amounted to SDR 602 million as of April 30, 1995, will be returned to contributors when there are no more overdue obligations, or at such earlier time as the Fund may decide. Balances 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 1994/95 the target amount of net income to be added to reserves and the amount to be added to the SCA-1 were each set at SDR 85 million. Unpaid charges due by members in protracted arrears and contributions to the SCA-1 resulted in adjustments to the rate of charge of 34 basis points, and in adjustments to the rate of remuneration of 39 basis points. Adjustments for extended burden sharing further increased the rate of charge by 4 basis points and further reduced the rate of remuneration by 53 basis points to 80 percent of the average SDR interest rate. Shortfalls in the amounts placed to the SCA-2, owing to the 80 percent floor to the remuneration coefficient having been reached, totaled SDR 133 million as of the end of 1994/95; these shortfalls will be recouped when the adjusted rate of remuneration does not reach that floor. For 1994/95 the adjusted rate of charge on the use of Fund resources averaged 5.19 percent, and the adjusted rate of remuneration averaged 3.68 percent.

After taking into account a retroactive reduction of charges of SDR 109 million, net income for 1994/95 equaled the target amount of SDR 85 million and was added to the Fund's reserves, which rose to SDR 1.79 billion as of the end of 1994/95 from SDR 1.70 billion a year earlier. The Executive Board established a net income target of SDR 89 million for 1995/96 and set the proportion for the rate of charge at 102.5 percent of the SDR interest rate.

Total precautionary balances (reserves and the balances in the two Special Contingent Accounts) amounted to SDR 3.2 billion as of April 30, 1995 and were equal to 9.8 percent of total Fund credit outstanding. Precautionary balances generally available to protect the Fund's financial position against the consequences of overdue repurchases in the GRA (reserves plus SCA-1) totaled SDR 2.4 billion, equivalent to 142 percent of credit outstanding to countries in arrears to the Fund by six months or more (SDR 1.7 billion). Precautionary balances placed in the SCA-2 amounted to SDR 768 million as of April 30, 1995.

The level and adequacy of the Fund's precautionary balances were reviewed by the Executive Board in March 1995. After taking into consideration the expansion of Fund credit and developments in international financial markets, Directors agreed to maintain the rate of accumulation of precautionary balances. Accordingly, the net income target for 1995/96 and contributions to the SCA-1 were each set at 5 percent of reserves at the beginning of the financial year.

Reforming the Financing of Fund Operations

In recognition of the evolving financial structure of the Fund's operations, which is now dominated by the costs to the Fund of financing the use of Fund credit by member countries and, to a lesser extent, by administrative and prudential expenses, the Interim Committee, in its communiqué following the Madrid meeting, requested the Executive Board to consider issues related to the distribution among members of the cost of financing the Fund's operations with a view to achieving a more effective and equitable mechanism.

In their discussions, Executive Directors have broadly supported the principles that the cost of operating the Fund should be equitably shared by all members and that members' quotas, which determine their rights and obligations in the Fund, should play an important role in the distribution of financing the Fund's cost. Directors have also agreed that the Fund's direct operational costs (that is, remuneration expenses) should be financed by the users of Fund credit. In view of the limitations on distributing the cost of financing the Fund among members under the Articles of Agreement (costs are shared by debtor and creditor countries only), a wide consensus has emerged within the Board to pursue further the possibility of an amendment to the Articles that would provide a broader basis for cost sharing.

Such an amendment would allow for a quota-based system of sharing the cost of financing the Fund through the introduction of a uniform but adjustable norm for remuneration. Under this system, operational costs would be covered by debtors through the rate of charge on the use of Fund resources. In order to ensure that sufficient unremunerated resources would be available to the Fund to cover other costs (that is, administrative and prudential expenses) to be shared among all members, the norm for remuneration (see above) would be the same for all members and would be adjusted upward or downward as necessary. If a member were to have utilized part or all of its reserve tranche, balances equal to the portion of the reserve tranche used that would be unremunerated would become subject to charges.

Overdue Financial Obligations

The level of outstanding overdue obligations to the Fund rose slightly during 1994/95 from SDR 2.9 billion on April 30, 1994 to SDR 3.0 billion on April 30, 1995, reversing the decline in the previous financial year.[9] This increase resulted largely from unpaid maturing obligations of some existing overdue members, which more than offset the clearance of the arrears of other countries.

The number of countries in arrears to the Fund by six months or more decreased from nine to eight during 1994/95, as Haiti eliminated its overdue obligations to the Fund in December 1994; a number of short-term cases were also resolved during the year. There were no new cases of protracted arrears to the Fund. Of the eight countries in protracted arrears on April 30, 1995, all were in arrears to the GRA; five to

[9]The data in this section include the overdue financial obligations of the Federal Republic of Yugoslavia (Serbia/Montenegro) and the Republic of Bosnia and Herzegovina, which have not yet completed arrangements for succession to the membership in the Fund of the former Socialist Federal Republic of Yugoslavia.

Table 39

ARREARS TO THE FUND OF COUNTRIES WITH OBLIGATIONS OVERDUE BY SIX MONTHS OR MORE

(In millions of SDRs; end of period)

	Financial Year Ending April 30					
	1990	1991	1992	1993	1994	1995
Amount of overdue obligations	3,251.1	3,377.7	3,496.0	3,006.4	2,911.3	2,982.7
Number of countries	11	9	10	12	9	8
Of which:						
General Department	3,018.6	3,171.7	3,274.1	2,768.3	2,729.5	2,809.2
Number of countries	11	9	10	12	9	8
SDR Department	44.7	27.3	37.5	49.8	51.4	46.3
Number of countries	9	6	7	9	8	5
Trust Fund	187.8	178.7	184.3	188.3	130.4	127.2
Number of countries	9	6	6	6	4	4
Number of ineligible members	10	8	8	7	5	5

the SDR Department; four to the Trust Fund; and two were in arrears on SAF obligations. Deferred overdue charges from these countries, which are excluded from the Fund's income, amounted to SDR 1,102 million as of the end of 1994/95, compared with SDR 1,043 million a year earlier. Selected data on arrears to the Fund are shown in Table 39, and additional information on countries' overdue financial obligations by type and duration is shown in Table 40.

As of April 30, 1995, five countries remained ineligible to use the general resources of the Fund, pursuant to declarations under Article XXVI, Section 2(*a*): Liberia, Somalia, Sudan, Zaïre, and Zambia. These five countries accounted for 96 percent of total overdue obligations to the Fund on that date. Declarations of noncooperation, a further step under the strengthened cooperative arrears strategy (see below), remained in effect with respect to three countries: Liberia (issued March 30, 1990), Sudan (September 14, 1990), and Zaïre (February 14, 1992).

Progress Under the Strengthened Cooperative Strategy

The strengthened cooperative strategy to resolve the problem of protracted overdue obligations to the Fund was formulated in early 1990 and endorsed by the Interim Committee in May of that year. The three key elements of the strategy—prevention, deterrence, and intensified collaboration—continued to be implemented in 1994/95, in order to assist overdue countries in finding solutions to their arrears problems and to prevent the emergence of new arrears.

Preventive Measures

Efforts to prevent new cases of arrears from arising or becoming protracted are a central element in the Fund's arrears strategy. In this respect, the quality of a member's economic policies and its willingness to strengthen policies as necessary are the fundamental safeguards for the use of Fund resources. It is also essential to ensure adequate financial support from other official creditors and donors during the period of a Fund arrangement and the subsequent period during which credit from the Fund remains outstanding. Specific measures to prevent new cases of arrears include efforts to (1) evaluate medium-term external viability and the risks involved in extending balance of payment support to members, (2) identify potential problems in the period after the expiration of a Fund arrangement that could lead to the emergence of arrears to the Fund, and (3) address possible technical difficulties that may result in late payments.

Medium-term external viability and the capacity to repay the Fund depend crucially on the strength and comprehensiveness of members' policies, the extent of external support, and the commitment of the authorities to further policy action if necessary. The staff's assessments of members' prospects for achieving viability over the medium term are undertaken at an early stage in discussions with the authorities on the possible use of Fund resources and provide a basis for

Table 40

ARREARS TO THE FUND OF COUNTRIES WITH OBLIGATIONS OVERDUE BY SIX MONTHS OR MORE, BY TYPE AND DURATION, AS OF APRIL 30, 1995

(In millions of SDRs)

		By Type			By Duration			
	Total	General Dept.	SDR Dept.	Trust Fund	Less than one year	1–2 years	2–3 years	3 years or more
Bosnia and Herzegovina	22.9	20.4	2.5	—	5.0	8.6	9.3	—
Iraq	21.1	0.1	21.0	—	3.8	3.8	4.8	8.7
Liberia	423.5	380.9	12.0	30.6	12.2	13.3	18.6	379.4
Somalia	174.5	163.1	3.8	7.6	8.2	10.2	12.8	143.3
Sudan	1,184.7	1,103.2	—	81.5	32.4	35.3	49.3	1,067.7
Yugoslavia, Federal Republic of (Serbia/Montenegro)	63.3	56.3	7.0	—	13.7	23.8	25.8	—
Zaïre	259.9	259.9	—	—	52.5	67.3	52.4	87.7
Zambia	832.8	825.3	—	7.5	—	—	—	832.8
Total	**2,982.7**	**2,809.2**	**46.3**	**127.2**	**127.8**	**162.3**	**173.1**	**2,519.5**

assessing the appropriate mix of adjustment and financing, access to Fund resources, and conformance with the Fund's policy on financing assurances. These assessments are updated in the context of subsequent reviews of a member's performance under its Fund arrangement. In assessing possible risks to the Fund, the staff takes into account, inter alia, (1) the member's past debt-service record, in particular to the Fund and the World Bank, and the way it has handled debt-service problems; (2) the member's record of policy performance during the periods of Fund arrangements and in subsequent periods when Fund credit remained outstanding; and (3) the vulnerability of the economy to external economic shocks, policy slippages, or adverse political developments.

For the duration of the period during which Fund credit remains outstanding, the staff regularly reviews with the authorities the stance of economic policies and the expected evolution of the external position in a medium-term context, paying particular attention to the early identification of emerging problems that could lead to delays in payments, including to the Fund. Such reviews are normally carried out in connection with Article IV consultation discussions, but they can also be undertaken at other times if developments indicate the desirability of opening discussions on corrective measures.

As regards efforts to identify possible technical difficulties that could lead to late payments, the staff regularly reviews the operational systems needed so that members can avoid technical delays in payments to the Fund. These include the provision of advance authorization by members to debit their SDR accounts in settlement of obligations falling due to the Fund, advance notification to members of forthcoming obligations, and assistance from the staff to ensure that payments are made on time—for example, assisting members wishing to build up their SDR balances in advance of obligations falling due by arranging for these members to acquire SDRs from other members or from the Fund.

Remedial and Deterrent Measures

The preventive element of the arrears strategy is complemented by remedial and deterrent measures that seek to protect the Fund's resources from further use by members that are in arrears, and to set in motion a concerted effort to resolve the problems of overdue members. These measures consist of specific actions to be taken on the basis of a timetable agreed by the Executive Board in early 1990. The timetable sets a framework for the Board's consideration of various measures, which are then implemented if the Board considers that the member concerned is not cooperating with the Fund in addressing the problem of its overdue obligations, taking into account the particular circumstances of the individual member.

Under the timetable of remedial measures, Zaïre's voting rights were suspended on June 2, 1994. Zaïre was the second member to which such suspension, which was introduced by the Third Amendment to the Fund's Articles of Agreement, was applied. The Executive Board reviewed this decision on December 16, 1994 and decided to give consideration at its next review, scheduled to take place within six months, to the initiation of the procedure on compulsory withdrawal, unless Zaïre had resumed active cooperation with the Fund in the areas of policy implementation and payments performance.

Compulsory withdrawal is the final and most severe sanction in the timetable of remedial measures. In the case of Sudan, which is the largest and longest-lived case of protracted arrears, the procedure for compulsory withdrawal was initiated on April 8, 1994 by the issuance of a complaint by the Managing Director. The Executive Board considered this complaint on three occasions in 1994/95. At the last review, in January 1995, the Board noted Sudan's commitments concerning economic policies and increased payments to the Fund under its staff-monitored program and encouraged Sudan to strengthen its adjustment effort by adopting a comprehensive program of financial and structural measures.

Intensified Collaboration and the Rights Approach

Fund-monitored programs and rights accumulation programs provide a means for countries in protracted arrears to the Fund to establish a satisfactory track record on policy and payments performance. The availability of the rights approach is limited to the 11 countries that were in protracted arrears to the Fund at the end of 1989. To avail themselves of this approach, these countries must enter into medium-term rights accumulation programs by a certain deadline, which has been extended to the spring 1996 meeting of the Interim Committee. A rights accumulation program, which shares many of the features of a normal Fund-supported macroeconomic stabilization and structural reform program, allows a country in protracted arrears to accumulate rights to future drawings of Fund resources in accordance with a phased schedule, and in amounts up to the level of arrears outstanding at the beginning of the program. Disbursements are made, however, only after the clearance of arrears and are conditional upon satisfactory conclusion of the rights program and approval by the Fund of a successor arrangement or arrangements.

Five of the original 11 eligible countries—Cambodia, Guyana, Honduras, Panama, and Viet Nam—cleared their arrears to the Fund without recourse to the rights approach. Three other eligible members—Peru, Sierra Leone, and Zambia—have adopted rights accumulation programs. Peru and Sierra Leone completed their rights accumulation programs and cleared their arrears to the Fund in March 1993 and March 1994, respectively. As of April 30, 1995, Zambia had accumulated rights of SDR 647 million under a rights accumulation program approved by the Executive Board in July 1992. In March 1995 the Board extended the expiration date of the program from March 31 to May 31, 1995, in order to provide more time for Zambia to accumulate the remaining rights of SDR 186 million and to continue discussions on a successor SAF/ESAF arrangement.

For the three other countries in protracted arrears at the end of 1989—Liberia, Somalia, and Sudan—the rights approach remains available, although progress has been hindered by a number of factors, including political and security problems.

Settlement of each of the protracted arrears cases that has been resolved since 1990 has depended critically on international financial support—through a combination of loans, grants, Paris Club operations, and bridge financing—during the period of a rights accumulation or staff-monitored program, as part of the actual arrears clearance exercise, and during the subsequent post-clearance period. This has been true for those cases with very large financing requirements relative to quota (such as Peru), as well as for those that have cleared arrears without recourse to the rights approach. As was anticipated in the early discussions of the collaborative approach, support groups have typically been led by one or two creditor countries with particularly strong ties to the member in arrears. Most recently, in December 1994 a support group contributed $65 million in grants to help clear Haiti's arrears of SDR 24.8 million to the Fund and $45 million to other multilateral institutions.

SDR Transactions and Operations

The SDR is an international reserve asset created by the Fund under the First Amendment to its Articles of Agreement to supplement existing reserve assets. First allocated in January 1970, total allocations of SDRs are SDR 21.4 billion. Although the bulk of SDRs is held by Fund members, all of which are participants in the SDR Department, the asset is also held by the Fund's GRA and by official entities prescribed by the Fund to hold SDRs. Although prescribed holders do not receive SDR allocations, they can acquire and use SDRs in transactions and operations with participants in the SDR Department and with other prescribed holders under the same terms and conditions as participants. During 1994/95 the number of prescribed holders remained unchanged at 15.[10] In response to a

[10]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, 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, and Nordic Investment Bank.

Table 41
SDR BASKET
(As of January 1, 1991)

Currency	Percentage Weight	Amount of Currency Units
U.S. dollar	40	0.572
Deutsche mark	21	0.453
Japanese yen	17	31.8
French franc	11	0.800
Pound sterling	11	0.0812

request by the Interim Committee in April 1994, the Executive Board continued to consider the issue of an SDR allocation and related matters during 1994/95 (see subsection on SDR Allocation, above).

The SDR is the unit of account for Fund operations and transactions and is also used as a unit of account, or the basis for a unit of account, by a number of other international and regional organizations and international conventions. In addition, the SDR has been used to denominate financial instruments and transactions outside the Fund by the private sector and some governments (private SDRs), although the market for private SDR instruments is still very limited. As of April 30, 1995, the currencies of four member countries of the Fund were pegged to the SDR.

SDR Valuation and Interest Rate Basket

Since January 1, 1981, the value of and interest rate on the SDR have been determined on the basis of a unified basket of five currencies that is revised every five years. The quinquennial review of the SDR basket will take place during 1995, with any revisions taking effect on January 1, 1996. The currencies of the five member countries of the Fund with the largest exports of goods and services during the five-year period 1990–94 will be included in the basket. The review will also determine initial weights for these currencies, broadly reflecting their relative importance in international trade and reserves as measured by the value of the exports of goods and services of the members issuing these currencies in 1990–94 and the balances of them held as reserves by other members of the Fund during the same period.[11] Table 41 shows the initial weights and corresponding amounts of each of the five currencies in the current SDR basket, which became effective on January 1, 1991.

Since January 1, 1981, the rate of interest on the SDR has been calculated as a weighted average of the interest rates on selected short-term instruments in the domestic money markets of the five countries whose currencies are included in the SDR basket. With effect from January 1, 1991, these interest rates are the market yield on three-month U.S. Treasury bills, the three-month interbank deposit rate in Germany, the three-month rate on treasury bills in France, the three-month rate on certificates of deposit in Japan, and the market yield on three-month U.K. Treasury bills. The interest rate on the SDR is adjusted weekly (see Appendix II, Table II.14).

SDR Transfers

The total amount of SDR transfers nearly doubled to SDR 20.3 billion in 1994/95, from SDR 10.9 billion in the previous financial year, as a result of a sharp increase in transfers from the GRA and transfers among participants and prescribed holders. Summary data on transfers of SDRs by participants, the GRA, and prescribed holders are presented in Table 42 (see also Appendix II, Table II.12).

Total transfers from the GRA rose substantially from SDR 4.4 billion in 1993/94 to SDR 7.9 billion in 1994/95. Members' purchases from the Fund during 1994/95 of SDR 6.0 billion represented the largest category of transfer, followed by the interest on and repayment of Fund borrowing (SDR 1.0 billion). The Fund's remuneration payments to members with creditor positions, the third-largest outflow, declined slightly to SDR 0.8 billion. Acquisitions of SDRs by members from the GRA against payment of other members' currencies declined from SDR 0.2 billion to SDR 0.1 billion, reflecting the larger supply of SDRs available through transactions by agreement during the year.

Transfers among participants and prescribed holders reached SDR 9.6 billion in 1994/95, more than double the level of the previous financial year, reflecting the record volume of transactions by agreement, which rose to SDR 9.0 billion in 1994/95 from SDR 3.1 billion in 1993/94. Transactions by agreement continued to be facilitated by the standing arrangements to buy or sell SDRs established between a number of members and the Fund (so-called two-way arrangements). Under these arrangements, which numbered 12 as of April 30, 1995, members stand ready to buy or sell SDRs for one or more freely usable currencies at any time, provided that their SDR holdings remain within certain limits. These arrangements have proved to be resilient in accommodating desired acquisitions of SDRs and a very substantial proportion of desired

[11]See *Annual Report, 1981*, pages 142–43.

Table 42
TRANSFERS OF SDRs
(In millions of SDRs)

	Annual Averages[1]					Financial Years Ended April 30			Total
	1/1/70–4/30/78	5/1/78–4/30/81	5/1/81–4/30/83	5/1/83–4/30/87	5/1/87–4/30/92	1993	1994	1995	1/1/70–4/30/95
Transfers among participants and prescribed holders									
Transactions with designation									
From own holdings	221	294	815	165	—	—	—	—	5,016
From purchase of SDRs from Fund	43	1,150	1,479	1,744	197	—	—	—	14,727
Transactions by agreement	439	771	1,262	3,121	6,217	5,056	3,122	8,987	69,224
Prescribed operations	—	—	277	520	622	5,610	406	124	11,884
Fund-related operations	—	—	—	43	224	94	436	301	2,125
Net interest on SDRs	42	161	259	285	425	337	121	174	5,244
Total	**744**	**2,377**	**4,092**	**5,878**	**7,685**	**11,097**	**4,085**	**9,586**	**108,220**
Transfers from participants to General Resources Account									
Repurchases	306	809	702	991	2,231	583	642	1,181	23,902
Charges	259	620	1,233	2,574	1,904	1,798	1,425	1,386	30,908
Quota payments	24	1,703	175	1,591	53	12,643	71	24	25,028
Interest received on General Resources Account holdings	16	135	551	307	72	128	336	262	3,954
Assessments	1	1	2	4	4	3	4	4	63
Total	**606**	**3,269**	**2,662**	**5,466**	**4,264**	**15,155**	**2,478**	**2,857**	**83,854**
Transfers from General Resources Account to participants and prescribed holders									
Purchases	208	1,474	2,227	2,554	1,326	5,769	2,676	5,970	41,865
Repayments of Fund borrowings	—	88	86	614	1,443	350	300	862	11,620
Interest on Fund borrowings	4	27	183	443	336	92	162	97	4,286
In exchange for other members' currencies									
Acquisitions to pay charges	—	3	95	896	325	699	166	99	6,373
Acquisitions to make quota payments	—	114	—	—	—	—	—	—	341
Reconstitution	175	33	—	—	—	—	—	—	1,555
Remuneration	26	165	604	1,536	1,041	922	958	815	15,966
Other	29	7	22	17	49	73	108	51	850
Total	**442**	**1,911**	**3,217**	**6,059**	**4,520**	**7,905**	**4,370**	**7,894**	**82,857**
Total transfers	1,792	7,556	9,971	17,404	16,470	34,157	10,933	20,336	274,931
General Resources Account holdings at end of period	1,371	5,445	4,335	1,960	680	7,930	6,038	1,001	1,001

[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 covers the period of the SDR allocations in the third basic period and the Seventh General Review quota increases; after an intervening period represented by the third column, the fourth column covers the period of the Eighth General Review quota increases and before the introduction of the two-way arrangements to facilitate transactions by agreement; and the fifth column covers, except for the three most recent financial years, the period since the designation mechanism became of a precautionary nature.

sales of SDRs, obviating recourse to the designation mechanism.[12] In particular, such arrangements facilitated the sale of SDR 3.5 billion by Mexico from its stand-by purchase in February 1995, the largest such transaction in the history of the SDR Department. In contrast to transactions by agreement, the level of prescribed operations, mainly settlements of financial obligations and use of SDRs in same-day loan/repayment mechanisms associated with members' payment of the reserve asset portion of their quota increases, declined to SDR 0.1 billion in 1994/95 from SDR 0.4 billion in 1993/94. Fund-related operations, representing use of SDRs in connection with the SAF, ESAF, Trust Fund, and Supplementary Financing Facility Subsidy Account, decreased somewhat to SDR 0.3 billion in 1994/95, while net interest on SDRs increased to SDR 0.2 billion because of higher holdings of SDRs by participants and prescribed holders (see Appendix II, Table II.12).

Transfers of SDRs from participants to the GRA rose from SDR 2.5 billion in 1993/94 to SDR 2.9 billion in 1994/95, reflecting increased use of SDRs in repurchases, which doubled from SDR 0.6 billion in 1993/94 to SDR 1.2 billion in 1994/95. Charges paid in SDRs remained basically unchanged at SDR 1.4 billion, while interest received by the GRA on its SDR holdings fell slightly.

[12]The Fund's Articles of Agreement provide for a designation mechanism whereby participants whose balance of payments and reserve positions are deemed sufficiently strong are obliged, or designated, by the Fund to provide freely usable currencies up to specified amounts in exchange for SDRs. In transactions with designation, the participant exchanging its SDRs is required to make a representation to the Fund that it has a balance of payments need to use its SDRs, and such use is not for the sole purpose of changing the composition of its reserves. There were no transactions with designation in 1994/95; since late 1987, potential exchanges of SDRs through the designation mechanism have been accommodated through voluntary transactions by agreement with other participants.

Pattern of SDR Holdings

The substantial transfers of SDRs during 1994/95 described above resulted in a significant redistribution of holdings of SDRs among major groups of holders. As in the past, the Fund was the main driving force for redistribution of SDRs, both to debtor members in connection with their purchases and to creditors in the payment of remuneration and servicing of the Fund's borrowing. In making transfers of SDRs under the quarterly operational budgets, the Fund was guided by the aim of reducing its holdings of SDRs to within the range of SDR 1.0–1.5 billion by the end of 1995.[13] The substantial use of Fund resources by members in the latter half of 1994/95 contributed to reducing the Fund's holdings of SDRs by SDR 5.0 billion to a level of SDR 1.0 billion as of April 30, 1995. By and large, debtor members did not hold all the SDRs received from the Fund but sold a large proportion to members with two-way arrangements (most of which are industrial countries) in order to obtain freely usable currencies, or used them to meet financial obligations to the Fund.

Consequently, the SDR holdings of the industrial countries increased by SDR 4.0 billion to a level of SDR 15.3 billion during 1994/95 (see Appendix II, Table II.13). Because debtor members received slightly more SDRs from the Fund and other participants than they transferred, the holdings of developing countries increased marginally to SDR 4.1 billion. In terms of net cumulative allocations, holdings of SDRs of the industrial countries rose sharply to 105.1 percent as of April 30, 1995, compared with 77.9 percent a year earlier, while those of the developing countries increased somewhat to 60.4 percent (see Appendix II, Table II.13). The SDR holdings of prescribed holders increased to SDR 1.0 billion as of April 30, 1995, largely owing to the Fund's investments of SAF and ESAF resources in official SDRs maintained with the Bank for International Settlements (BIS).

[13]See *Annual Report, 1993*, pages 97 and 147.

APPENDICES

APPENDIX I

INTERNATIONAL RESERVES

This appendix reviews recent developments in international reserves and liquidity that relate to the evolution of holdings of official assets and to the currency composition and distribution of foreign exchange reserves.

Recent Evolution of Official Reserve Assets

During 1994 total international reserves measured in SDR terms increased by 3.4 percent to SDR 1,052 billion, reflecting growth in non-gold reserves that more than offset a decline in the market value of official holdings of gold (Table I.1). The increase in non-gold reserves resulted from a substantial rise in foreign exchange reserves held by developing countries and a more modest increase in the stocks held by industrial countries. The decline in the value of gold holdings was largely attributable to a significant fall in the price of gold, although there was also a reduction in the quantity held that continued a trend begun in 1989 and accelerated in 1992. Although total Fund-related assets remained essentially unchanged in 1994, the composition of these assets has continued to adjust since late 1992, when most Fund members completed payment for their quota under the Ninth General Review.

Non-Gold Reserves

Total non-gold reserves increased by over 7 percent during 1994 to SDR 813 billion by the end of the year. This rise was a continuation of a steady trend that has been evident since the late 1980s. Non-gold reserves held by developing countries have increased every year since the mid-1980s, although the rate of increase in 1994 was slower than in 1993, whereas the stock held by industrial countries rose for the second year in a row after two years of modest decline. The 10 percent increase in 1994 on the part of developing countries was significantly larger than the 5 percent increase of the industrial countries, and developing countries now account for 47 percent of non-gold reserves compared with 35 percent in 1989. The increase in the holdings of developing countries in 1994 was largely attributable to non-oil developing countries, primarily the net debtor countries without debt-servicing problems, whose non-gold reserves increased by 26 percent in 1994 after an increase of 25 percent in 1993. By contrast, the net debtor countries with debt-servicing problems decreased their non-gold reserves by 5 percent after an increase of 21 percent in 1993. The stock of non-gold reserves held by the net creditor countries increased by 2 percent in 1994, about the same as in 1992 and 1993, whereas that held by oil exporting countries declined by 5 percent.

Foreign Exchange Reserves

Foreign exchange reserves rose by 8 percent during 1994 to SDR 765 billion. Although it was below the 10 percent rate of increase experienced in 1993, this rise was substantially above the 5 percent and 3 percent growth rates realized in 1991 and 1992, respectively. The change in the stock of foreign exchange reflected an SDR 35 billion (10 percent) increase in the holdings of developing countries, and an SDR 20 billion (5 percent) increase in the holdings of industrial countries. The rise in the foreign exchange holdings of the industrial countries in 1994 was comparable to the increase in 1993 after two years of modest declines. The increase in the holdings of developing countries continued the trend of accumulation of foreign exchange reserves that began in 1987 and is attributable, in part, to an inflow of private capital.

Holdings of Fund-Related Reserve Assets

Total holdings of Fund-related assets remained largely unchanged in 1994 at SDR 47.5 billion, although there was a change in the composition of these assets. The quota increase arising from the Ninth General Review resulted in major changes in the composition of Fund-related reserve assets in 1992, as most members used their holdings of SDRs to pay for the reserve asset portion of the quota increase. Members' reserve positions in the Fund, which comprise their reserve

Table I.1
OFFICIAL HOLDINGS OF RESERVE ASSETS, END OF YEAR 1989–APRIL 1995[1]
(In billions of SDRs)

	1989	1990	1991	1992	1993	1994	April 1995
All countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	25.5	23.7	25.9	33.9	32.8	31.7	33.7
SDRs	20.5	20.4	20.6	12.9	14.6	15.8	19.5
Subtotal, Fund-related assets	**46.0**	**44.1**	**46.4**	**46.8**	**47.4**	**47.5**	**53.2**
Foreign exchange	545.0	593.6	625.2	646.3	710.1	765.2	751.8
Total reserves excluding gold	**590.9**	**637.7**	**671.7**	**693.1**	**757.2**	**812.7**	**804.9**
Gold[2]							
Quantity (millions of ounces)	940.9	938.9	937.8	929.3	912.6	909.8	900.2
Value at London market price	287.1	254.1	231.8	225.2	259.5	238.8	223.0
Total reserves including gold	**878.0**	**891.8**	**903.5**	**918.3**	**1,016.8**	**1,051.5**	**1,028.0**
Industrial countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	19.6	20.0	22.8	29.5	28.3	27.4	29.2
SDRs	17.7	17.6	17.5	10.5	11.5	12.5	15.3
Subtotal, Fund-related assets	**37.2**	**37.6**	**40.2**	**40.0**	**39.8**	**39.9**	**44.5**
Foreign exchange	345.0	376.5	360.4	356.8	373.7	393.9	391.4
Total reserves excluding gold	**382.2**	**414.1**	**400.7**	**396.7**	**413.4**	**433.8**	**435.9**
Gold[2]							
Quantity (millions of ounces)	797.8	795.8	793.7	785.2	770.8	768.0	757.1
Value at London market price	243.4	215.4	196.2	190.3	219.2	201.6	187.6
Total reserves including gold	**625.7**	**629.5**	**596.9**	**587.1**	**632.7**	**635.5**	**623.5**
Developing countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	5.9	3.8	3.1	4.4	4.5	4.3	4.5
SDRs	2.8	2.7	3.1	2.4	3.2	3.3	4.1
Subtotal, Fund-related assets	**8.7**	**6.5**	**6.2**	**6.8**	**7.7**	**7.6**	**8.6**
Foreign exchange	200.0	217.1	264.8	289.6	336.4	371.3	360.4
Total reserves excluding gold	**208.7**	**223.6**	**271.0**	**296.3**	**343.8**	**378.9**	**369.0**
Gold[2]							
Quantity (millions of ounces)	143.1	143.1	144.1	144.0	141.7	141.7	143.1
Value at London market price	43.7	38.7	35.6	34.9	40.3	37.2	35.5
Total reserves including gold	**252.4**	**262.3**	**306.7**	**331.2**	**384.1**	**416.1**	**404.4**
Net debtors							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	1.6	1.1	1.3	2.8	2.9	3.0	3.2
SDRs	1.6	1.8	2.2	1.7	2.2	2.3	3.1
Subtotal, Fund-related assets	**3.2**	**3.0**	**3.5**	**4.5**	**5.1**	**5.3**	**6.4**
Foreign exchange	120.3	144.9	183.8	207.2	253.7	286.8	276.5
Total reserves excluding gold	**123.5**	**147.9**	**187.3**	**211.7**	**258.6**	**292.1**	**282.8**
Gold[2]							
Quantity (millions of ounces)	112.5	112.6	113.6	113.5	111.2	111.2	112.6
Value at London market price	34.3	30.5	28.1	27.5	31.6	29.2	27.9

Table I.1 *(concluded)*

	1989	1990	1991	1992	1993	1994	April 1995
Countries without debt-servicing problems							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	1.6	1.1	1.2	2.4	2.4	2.6	2.8
SDRs	1.1	1.2	1.2	0.8	1.1	1.2	1.6
Subtotal, Fund-related assets	**2.6**	**2.2**	**2.4**	**3.1**	**3.6**	**3.8**	**4.3**
Foreign exchange	86.4	99.5	122.6	126.4	155.9	194.4	194.3
Total reserves excluding gold	**89.0**	**101.7**	**125.0**	**129.5**	**159.2**	**198.1**	**198.7**
Gold[2]							
Quantity (millions of ounces)	66.0	63.4	64.8	64.6	64.6	64.9	65.6
Value at London market price	20.1	17.2	16.0	15.7	18.4	17.0	16.3

Note: Components may not sum to totals because of rounding.
Source: International Monetary Fund, *International Financial Statistics.*
[1]"Fund-related assets" comprise reserve positions in the Fund and SDR holdings of all Fund members. 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.
[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.

tranche position and their creditor position, had fallen by SDR 6 billion from 1987 to the end of 1991 but subsequently rose by SDR 8 billion in 1992. Members' holdings of SDRs, which had remained virtually unchanged from 1987 to 1991, declined by SDR 8 billion in 1992. This pattern of offsetting changes in reserve positions in the Fund and SDRs was evident for both developing and industrial countries. Developments in 1993 and 1994 reflected the Fund's decision, adopted early in 1993, to reduce its own SDR holdings from SDR 8.6 billion at the end of 1992 to SDR 1–1.5 billion by the end of 1995 in order to replenish members' holdings and facilitate their use of SDRs. In implementing this policy, the Fund reduced its holdings by about SDR 2 billion during 1993 and by SDR 1.2 billion during 1994 by providing SDRs to members in purchases and other transfers, thus generating an increase in members' SDR holdings for both industrial and developing countries.

Gold

After rising by 15 percent in 1993, the market value of the stock of official gold reserves declined by 8 percent in 1994, to SDR 239 billion. This decline appears to be a return to the trend that began in the late 1980s, which saw the value of gold reserves decrease by 43 percent between 1987 and 1992. Gold reserves now account for only 23 percent of total reserves, compared with 33 percent in 1989. The decline in value in 1994 resulted primarily from an 8 percent fall in the SDR price of gold, but it also reflected a modest reduction in the quantity of gold held by members. The decline in the stock of gold reserves in 1994 continued the trend that began in the late 1980s; the quantity has declined every year since 1987. Although the reduction in holdings in 1994 was concentrated in the industrial countries, the distribution of the stock held was approximately the same at the end of 1994 as it was in 1988: 84 percent by industrial countries and 16 percent by developing countries.

Developments in the First Quarter of 1995

In the first quarter of 1995, total international reserves declined by SDR 23 billion. This was about equally divided between a 2 percent decline in foreign exchange and a fall in the value of gold reserves resulting from a decline in the price of gold. The SDR 13 billion decline in foreign exchange reserves was distributed across all of the country classifications in the table. During this period of declining total international reserves, Fund-related assets rose from SDR 47.5 billion to SDR 53.2 billion, with a large proportion of the increase reflected in members' SDR holdings. The substantial increase in Fund-related assets reflected the unprecedented net financing provided by the Fund to its members in the first quarter of 1995, in particular to Mexico.

Currency Composition of Reserves

During the past ten years there has been some modest diversification in the currency composition of reserves.

Nevertheless, there are several important patterns that can be seen in Table I.2.[1] Although the share of the U.S. dollars in total foreign exchange reserves is at roughly the same level in 1994 (57 percent) as it was in 1986, it has varied substantially during this period, reaching a low of 49 percent in 1990. The fluctuations in these shares have been similar for both industrial and developing countries, but the diversification of reserves tended to be more concentrated in industrial countries. The industrial countries' share of U.S. dollar-denominated reserves, which is now 51 percent, has been around 50 percent over the past decade, reaching a high of almost 55 percent and a low of 44 percent. Over the same period, the developing countries' share has averaged approximately 60 percent, with a high of 66 percent and a low of 54 percent. However, the fluctuations in these shares have occurred at different times. Since 1988, the share of the dollar in the total reserve holdings of developing countries has risen by 10 percentage points, compared with a decrease of 3 percentage points for industrial countries. For industrial countries, the 1994 shares held in the three major currencies (the dollar, deutsche mark, and Japanese yen) are about the same as they were ten years ago. By contrast, over the same period there appears to be some tendency of increased holdings of pounds sterling and French francs and reduced holdings of Swiss francs, Netherlands guilders, and, especially, European currency units (ECUs).

Because of the large, although declining, share of the "unspecified currency" component of developing countries' foreign exchange reserves, an accurate assessment of the trends in their shares is somewhat problematic, but some important observations can be made based on the available data.[2] The share of dollars, deutsche mark, and yen have all increased over the past ten years, but this may simply be the result of improved reporting by these countries. Although the dollar is unquestionably the most widely held currency in their portfolios, the largest percentage increase has been in the yen and deutsche mark, and the share of yen holdings in the developing countries' portfolios (9.0 percent) is now greater than for industrial countries (8.0 percent).

In the calculation of the shares in Table I.2, the SDR value of ECU official reserves, which were introduced in 1979 and accounted for 8 percent of the value of total official holdings of foreign exchange and 14 percent for industrial countries at the end of 1994, is treated as a separate currency. ECU official reserves are in the form of claims on both the private sector and the European Monetary Institute (EMI). The EMI-backed ECU reserves are issued in exchange for deposits equal to 20 percent of both gold and dollar reserves. These swaps are renewed every three months, and changes in members' holdings of dollars and gold, as well as changes in the market price of gold and in the foreign exchange value of the dollar, affect the amount of ECUs outstanding.[3] Quantity changes in ECU holdings depend, therefore, in part on the evolution of the two components of the EMI swap.[4] The other component of ECU foreign exchange reserves are official claims on the private sector, usually in the form of ECU deposits and bonds. ECUs, which are held mostly by European countries, reached 20 percent of industrial country reserves in the mid-1980s before beginning a gradual decline, and since 1992 this share has fallen from 16.5 percent to just under 14 percent. Most of the recent fall in the share of ECUs is a result of a decline in official ECU reserves in the form of claims on the private sector. If the SDR value of ECU swaps issued against dollars is counted as part of the dollar component of foreign exchange reserves (last column of Table I.2), the overall picture of the trend in the currency composition of foreign exchange reserves is similar, although the dollar share of total official foreign exchange is about 11 percent higher for the industrial countries.

[1]There has been a change in the presentation of Table I.2. In previous *Annual Reports*, the gold-swap component of European currency units (ECUs) held at the European Monetary Institute (EMI; formerly the European Monetary Cooperation Fund, EMCF) was subtracted from ECU reserves, and all other ECUs were assumed to be dollars. This classification was appropriate as long as all ECU reserves were the liabilities of the EMI. However, because of the increasing importance of official ECU reserves that are liabilities of the private sector—now nearly one third of ECU reserves, according to the 1994 EMI *Annual Report*—this assumption would give a misleading estimate of dollar reserves. The table now includes ECUs as a separate currency except in the last column, where the dollar-swap component of ECU liabilities of the EMI is classified as dollars and all other ECUs are omitted from the calculation.

[2]Unspecified currencies include currencies other than those listed in Table I.2 as well as foreign exchange reserves for which no information on currency composition is available from the country or from other sources. For developing countries, the majority of the unspecified classification in the earlier years represents a lack of information on currency composition.

[3]In calculating the value of the gold holdings of the EMI 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 price fixings during the previous six calendar months, and the average price at the two price fixings on the penultimate working day of the period.

[4]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 CURRENCIES IN TOTAL IDENTIFIED OFFICIAL HOLDINGS OF FOREIGN EXCHANGE, END OF YEAR 1984–94[1]

(In percent)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	Memorandum: ECU-Dollar Swaps Included with Dollars[2] 1994
All countries											
U.S. dollar	55.3	56.4	55.1	54.5	51.1	49.1	50.7	55.1	56.7	57.1	63.3
Pound sterling	2.7	2.3	2.2	2.5	2.5	3.2	3.4	3.2	3.2	3.6	3.8
Deutsche mark	13.9	13.2	13.0	14.4	17.6	17.5	15.7	13.6	14.7	14.8	15.5
French franc	0.8	0.7	0.7	1.0	1.3	2.2	2.7	2.3	2.1	2.0	2.1
Swiss franc	2.1	1.9	1.8	1.8	1.4	1.3	1.2	1.1	1.3	1.1	1.1
Netherlands guilder	0.9	1.0	1.1	1.0	1.0	1.0	1.0	0.6	0.6	0.5	0.5
Japanese yen	7.3	7.1	6.8	7.0	7.2	8.2	8.7	7.9	8.3	8.1	8.5
ECUs	11.6	12.5	14.2	11.7	10.6	9.6	10.0	10.1	8.4	7.8	—
Unspecified currencies[3]	5.4	4.8	5.0	6.3	7.3	7.7	6.5	6.1	4.7	4.9	5.1
Industrial countries											
U. S. dollar	50.1	54.2	54.7	54.5	48.1	45.3	43.5	48.7	50.3	51.5	62.5
Pound sterling	1.6	1.1	1.0	1.4	1.3	1.8	1.9	2.4	2.3	2.5	2.7
Deutsche mark	16.7	14.6	14.1	15.7	20.5	20.4	18.5	15.3	17.2	16.9	18.3
French franc	0.1	. . .	0.3	0.7	1.1	2.3	3.0	2.7	2.5	2.3	2.5
Swiss franc	1.8	1.5	1.4	1.5	1.1	1.0	0.8	0.4	0.4	0.3	0.3
Netherlands guilder	0.9	0.9	1.1	1.0	1.1	1.2	1.1	0.4	0.4	0.3	0.3
Japanese yen	7.6	7.2	6.3	6.4	7.5	8.9	9.7	7.6	8.1	7.7	8.4
ECUs	20.1	19.2	19.9	16.2	15.0	13.8	15.8	16.5	14.7	14.0	—
Unspecified currencies[3]	1.2	1.2	1.1	2.7	4.4	5.3	5.7	5.9	4.0	4.6	5.0
Developing countries											
U.S. dollar	62.5	60.4	56.2	54.4	58.4	57.7	63.4	65.1	65.5	64.3	64.3
Pound sterling	4.3	4.6	5.1	5.5	5.5	6.4	6.0	4.5	4.4	5.0	5.0
Deutsche mark	9.8	10.7	10.8	11.0	10.6	11.1	10.8	10.9	11.3	12.3	12.3
French franc	1.9	2.0	1.8	1.7	1.8	2.0	2.1	1.7	1.6	1.6	1.6
Swiss franc	2.6	2.5	2.7	2.3	2.2	2.1	2.1	2.2	2.4	2.1	2.1
Netherlands guilder	0.9	1.1	1.1	0.9	0.8	0.7	0.8	0.9	0.8	0.7	0.7
Japanese yen	6.8	7.0	8.0	8.5	6.5	6.7	7.1	8.3	8.5	8.6	8.6
ECUs	. . .	. . .	10.2	. . .	. . .	. . .	. . .	. . .	. . .	. . .	—
Unspecified currencies[4]	11.3	11.6	14.8	15.6	14.3	13.3	7.8	6.5	5.5	5.3	5.3

Note: Components may not sum to totals because of rounding.

[1]The presentation of this table has changed from that in previous *Annual Reports.* Now the SDR value of ECUs is treated as a separate currency, except in the last column. Only Fund member countries that report 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 ECUs issued against dollars are assumed to be dollars and all other ECUs are ignored.

[3]The residual is equal to the difference between total foreign exchange reserves of Fund member countries and the sum of the reserves held in the 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.

Table I.3
CURRENCY COMPOSITION OF OFFICIAL HOLDINGS OF FOREIGN EXCHANGE, END OF YEAR 1988–94[1]
(In millions of SDRs)

	1988	1989	1990	1991	1992	1993	1994
U.S. dollar							
Change in holdings	17,699	10,892	16,549	21,418	35,025	45,315	32,418
Quantity change	5,423	5,271	36,810	23,866	22,969	43,961	55,550
Price change	12,275	5,621	–20,261	–2,449	12,056	1,354	–23,132
Year-end value	239,213	250,105	266,654	288,072	323,097	368,412	400,829
Pound sterling							
Change in holdings	2,355	1,227	5,104	1,922	–545	2,034	4,698
Quantity change	2,171	2,370	3,607	2,475	3,147	2,393	4,838
Price change	184	–1,144	1,497	–553	–3,692	–359	–141
Year-end value	11,049	12,276	17,379	19,302	18,757	20,791	25,489
Deutsche mark							
Change in holdings	10,745	22,996	9,068	–6,143	–9,411	15,829	8,730
Quantity change	14,389	16,681	4,436	–4,183	–7,814	21,738	4,006
Price change	–3,644	6,315	4,631	–1,961	–1,597	–5,909	4,724
Year-end value	63,121	86,117	95,185	89,042	79,630	95,460	104,190
French franc							
Change in holdings	1,217	2,398	5,438	3,146	–1,522	60	48
Quantity change	1,480	1,958	5,083	3,144	–1,339	937	–437
Price change	–263	439	355	2	–183	–876	485
Year-end value	4,191	6,589	12,028	15,174	13,652	13,712	13,760
Swiss franc							
Change in holdings	674	–921	350	–181	–357	1,595	–576
Quantity change	1,406	–875	–323	169	–161	1,687	–1,051
Price change	–733	–46	674	–350	–196	–93	475
Year-end value	7,731	6,810	7,161	6,980	6,622	8,217	7,641
Netherlands guilder							
Change in holdings	–241	729	560	164	–2,249	442	–504
Quantity change	59	397	330	240	–2,258	685	–682
Price change	–300	332	231	–76	9	–244	178
Year-end value	4,269	4,998	5,559	5,722	3,473	3,915	3,411
Japanese yen							
Change in holdings	3,431	4,450	9,532	5,032	–3,282	7,320	3,422
Quantity change	2,425	8,052	9,717	1,843	–5,490	2,004	454
Price change	1,005	–3,602	–185	3,189	2,208	5,316	2,968
Year-end value	30,636	35,087	44,619	49,651	46,369	53,689	57,111
European currency unit							
Change in holdings	–5,985	364	492	4,839	2,031	–4,225	218
Quantity change	–3,296	–1,878	–2,107	5,739	6,306	–18	–1,636
Price change	–2,689	2,242	2,600	–900	–4,275	–4,207	1,854
Year-end value	51,257	51,621	52,113	56,952	58,983	54,758	54,977
Sum of the above[2]							
Change in holdings	29,894	42,135	47,095	30,196	19,690	68,370	48,543
Quantity change	24,058	31,976	57,553	33,292	15,359	73,387	61,043
Price change	5,836	10,159	–10,458	–3,096	4,331	–5,017	–12,590
Year-end value	411,468	453,603	500,698	530,894	550,584	618,954	667,407

Table I.3 *(concluded)*

	1988	1989	1990	1991	1992	1993	1994
Total official holdings[3]							
Change in holdings	38,375	50,753	48,631	31,654	21,073	63,734	55,153
Year-end value	494,211	544,965	593,596	625,250	646,323	710,057	765,210

Note: Components may not sum to totals because of rounding.

[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. Quantitative 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 quantitative 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.

Changes in the SDR value of foreign exchange reserves can be decomposed into valuation (or price) and quantity changes for each of the major currencies as well as the ECU. These are shown in Table I.3. In 1994 total identified foreign exchange reserves increased by SDR 48 billion as a result of a positive quantitative change of SDR 61 billion that more than offset a valuation loss of SDR 13 billion. The table sheds light on recent movements in reserve-holding behavior. Despite the substantial decline in the SDR value of the dollar in 1994 (6 percent), the quantity of dollar holdings increased even more in 1994 (15 percent) than in the previous year, and more in percentage terms than any other currency (except for the pound sterling). As was shown in Table I.2, these developments left the share of dollars in total identifiable reserves roughly unchanged. However, the dollar share for developing countries as a whole declined, primarily because of valuation losses. Of the identifiable reserve currencies, the deutsche mark and the Japanese yen were the only reserve assets that experienced both quantitative and valuation increases in 1994. The increase in the deutsche mark share was attributable equally to an increase in holdings of that currency and to a substantial rise in its price. The more modest increase in the share of Japanese yen was predominantly a result of an increase in the SDR price of the yen. Following a large decline in 1993, the SDR value of ECUs remained largely unchanged in 1994, as a reduction in ECU holdings was offset by an increase in the SDR price of the ECU.

APPENDIX II

Financial Operations and Transactions of the Fund

The tables in this appendix supplement the information given in the section on the Fund's financial operations and policies.

Table II.1

ARRANGEMENTS APPROVED DURING FINANCIAL YEARS ENDED APRIL 30, 1953–95

Financial Year	Number of Arrangements					Amounts Committed Under Arrangements (in millions of SDRs)				
	Stand-by	EFF	SAF	ESAF	Total	Stand-by	EFF	SAF	ESAF	Total
1953	2				2	55				55
1954	2				2	63				63
1955	2				2	40				40
1956	2				2	48				48
1957	9				9	1,162				1,162
1958	11				11	1,044				1,044
1959	15				15	1,057				1,057
1960	14				14	364				364
1961	15				15	460				460
1962	24				24	1,633				1,633
1963	19				19	1,531				1,531
1964	19				19	2,160				2,160
1965	24				24	2,159				2,159
1966	24				24	575				575
1967	25				25	591				591
1968	32				32	2,352				2,352
1969	26				26	541				541
1970	23				23	2,381				2,381
1971	18				18	502				502
1972	13				13	314				314
1973	13				13	322				322
1974	15				15	1,394				1,394
1975	14				14	390				390
1976	18	2			20	1,188	284			1,472
1977	19	1			20	4,680	518			5,198
1978	18				18	1,285				1,285
1979	14	4			18	508	1,093			1,600
1980	24	4			28	2,479	797			3,277
1981	21	11			32	5,198	5,221			10,419
1982	19	5			24	3,106	7,908			11,014

Table II.1 *(concluded)*

Financial Year	Number of Arrangements					Amounts Committed Under Arrangements (in millions of SDRs)				
	Stand-by	EFF	SAF	ESAF	Total	Stand-by	EFF	SAF	ESAF	Total
1983	27	4			31	5,450	8,671			14,121
1984	25	2			27	4,287	95			4,382
1985	24				24	3,218				3,218
1986	18	1			19	2,123	825			2,948
1987	22		10		32	4,118		358		4,476
1988	14	1	15		30	1,702	245	670		2,617
1989	12	1	4	7	24	2,956	207	427	955	4,545
1990	16	3	3	4	26	3,249	7,627	37	415	11,328
1991	13	2	2	3	20	2,786	2,338	15	454	5,593
1992	21	2	1	5	29	5,587	2,493	2	743	8,826
1993	11	3	1	8	23	1,971	1,242	49	527	3,789
1994	18	2	1	7	28	1,381	779	27	1,170	3,357
1995	17	3		11	31	13,055	2,335		1,197	16,587

Table II.2
ARRANGEMENTS IN EFFECT AT END OF FINANCIAL YEARS ENDED APRIL 30, 1953–95

Financial Year	Number of Arrangements as of April 30					Amounts Committed Under Arrangements as of April 30 (in millions of SDRs)				
	Stand-by	EFF	SAF	ESAF	Total	Stand-by	EFF	SAF	ESAF	Total
1953	2				2	55				55
1954	3				3	113				113
1955	3				3	113				113
1956	3				3	98				98
1957	9				9	1,195				1,195
1958	9				9	968				968
1959	11				11	1,013				1,013
1960	12				12	351				351
1961	12				12	416				416
1962	21				21	2,129				2,129
1963	17				17	1,520				1,520
1964	19				19	2,160				2,160
1965	23				23	2,154				2,154
1966	24				24	575				575
1967	25				25	591				591
1968	31				31	2,227				2,227
1969	25				25	538				538
1970	23				23	2,381				2,381
1971	18				18	502				502
1972	13				13	314				314
1973	12				12	282				282
1974	15				15	1,394				1,394
1975	12				12	337				337
1976	17	2			19	1,159	284			1,443
1977	17	3			20	4,673	802			5,475
1978	19	3			22	5,075	802			5,877
1979	15	5			20	1,033	1,611			2,643
1980	22	7			29	2,340	1,463			3,803
1981	22	15			37	5,331	5,464			10,795
1982	23	12			35	6,296	9,910			16,206
1983	30	9			39	9,464	15,561			25,025
1984	30	5			35	5,448	13,121			18,569
1985	27	3			30	3,925	7,750			11,675
1986	24	2			26	4,076	831			4,907
1987	23	1	10		34	4,313	750	327		5,391
1988	18	2	25		45	2,187	995	1,357		4,540
1989	14	2	23	7	46	3,054	1,032	1,566	955	6,608
1990	19	4	17	11	51	3,597	7,834	1,110	1,370	13,911
1991	14	5	12	14	45	2,703	9,597	539	1,813	14,652
1992	22	7	8	16	53	4,833	12,159	101	2,111	19,203
1993	15	6	4	20	45	4,490	8,569	83	2,137	15,279
1994	16	6	3	22	47	1,131	4,504	80	2,713	8,428
1995	19	9	1	27	56	13,190	6,840	49	3,306	23,385

Table II.3
STAND-BY ARRANGEMENTS IN EFFECT DURING FINANCIAL YEAR ENDED APRIL 30, 1995
(In millions of SDRs)

Member	Arrangement Dates		Amounts Approved		Undisbursed Balance	
	Effective date	Expiration date	Through April 30, 1994	In 1994/95	At date of termination	Of current arrangements at April 30, 1995
Algeria	05/27/94	05/26/95	—	457	—	72
Bulgaria[1]	04/11/94	03/31/95	70	70	23	—
Cameroon	03/14/94	09/13/95	81	—	—	59
Central African Rep.	03/28/94	03/27/95	16	—	6	—
Chad	03/23/94	03/22/95	17	—	6	—
Congo	05/27/94	05/26/95	—	23	—	11
Croatia	10/14/94	04/13/96	—	65	—	52
Ecuador[2]	05/11/94	03/31/96	—	174	—	75
El Salvador[3]	05/10/93	12/31/94	47	—	47	—
Estonia	10/27/93	03/26/95	12	—	—	—
Estonia	04/11/95	07/10/96	—	14	—	14
Gabon	03/30/94	03/29/95	39	—	—	—
Haiti	03/08/95	03/07/96	—	20	—	5
Hungary	09/15/93	12/14/94	340	—	283	—
Kazakhstan[4]	01/26/94	05/31/95	124	—	—	50
Latvia	12/15/93	03/14/95	23	—	14	—
Latvia	04/21/95	05/20/96	—	27	—	27
Lesotho	09/23/94	09/22/95	—	8	—	8
Lithuania[5]	10/22/93	10/24/94	26	—	21	—
Malawi	11/16/94	06/30/95	—	15	—	2
Mexico[6]	02/01/95	08/15/96	—	5,260	—	. . .
Moldova	12/17/93	03/16/95	52	—	—	—
Moldova	03/22/95	03/21/96	—	59	—	52
Niger	03/04/94	03/03/95	19	—	7	—
Panama[7]	02/24/92	09/23/94	74	—	20	—
Poland[8]	08/05/94	03/04/96	—	693	—	410
Romania	05/11/94	12/10/95	—	132	—	75
Russia	04/11/95	04/10/96	—	4,313	—	3,594
Senegal[9]	03/02/94	08/29/94	48	—	17	—
Slovak Republic	07/22/94	03/21/96	—	116	—	84
Turkey[10]	07/08/94	03/07/96	—	611	—	300
Ukraine	04/07/95	04/06/96	—	997	—	917
Viet Nam[11]	10/06/93	11/11/94	145	—	36	—
Total			**1,131**	**13,055**	**480**	**5,808**

[1]Augmentation in support of debt- and debt-service-reduction operations (DDSR) approved in 1994/95.
[2]Includes augmentation of SDR 44 million for DDSR.
[3]Extended from March 9, 1994.
[4]Extended from January 25, 1995.
[5]Canceled prior to original expiration date of March 21, 1995; replaced by extended arrangement.
[6]Arrangement approved is for amount of up to SDR 12,070 million. Following review, initial amount of SDR 5,260 million could be augmented by up to SDR 6,810 million ($10 billion) to the extent that contributions of governments/central banks fall short of $10 billion.
[7]Extended from December 23, 1993.
[8]Includes augmentation of SDR 148 million for DDSR.
[9]Canceled prior to original expiration date of March 1, 1995; replaced by ESAF arrangement.
[10]Increased from SDR 509 million, and extended from September 7, 1995.
[11]Canceled prior to original expiration date of December 31, 1994; replaced by ESAF arrangement.

Table II.4
EXTENDED FUND FACILITY ARRANGEMENTS IN EFFECT DURING FINANCIAL YEAR ENDED APRIL 30, 1995
(In millions of SDRs)

Member	Arrangement Dates		Amounts Approved		Undisbursed Balance of Current Arrangements at April 30, 1995
	Effective date	Expiration date	Through April 30, 1994	In 1994/95	
Argentina[1]	03/31/92	03/30/96	2,483	1,537	769
Egypt	09/20/93	09/19/96	400	—	400
Jamaica	12/11/92	12/10/95	109	—	22
Jordan[2]	05/25/94	05/24/97	—	189	113
Lithuania	10/24/94	10/23/97	—	135	114
Pakistan	02/22/94	02/21/97	379	—	256
Peru	03/18/93	03/17/96	1,018	—	375
Philippines	06/24/94	06/23/97	—	475	438
Zimbabwe	09/11/92	09/10/95	115	—	28
Total			**4,504**	**2,335**	**2,515**

[1]Amounts approved include augmentation for interest support of SDR 334 million and fourth year of SDR 1,537 million approved in 1994/95.

[2]Amount approved includes increases of SDR 25 million and SDR 37 million.

Table II.5
ARRANGEMENTS UNDER THE STRUCTURAL ADJUSTMENT FACILITY THROUGH FINANCIAL YEAR ENDED APRIL 30, 1995
(In millions of SDRs)

Member	Date of Approval	Amounts Approved and Disbursed Through April 30, 1995	Undisbursed Balance at Expiration/ Replacement
Bangladesh	02/06/87	201	—
Benin	06/16/89	16	6[1]
Bolivia	12/15/86	18	45[1]
Burkina Faso	03/13/91	6	16[1]
Burundi	08/08/86	30	—
Central African Republic	06/01/87	21	—
Chad	10/30/87	21	—
Comoros	06/21/91	2	1
Dominica	11/26/86	3	—
Equatorial Guinea	12/07/88	9	4[1]
Ethiopia	10/28/92	49	—
Gambia, The	09/17/86	9	3[1]
Ghana	11/06/87	41	102[1]
Guinea	07/29/87	29	12
Guinea-Bissau	10/14/87	4	2
Haiti	12/17/86	9	22
Kenya	02/01/88	28	71[1]
Lao People's Democratic Republic	09/18/89	21	—
Lesotho	06/29/88	11	—
Madagascar	08/31/87	13	33[1]
Mali	08/05/88	25	10[1]
Mauritania	09/22/86	17	7[1]
Mozambique	06/08/87	43	—
Nepal	10/14/87	26	—
Niger	11/17/86	17	7[1]
Pakistan	12/28/88	382	—
Rwanda	04/24/91	9	22
São Tomé and Príncipe	06/02/89	1	2
Senegal	11/10/86	43	17[1]
Sierra Leone	11/14/86	12	29
Sierra Leone	03/28/94	27	—
Somalia	06/29/87	9	22
Sri Lanka	03/09/88	156	—
Tanzania	10/30/87	75	—
Togo	03/16/88	8	19[1]
Uganda	06/15/87	50	20[1]
Zaïre	05/15/87	146	58
Total		**1,585**	**530**

[1]Undisbursed balance of SAF arrangement converted to ESAF arrangement.

Table II.6
ARRANGEMENTS UNDER THE ENHANCED STRUCTURAL ADJUSTMENT FACILITY THROUGH FINANCIAL YEAR ENDED APRIL 30, 1995
(In millions of SDRs)

Member	Arrangement Dates[1] Date of approval	Arrangement Dates[1] Date of expiration	Approved Through April 30, 1994	Approved in 1994/95	Disbursements Through April 30, 1995[2]	Undisbursed Balance of Current Arrangements at April 30, 1995
Albania	07/14/93	07/13/96	42	—	24	18
Bangladesh[3]	08/10/90	09/13/93	345	—	345	—
Benin[3]	01/25/93	01/24/96	52	—	34	18
Bolivia[3]	07/27/88	05/31/94	163	—	163	—
Bolivia	12/19/94	12/18/97	—	101	17	84
Burkina Faso	03/31/93	03/30/96	49	—	27	22
Burundi[4]	11/13/91	11/12/94	43	—	19	—
Cambodia	05/06/94	05/05/97	—	84	28	56
Côte d'Ivoire	03/11/94	03/10/97	333	—	119	214
Equatorial Guinea	02/03/93	02/02/96	13	—	5	8
Gambia, The	11/23/88	11/25/91	21	—	21	—
Ghana[3]	11/09/88	03/05/92	389	—	389	—
Guinea	11/06/91	11/05/96	58	—	26	32
Guinea-Bissau	01/18/95	01/17/98	—	9	2	8
Guyana[3]	07/13/90	12/20/93	82	—	82	—
Guyana	07/20/94	07/19/97	—	54	9	45
Honduras	07/24/92	07/24/97	41	7	24	24
Kenya[3,5]	05/15/89	12/21/94	261	—	261	—
Kyrgyz Republic	07/20/94	07/19/97	—	71	24	47
Lao People's Democratic Republic	06/04/93	06/03/96	35	—	18	18
Lesotho	05/22/91	08/01/94	18	—	18	—
Madagascar[4]	05/15/89	05/14/92	77	—	51	—
Malawi[3]	07/15/88	03/31/94	67	—	67	—
Mali[3]	08/28/92	03/31/96	79	—	65	15
Mauritania[5]	05/24/89	01/25/95	51	—	51	—
Mauritania	01/25/95	01/24/98	—	43	7	36
Mongolia	06/25/93	06/24/96	41	—	24	17
Mozambique[3]	06/01/90	06/14/95	101	29	115	15
Nepal	10/05/92	10/04/95	34	—	17	17
Nicaragua	06/24/94	06/23/97	—	120	20	100
Niger[4]	12/12/88	12/11/91	47	—	24	—
Pakistan	02/22/94	02/21/97	607	—	202	404
Senegal	11/21/88	06/02/92	145	—	145	—
Senegal	08/29/94	08/28/97	—	131	17	114
Sierra Leone	03/28/94	03/27/97	89	—	69	20
Sri Lanka	09/13/91	07/31/95	336	—	280	56
Tanzania[4]	07/29/91	07/28/94	182	—	86	—
Togo[4]	05/31/89	05/19/93	46	—	38	—
Togo	09/16/94	09/15/97	—	65	11	54
Uganda[3]	04/17/89	06/30/94	219	—	219	—

Table II.6 *(concluded)*

Member	Arrangement Dates[1] Date of approval	Date of expiration	Approved Through April 30, 1994	Approved in 1994/95	Disbursements Through April 30, 1995[2]	Undisbursed Balance of Current Arrangements at April 30, 1995
Uganda	09/06/94	09/05/97	—	121	33	87
Viet Nam	11/11/94	11/10/97	—	362	60	302
Zimbabwe	09/11/92	09/10/95	201	—	152	49
Total			**4,265**	**1,197**	**3,404**	**1,880**

[1]Expiration date is for three-year arrangement, or of third or fourth annual arrangement, if applicable.

[2]ESAF Trust portion of SDR 2,986 million financed with drawings under the following ESAF borrowing agreements: Export-Import Bank of Japan (SDR 1,041 million); Caisse Française de Développement—France (SDR 610 million); Kreditanstalt für Wiederaufbau—Germany (SDR 399 million); Bank of Spain (SDR 216 million); the Swiss Confederation (SDR 200 million); Ufficio Italiano dei Cambi (SDR 198 million); Canada (SDR 151 million); Bank of Norway (SDR 67 million); and Bank of Korea (SDR 55 million). Drawings were also made under the associated borrowing agreement with the Saudi Fund for Development (SDR 50 million).

[3]Commitment amount was increased.

[4]The three-year arrangement expired with partial disbursements. The total undisbursed amount for expired arrangements with Burundi, Madagascar, Niger, Tanzania, and Togo is SDR 177 million.

[5]The arrangement expired with an undisbursed balance for which a successor arrangement was approved.

Table II.7
SUMMARY OF DISBURSEMENTS, REPURCHASES, AND REPAYMENTS, FINANCIAL YEARS ENDED APRIL 30, 1948–95
(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	SAF/ESAF repayments	Total	
1948	606				606					134
1949	119				119					193
1950	52				52	24			24	204
1951	28				28	19			19	176
1952	46				46	37			37	214
1953	66				66	185			185	178
1954	231				231	145			145	132
1955	49				49	276			276	55
1956	39				39	272			272	72
1957	1,114				1,114	75			75	611
1958	666				666	87			87	1,027
1959	264				264	537			537	898
1960	166				166	522			522	330
1961	577				577	659			659	552
1962	2,243				2,243	1,260			1,260	1,023
1963	580				580	807			807	1,059
1964	626				626	380			380	952
1965	1,897				1,897	517			517	1,480
1966	2,817				2,817	406			406	3,039
1967	1,061				1,061	340			340	2,945
1968	1,348				1,348	1,116			1,116	2,463
1969	2,839				2,839	1,542			1,542	3,299
1970	2,996				2,996	1,671			1,671	4,020
1971	1,167				1,167	1,657			1,657	2,556
1972	2,028				2,028	3,122			3,122	840
1973	1,175				1,175	540			540	998
1974	1,058				1,058	672			672	1,085
1975	5,102				5,102	518			518	4,869
1976	6,591				6,591	960			960	9,760
1977	4,910	32			4,942	868			868	13,687
1978	2,503	268			2,771	4,485			4,485	12,366
1979	3,720	670			4,390	4,859			4,859	9,843
1980	2,433	962			3,395	3,776			3,776	9,967
1981	4,860	1,060			5,920	2,853			2,853	12,536
1982	8,041				8,041	2,010			2,010	17,793
1983	11,392				11,392	1,555	18		1,574	26,563
1984	11,518				11,518	2,018	111		2,129	34,603
1985	6,289				6,289	2,730	212		2,943	37,622
1986	4,101				4,101	4,289	413		4,702	36,877
1987	3,685		139		3,824	6,169	579		6,749	33,443
1988	4,153		445		4,597	7,935	528		8,463	29,543
1989	2,541		290	264	3,095	6,258	447		6,705	25,520
1990	4,503		419	408	5,329	6,042	356		6,398	24,388
1991	6,955		84	491	7,530	5,440	168		5,608	25,603
1992	5,308		125	483	5,916	4,768		1	4,770	26,736
1993	8,465		20	573	9,058	4,083		36	4,119	28,496
1994	5,325		50	612	5,987	4,348	52	112	4,513	29,889
1995	10,615		14	573	11,202	3,984	4	244	4,231	36,837

[1]Purchases include reserve tranche purchases.
[2]ESAF loans include SDR 418 million of SAF resources disbursed under ESAF arrangements.

Table II.8
PURCHASES FROM THE FUND, FINANCIAL YEAR ENDED APRIL 30, 1995
(In millions of SDRs)

Member	Reserve Tranche	Stand-By/ Credit Tranche	Extended Fund Facility	Compensatory and Contingency Financing Facility	Systemic Transformation Facility	Total Purchases
Algeria	—	385	—	274	—	660
Argentina	—	—	1,325	—	—	1,325
Armenia	—	—	—	—	17	17
Azerbaijan	—	—	—	—	29	29
Belarus	—	—	—	—	70	70
Bulgaria	—	93	—	—	—	93
Congo	—	13	—	—	—	13
Croatia	—	13	—	—	131	144
Ecuador	—	99	—	—	—	99
Eritrea	3	—	—	—	—	3
Estonia	—	9	—	—	12	21
Gabon	—	33	—	—	—	33
Georgia	—	—	—	—	28	28
Haiti	4	15	—	—	—	19
Jamaica	—	—	32	—	—	32
Jordan	—	—	76	—	—	76
Kazakhstan	—	62	—	—	—	62
Latvia	—	9	—	—	23	32
Lebanon	17	—	—	—	—	17
Lithuania	—	—	21	—	—	21
Malawi	—	13	—	—	—	13
Mexico	—	5,260	—	—	—	5,260
Moldova	—	54	—	12	—	66
Pakistan	—	—	85	—	—	85
Philippines	—	—	37	—	—	37
Poland	—	283	—	—	—	283
Romania	—	57	—	—	189	245
Russia	—	719	—	—	—	719
Slovak Republic	—	32	—	—	64	97
Turkey	—	311	—	—	—	311
Ukraine	—	80	—	—	499	579
Uzbekistan	—	—	—	—	50	50
Viet Nam	—	48	—	—	12	60
Zimbabwe	—	—	19	—	—	19
Total	**24**	**7,587**	**1,595**	**287**	**1,123**	**10,615**

Table II.9
REPURCHASES FROM THE FUND, FINANCIAL YEAR ENDED APRIL 30, 1995
(In millions of SDRs)

Member	Stand-By/ Credit Tranche	Extended Fund Facility	Compensatory and Contingency Financing Facility	Total Repurchases
Algeria	66	—	39	106
Argentina	313	—	—	313
Brazil	—	62	—	62
Bulgaria	77	—	—	77
Cameroon	3	—	—	3
Chile	29	99	—	127
Congo	2	—	—	2
Costa Rica	11	—	17	28
Côte d'Ivoire	46	—	12	59
Croatia	6	—	—	6
Czech Republic[1]	403	—	236	639
Dominican Republic	—	—	11	11
Ecuador	17	—	—	17
Egypt	28	—	—	28
Gabon	15	—	—	15
Ghana	6	21	—	27
Guyana	16	—	—	16
Haiti[2]	15	—	—	15
Honduras	14	—	—	14
Hungary	64	—	68	132
India	77	—	110	187
Jamaica	47	—	16	62
Jordan	5	—	8	13
Macedonia, former Yugoslav Republic of	1	—	—	1
Madagascar	4	—	—	4
Malawi	—	1	—	1
Mali	4	—	—	4
Mexico	100	591	57	748
Mongolia	3	—	—	3
Morocco	97	—	—	97
Nicaragua	4	—	—	4
Niger	2	—	—	2
Pakistan	10	—	15	25
Papua New Guinea	—	—	16	16
Philippines	45	39	139	223
Poland[3]	214	77	163	453
Romania	112	—	47	159
Senegal	1	—	—	1
Slovak Republic	41	—	56	97
Slovenia	4	—	—	4
Sudan	4	—	6	9
Togo	2	—	—	2
Trinidad and Tobago	46	—	—	46
Uruguay	5	—	—	5
Venezuela	—	112	—	112
Zaïre	—	—	3	3
Zambia	—	5	2	7
Total	**1,956**	**1,007**	**1,022**	**3,984**

[1]Composed of two voluntary advance repurchases of SDR 303 million and SDR 336 million.
[2]Settlement of overdue repurchases of SDR 15 million.
[3]Includes voluntary advance repurchase of SDR 225 million.

Table II.10

OUTSTANDING FUND CREDIT BY FACILITY AND POLICY, AT END OF FINANCIAL YEARS ENDED APRIL 30, 1989–95

(In millions of SDRs and percent of total)

	1989	1990	1991	1992	1993	1994	1995
				Millions of SDRs			
Stand-by arrangements[1]	11,949	9,993	9,323	9,469	10,578	9,485	15,117
Extended arrangements	8,063	8,282	8,440	8,641	9,849	9,566	10,155
Compensatory and contingency financing facility	3,689	3,823	5,142	5,322	4,208	3,756	3,021
Systemic transformation facility						2,725	3,848
Subtotal (GRA)	**23,700**	**22,098**	**22,906**	**23,432**	**24,635**	**25,532**	**32,140**
SAF arrangements	874	1,293	1,377	1,500	1,484	1,440	1,277
ESAF arrangements[2]	264	672	1,163	1,646	2,219	2,812	3,318
Trust Fund	682	326	158	158	158	105	102
Total	**25,520**	**24,388**	**25,603**	**26,736**	**28,496**	**29,889**	**36,837**
				Percent of total			
Stand-by arrangements[1]	46.8	41.0	36.4	35.4	37.1	31.7	41.0
Extended arrangements	31.6	34.0	33.0	32.3	34.6	32.0	27.6
Compensatory and contingency financing facility	14.5	15.7	20.1	19.9	14.8	12.6	8.2
Systemic transformation facility						9.1	10.4
Subtotal (GRA)	**92.9**	**90.6**	**89.5**	**87.6**	**86.5**	**85.4**	**87.2**
SAF arrangements	3.4	5.3	5.4	5.6	5.2	4.8	3.5
ESAF arrangements[2]	1.0	2.8	4.5	6.2	7.8	9.4	9.0
Trust Fund	2.7	1.3	0.6	0.6	0.6	0.4	0.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[1] Includes outstanding first credit tranche and emergency purchases.

[2] Includes outstanding associated loans from the Saudi Fund for Development.

Table II.11

ENHANCED STRUCTURAL ADJUSTMENT FACILITY, ESTIMATED VALUE OF CONTRIBUTIONS (COMMITMENTS AS OF APRIL 30, 1995)

(In millions of SDRs)

	Subsidies (Grant or Grant Equivalent)[1]			Loans[2]	
Contributor	Prior to enlargement	After enlargement[3]	Total	Prior to enlargement	After enlargement[3]
Argentina	—	29	29	—	—
Australia	—	12	12	—	—
Austria	(42)	(23)	(65)	—	—
Bangladesh	—	1	1	—	—
Belgium	(84)	(46)	(130)	—	—
Botswana	—	(3)	(3)	—	—
Canada	(136)	58	(194)	300	200
Chile	—	(5)	(5)	—	—
China	—	12	12	—	100
Colombia	—	6	6	—	—
Czech Republic	—	11	11	—	—
Denmark	48	26	74	—	—
Egypt	—	11	11	—	100
Finland	40	—	40	—	—
France	(294)	(250)	(544)	800	750
Germany	187	—	187	700	700
Greece	(24)	(15)	(39)	—	—
Iceland	3	1	4	—	—
India	—	9	9	—	—
Indonesia	—	(5)	(5)	—	—
Iran, Islamic Republic of	—	(2)	(2)	—	—
Ireland	—	7	7	—	—
Italy	(154)	42	(196)	370	210
Japan	429	250	679	2,200	2,150
Korea	(49)	8	(57)	65	28
Luxembourg	5	10	15	—	—
Malaysia	(34)	(16)	(50)	—	—
Malta	(1)	(1)	(2)	—	—
Mexico	—	34	34	—	—
Morocco	—	7	7	—	—
Netherlands	78	54	132	—	—
Norway	28	13	41	90	60
Pakistan	—	(4)	(4)	—	—
Portugal	—	(6)	(6)	—	—
Singapore	(23)	(16)	(39)	—	—
Spain	—	(32)	(32)	216	67
Sweden	125	45	170	—	—
Switzerland	(63)	41	(104)	200	152
Thailand	(13)	(17)	(30)	—	—
Tunisia	—	(2)	(2)	—	—

Table II.11 *(concluded)*

Contributor	Subsidies (Grant or Grant Equivalent)[1] Prior to enlargement	After enlargement[3]	Total	Loans[2] Prior to enlargement	After enlargement[3]
Turkey	—	9	9	—	—
United Kingdom	335	74	409	—	—
United States	123	64	187	—	—
Uruguay	—	(2)	(2)	—	—
Other	—	(16)	(16)	—	—
Saudi Arabia	(84)	—	(84)	200[4]	—
Subtotal (bilateral)	**2,385[5]**	**1,291**	**3,676**	**5,141**	**4,517**
OPEC Fund	—	—	—	—	32[6]
SDA[7]	—	564	564	—	—
Total	**2,385[5]**	**1,855**	**4,240**	**5,141**	**4,548**

[1]Where shown in parentheses, the grant element has been calculated on the basis of the loan amount indicated and was not specified by the contributing country. These grant elements reflect the undiscounted amounts necessary to be paid "as needed" to achieve an effective lending rate of 0.5 percent, based on actual interest rates through April 1995 and an assumed average interest rate of 6.0 percent thereafter on loans to the ESAF Trust Loan Account. The amounts reported for other grant contributions are based on the "as needed" contribution amount that would have the same present value as the resources committed. Grants committed in local currency are valued at April 28, 1995 exchange rates.

[2]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.

[3]Some of the contributions listed are subject to parliamentary approval or completion of other internal procedures. A few contributions are to be confirmed.

[4]Corresponds to the associated borrowing agreement with the Saudi Fund for Development (SFD).

[5]The sum of individual contributions has been adjusted downward to take into account additional loan costs.

[6]The SDR equivalent of $50 million valued at the exchange rate of April 28, 1995.

[7]Special Disbursement Account.

Table II.12

SUMMARY OF TRANSACTIONS AND OPERATIONS IN SDRs, FINANCIAL YEAR ENDED APRIL 30, 1995

(In thousands of SDRs)

Member	Total Holdings April 30, 1994	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 Assessment (Net)	Positions as at April 30, 1995		
		Designated	Other	Designated	Other				Holdings	Net cumulative allocations	Holdings as percent of cumulative allocations
Participants											
Afghanistan, Islamic State of	1,757	—	—	—	—	—	—	–1,115	642	26,703	2.4
Albania	164	—	450	—	51	350	702	4	215	—	—
Algeria	3,255	—	28,400	—	212,518	335,039	127,992	–5,087	21,097	128,640	16.4
Angola	100	—	—	—	—	—	—	4	105	—	—
Antigua and Barbuda	4	—	—	—	—	—	—	—	4	—	—
Argentina	370,168	—	—	—	282,267	688,715	181,267	2,043	597,393	318,370	187.6
Armenia	—	—	—	—	—	465	205	1	261	—	—
Australia	57,431	—	—	—	—	7,463	—	–18,334	46,560	470,545	9.9
Austria	102,294	—	295,665	—	274,236	11,167	—	–1,344	133,546	179,045	74.6
Azerbaijan	—	—	—	—	—	500	146	—	354	—	—
Bahamas, The	96	—	315	—	—	47	—	–449	9	10,230	0.1
Bahrain	10,825	—	—	—	—	49	—	206	11,079	6,200	178.7
Bangladesh	10,581	—	70,000	—	40,862	242	—	–1,363	38,597	47,120	81.9
Barbados	581	—	2,417	—	—	28	1,970	–345	711	8,039	8.8
Belarus	2,383	—	—	—	—	3,758	4,099	56	2,098	—	—
Belgium	44,351	—	280,898	—	—	14,329	—	–16,446	323,133	485,246	66.6
Belize	306	—	—	—	—	77	—	15	398	—	—
Benin	117	—	550	—	—	—	—	–411	256	9,409	2.7
Bhutan	383	—	—	—	—	13	—	17	413	—	—
Bolivia	19,983	—	30,605	—	23,596	71	—	–159	26,904	26,703	100.8
Bosnia and Herzegovina[1]	—	—	—	—	—	—	—	—	—	20,481	—
Botswana	24,349	—	—	—	—	547	—	898	25,794	4,359	591.7
Brazil	3,786	—	13,000	—	—	12,480	8,570	–15,719	4,975	358,670	1.4
Bulgaria	45,336	—	53,500	—	—	11,819	109,022	894	2,527	—	—
Burkina Faso	5,570	—	—	—	—	145	—	–170	5,545	9,409	58.9
Burundi	385	—	340	—	—	43	—	–592	175	13,697	1.3
Cambodia	11,296	—	—	—	35	4	334	–191	10,740	15,417	69.7
Cameroon	398	—	2,478	—	—	65	1,542	–1,070	328	24,463	1.3
Canada	776,650	—	109,900	—	—	13,324	—	–41	899,832	779,290	115.5
Cape Verde	15	—	50	—	—	—	—	–26	39	620	6.3

Central African Republic	392	—	915	—	264	26	492	–407	170	9,325	1.8
Chad	304	—	766	—	58	7	477	–410	131	9,409	1.4
Chile	5,669	—	17,300	—	—	614	13,603	–5,264	4,716	121,924	3.9
China	356,280	—	—	—	1,000	13,628	—	5,482	374,389	236,800	158.1
Colombia	115,178	—	—	—	—	1,631	—	44	116,853	114,271	102.3
Comoros	62	—	—	—	10	2	—	–29	25	716	3.5
Congo	176	—	1,049	—	12,500	12,543	710	–424	134	9,719	1.4
Costa Rica	1,044	—	3,650	—	—	88	2,796	–1,029	957	23,726	4.0
Côte d'Ivoire	2,363	—	8,000	—	—	263	6,951	–1,621	2,054	37,828	5.4
Croatia[1]	845	—	71,900	—	25,000	30,129	8,981	–1,853	67,040	44,205	151.7
Cyprus	224	—	100	—	—	683	—	–849	158	19,438	0.8
Czech Republic	11,320	—	135,000	—	2,901	427	144,024	257	79	—	—
Denmark	74,393	—	119,883	—	87,073	8,552	—	–3,809	111,946	178,864	62.6
Djibouti	141	—	—	—	—	—	—	–46	95	1,178	8.1
Dominica	10	—	586	—	570	9	—	–25	10	592	1.7
Dominican Republic	8,425	—	396	—	—	168	7,190	–1,140	659	31,585	2.1
Ecuador	1,616	—	22,500	—	98,900	99,573	20,574	–1,366	2,849	32,929	8.7
Egypt	57,772	—	20,000	—	—	433	8,358	–3,469	66,377	135,924	48.8
El Salvador	253	—	1,225	—	—	78	76	–1,094	385	24,985	1.5
Equatorial Guinea	189	—	140	—	1	5	—	–251	82	5,812	1.4
Eritrea	—	—	2,703	—	2,703	2,703	2,703	—	—	—	—
Estonia	41,447	—	175	—	50,985	11,681	2,441	1,172	1,049	—	—
Ethiopia	203	—	400	—	—	25	—	–483	145	11,160	1.3
Fiji	7,203	—	—	—	—	245	—	14	7,462	6,958	107.2
Finland	84,602	—	281,548	—	176,886	5,625	—	–970	193,918	142,690	135.9
France	241,336	—	335,000	—	—	45,821	—	–36,725	585,431	1,079,870	54.2
Gabon	540	—	1,865	—	—	1,576	2,948	–611	421	14,091	3.0
Gambia, The	589	—	3,339	—	2,865	6	—	–202	867	5,121	16.9
Georgia	—	—	—	—	—	1,750	332	9	1,427	—	—
Germany	715,123	—	500,000	—	—	86,956	—	–20,804	1,281,274	1,210,760	105.8
Ghana	21,556	—	58,513	—	32,580	184	32,520	–2,489	12,664	62,983	20.1
Greece	511	—	2,000	—	—	2,865	—	–4,542	835	103,544	0.8
Grenada	50	—	—	—	—	—	—	–40	10	930	1.1
Guatemala	11,861	—	—	—	—	29	—	–711	11,179	27,678	40.4
Guinea	7,241	—	—	—	6,011	12	—	–523	720	17,604	4.1
Guinea-Bissau	13	—	56	—	—	—	—	–53	16	1,212	1.3
Guyana	186	—	19,520	—	426	555	17,823	–620	1,392	14,530	9.6
Haiti	—	—	5,490	—	4,150	9,627	7,522	–2,740	705	13,697	5.1
Honduras	100	—	5,352	—	34	64	3,532	–826	1,124	19,057	5.9
Hungary	11,051	—	44,000	—	—	1,252	44,588	200	11,916	—	—

Table II.12 *(continued)*

Member	Total Holdings April 30, 1994	Receipts from Participants and Prescribed Holders: Designated	Receipts from Participants and Prescribed Holders: Other	Transfers to Participants and Prescribed Holders: Designated	Transfers to Participants and Prescribed Holders: Other	Receipts from the General Resources Account	Transfers to the General Resources Account	Interest, Charges, and Assessment (Net)	Positions as at April 30, 1995: Holdings	Positions as at April 30, 1995: Net cumulative allocations	Positions as at April 30, 1995: Holdings as percent of cumulative allocations
Iceland	159	—	585	—	—	170	—	–718	195	16,409	1.2
India	76,369	—	357,000	—	—	3,528	343,446	–28,318	65,135	681,170	9.6
Indonesia	2,402	—	5,100	—	—	5,332	—	–10,475	2,359	238,956	1.0
Iran, Islamic Republic of	103,407	—	—	—	1,000	4	—	–6,333	96,078	244,056	39.4
Iraq	—	—	—	—	—	—	—	—	—	68,464	—
Ireland	97,676	—	—	—	—	4,478	—	522	102,677	87,263	117.7
Israel	3,389	—	15,000	—	—	131	9,553	–4,613	4,353	106,360	4.1
Italy	108,488	—	9,815	—	41,893	44,048	—	–26,409	94,049	702,400	13.4
Jamaica	5,648	—	14,400	—	—	7,461	14,788	–1,685	11,037	40,613	27.2
Japan	1,198,341	—	500,000	—	231,000	979,113	—	16,786	2,463,240	891,690	276.2
Jordan	14,192	—	13,826	—	22,898	244	4,425	–470	470	16,887	2.8
Kazakhstan	12,692	—	—	—	—	62,103	8,215	940	67,521	—	—
Kenya	1,133	—	11,947	—	11,014	104	—	–1,590	579	36,990	1.6
Kiribati	7	—	—	—	—	—	—	—	7	—	—
Korea	44,565	—	—	—	—	11,909	—	–1,077	55,397	72,911	76.0
Kuwait	50,524	—	—	—	—	4,978	—	1,140	56,641	26,744	211.8
Kyrgyz Republic	1,630	—	15,510	—	20	42	2,346	42	14,859	—	—
Lao People's Democratic Republic	7,690	—	—	—	743	—	—	–98	6,849	9,409	72.8
Latvia	48,320	—	3,400	—	78,025	32,108	5,352	1,522	1,972	—	—
Lebanon	10,709	—	—	—	—	17,431	16,825	290	11,605	4,393	264.2
Lesotho	394	—	—	—	—	81	21	–149	305	3,739	8.2
Liberia	—	—	—	—	—	—	—	—	—	21,007	—
Libya	308,463	—	—	—	—	11,378	—	11,285	331,126	58,771	563.4
Lithuania	45,874	—	13,355	—	44,367	139	6,418	869	9,452	—	—
Luxembourg	7,037	—	—	—	—	675	—	–433	7,279	16,955	42.9
Macedonia, former Yugoslav Republic of[1]	86	—	2,518	—	—	18	1,941	–359	322	8,379	3.8
Madagascar	254	—	950	—	—	38	130	–845	267	19,270	1.4
Malawi	695	—	1,640	—	9,740	10,041	994	–429	1,214	10,975	11.1
Malaysia	88,744	—	—	—	—	7,831	—	–2,141	94,434	139,048	67.9
Maldives	23	—	—	—	—	25	—	–11	37	282	13.1

Mali	280	—	750	—	—	134	165	–693	306	15,912	1.9
Malta	35,663	—	7	—	1,365	769	—	1,054	36,128	11,288	320.1
Marshall Islands	—	—	—	—	—	—	—	—	—	—	—
Mauritania	96	—	3,681	—	3,520	287	—	–423	120	9,719	1.2
Mauritius	21,110	—	—	—	—	78	—	237	21,425	15,744	136.1
Mexico	116,906	—	468,056	—	3,509,900	3,526,718	303,148	–8,420	290,211	290,020	100.1
Micronesia, Federated States of	839	—	—	—	—	—	—	37	877	—	—
Moldova	19,665	—	—	—	13,696	11,186	4,842	886	13,199	—	—
Mongolia	173	—	7,545	—	3,614	10	3,542	14	586	—	—
Morocco	17,331	—	14,963	—	14,690	381	7,774	–2,979	7,231	85,689	8.4
Mozambique	30	—	—	—	—	—	—	1	31	—	—
Myanmar	564	—	2,000	—	—	3	—	–1,904	664	43,474	1.5
Namibia	11	—	—	—	—	—	—	—	12	—	—
Nepal	66	—	300	—	—	106	—	–353	119	8,105	1.5
Netherlands	428,343	—	275,000	—	208,600	22,890	—	–4,255	513,378	530,340	96.8
New Zealand	1,041	—	3,500	—	—	1,850	—	–6,204	187	141,322	0.1
Nicaragua	247	—	25,221	—	19,680	464	5,154	–852	246	19,483	1.3
Niger	256	—	8,800	—	6,068	212	587	–382	2,231	9,409	23.7
Nigeria	1,578	—	2,000	—	—	3,379	—	–6,907	50	157,155	—
Norway	233,822	—	325,080	—	288,815	13,813	—	3,843	287,742	167,770	171.5
Oman	5,246	—	—	—	—	1,292	—	–24	6,513	6,262	104.0
Pakistan	7,754	—	35,503	—	—	818	26,223	–7,380	10,472	169,989	6.2
Panama	2,079	—	13,060	—	—	221	4,812	–1,122	9,427	26,322	35.8
Papua New Guinea	451	—	1,150	—	—	32	975	–402	255	9,300	2.7
Paraguay	65,691	—	—	—	—	377	—	2,317	68,385	13,697	499.3
Peru	8,897	—	30,422	—	—	1,086	35,308	–3,947	1,150	91,319	1.3
Philippines	13,356	—	289,000	—	—	2,828	267,152	–4,415	33,618	116,595	28.8
Poland	7,770	—	257,500	—	127,000	130,589	268,133	98	823	—	—
Portugal	43,376	—	—	—	—	7,229	—	–332	50,273	53,320	94.3
Qatar	18,959	—	—	—	—	978	—	287	20,225	12,822	157.7
Romania	851	—	—	—	—	74,303	49,027	–1,671	24,456	75,950	32.2
Russia	634,178	—	40,785	—	722,000	391,087	156,216	11,628	199,463	—	—
Rwanda	2,031	—	—	—	44	182	—	–519	1,650	13,697	12.0
St. Kitts and Nevis	—	—	—	—	—	—	—	—	—	—	—
St. Lucia	1,344	—	—	—	—	—	—	27	1,370	742	184.6
St. Vincent and the Grenadines	89	—	—	—	—	6	—	–12	84	354	23.7
San Marino	58	—	—	—	—	65	—	4	127	—	—
São Tomé and Príncipe	17	—	—	—	4	22	—	–27	8	620	1.3
Saudi Arabia	316,518	—	—	—	—	98,717	—	9,141	424,376	195,527	217.0
Senegal	1,443	—	25,300	—	21,297	73	1,555	–972	2,991	24,462	12.2

Table II.12 *(concluded)*

Member	Total Holdings April 30, 1994	Receipts from Participants and Prescribed Holders: Designated	Receipts from Participants and Prescribed Holders: Other	Transfers to Participants and Prescribed Holders: Designated	Transfers to Participants and Prescribed Holders: Other	Receipts from the General Resources Account	Transfers to the General Resources Account	Interest, Charges, and Assessment (Net)	Positions as at April 30, 1995: Holdings	Positions as at April 30, 1995: Net cumulative allocations	Positions as at April 30, 1995: Holdings as percent of cumulative allocations
Seychelles	15	—	—	—	—	20	—	-17	18	406	4.4
Sierra Leone	8,770	—	—	—	1,998	47	308	-463	6,048	17,455	34.6
Singapore	58,540	—	800	—	40,000	5,795	—	727	25,861	16,475	157.0
Slovak Republic	4,965	—	5,100	—	16,730	81,474	55,392	1,532	20,950	—	—
Slovenia[1]	383	—	4,934	—	—	197	3,941	-1,107	466	25,431	1.8
Solomon Islands	24	—	10	—	—	6	—	-28	12	654	1.8
Somalia	—	—	—	—	—	—	—	—	—	13,697	—
South Africa	13,195	—	41,600	—	—	338	32,859	-9,459	12,815	220,360	5.8
Spain	161,319	—	75,000	—	—	24,019	—	-5,771	254,567	298,805	85.2
Sri Lanka	1,798	—	20,000	—	17,671	126	—	-3,041	1,212	70,868	1.7
Sudan	—	—	—	—	—	14,038	410	-13,628	—	52,192	—
Suriname	78	—	—	—	—	360	—	-341	97	7,750	1.3
Swaziland	5,881	—	—	—	—	36	—	-25	5,892	6,432	91.6
Sweden	43,105	—	305,000	—	145,711	13,383	—	-8,872	206,904	246,525	83.9
Switzerland	78,183	—	595,667	—	670,650	16,930	—	4,761	24,891	—	—
Syrian Arab Republic	372	—	—	—	—	1,695	—	-1,606	460	36,564	1.3
Tajikistan	—	—	—	—	—	—	—	—	—	—	—
Tanzania	318	—	688	—	—	759	—	-1,377	388	31,372	1.2
Thailand	17,120	—	1,200	—	—	8,936	—	-2,863	24,394	84,652	28.8
Togo	204	—	700	—	—	15	163	-479	278	10,975	2.5
Tonga	450	—	—	—	—	34	—	21	504	—	—
Trinidad and Tobago	1,717	—	6,000	—	—	173	4,268	-2,013	1,610	46,231	3.5
Tunisia	3,457	—	37,000	—	5,688	287	11,086	-1,335	22,635	34,243	66.1
Turkey	1,353	—	14,100	—	113,125	117,030	8,384	-4,892	6,081	112,307	5.4
Turkmenistan	—	—	—	—	—	—	—	—	—	—	—
Uganda	555	—	18,382	—	16,832	61	—	-1,223	944	29,396	3.2
Ukraine	—	—	—	—	200,325	325,525	9,090	1,528	117,638	—	—
United Arab Emirates	54,315	—	—	—	—	210	—	691	55,215	38,737	142.5
United Kingdom	228,430	—	1,210,503	—	1,092,178	23,424	—	-71,874	298,306	1,913,070	15.6
United States	6,641,756	—	504,150	—	4,150	243,057	—	80,666	7,465,479	4,899,530	152.4

Uruguay	873	—	7,945	—	—	81	5,733	–2,179	987	49,977	2.0
Uzbekistan	—	—	—	—	—	875	266	—	610	—	—
Vanuatu	167	—	—	—	—	60	—	8	235	—	—
Venezuela	339,887	—	78,500	—	5,470	4,325	99,866	–435	316,941	316,890	100.0
Viet Nam	3,546	—	—	—	25,686	38,623	5,996	–1,840	8,648	47,658	18.1
Western Samoa	1,963	—	—	—	—	7	—	36	2,006	1,142	175.7
Yemen, Republic of	17,112	—	17,010	—	965	1	—	–222	32,935	28,743	114.6
Yugoslavia, Federal Republic of (Serbia/ Montenegro)[1]	—	—	—	—	—	—	—	—	—	56,665	—
Zaïre	—	—	—	—	—	7,690	2,237	–5,453	—	86,309	—
Zambia	7,612	—	7,993	—	16	25,633	29,336	–2,936	8,949	68,298	13.1
Zimbabwe	2,283	—	6,500	—	—	2,221	7,606	–411	2,987	10,200	29.3
Total participants	**15,219,622**	—	**8,305,390**	—	**9,076,672**	**7,893,658**	**2,590,499**	**–278,270**	**19,473,228**	**21,433,330**	**90.9**
Prescribed holders											
Arab Monetary Fund	22,299	—	74,359	—	43,799	—	—	1,124	53,983	—	—
Bank of Central African States	13	—	8,862	—	7,035	—	—	22	1,862	—	—
Bank for International Settlements	197,761	—	1,031,004	—	284,836	—	—	5,634	942,922	—	—
East African Development Bank	149	—	—	—	—	—	—	7	155	—	—
Eastern Caribbean Central Bank	1,828	—	—	—	—	—	—	81	1,910	—	—
International Bank for Reconstruction and Development (World Bank)	2,781	—	—	—	632	—	—	118	2,268	—	—
Islamic Development Bank	2,146	—	—	—	—	—	—	95	2,242	—	—
Nordic Investment Bank	399	—	—	—	—	—	—	18	417	—	—
Total prescribed holders	**227,376**	—	**1,114,225**	—	**336,301**	—	—	**7,100**	**1,005,759**	—	—
General Resources Account	**6,037,761**	—	**2,590,499**	—	**7,893,658**	—	—	**266,052**	**1,000,655**	—	—
Total	**21,484,759**	—	**12,010,114**	—	**17,306,631**	**7,893,658**	**2,590,499**	**–5,118**	**21,479,642**	**21,433,330**	—

[1]The assets and liabilities of the former Socialist Federal Republic of Yugoslavia were assumed by five successor states. As of April 30, 1995, the Republic of Bosnia and Herzegovina and the Federal Republic of Yugoslavia (Serbia/Montenegro) had not completed arrangements for succession to membership in the Fund.

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, AT END OF FINANCIAL YEARS ENDED APRIL 30, 1971–95

			Developing Countries				
					Net debtor countries		
Financial Year	All Participants[1]	Industrial Countries	All developing countries	Net creditor countries	All net debtor countries	With recent debt-servicing problems[2]	Without recent debt-servicing problems[2]
			Holdings of SDRs as percent of cumulative allocations				
1971	92.3	103.3	63.2	2.8	64.7	74.5	49.7
1972	90.2	100.0	64.4	34.5	65.2	63.9	67.1
1973	93.4	105.7	60.8	55.4	60.9	59.5	63.0
1974	94.6	106.2	64.3	59.5	64.4	61.5	68.9
1975	94.5	106.5	63.1	72.5	62.8	64.6	60.1
1976	95.1	108.4	59.8	99.1	58.8	60.8	55.8
1977	91.7	105.7	54.9	106.3	53.6	58.1	46.8
1978	85.3	95.6	58.1	117.6	56.6	62.1	48.2
1979	90.3	97.0	74.5	112.3	71.5	72.6	69.9
1980	91.9	96.8	81.0	148.3	75.6	72.2	80.1
1981	74.6	81.0	60.8	139.6	53.5	55.9	50.3
1982	74.6	81.9	59.1	140.5	51.5	47.5	56.8
1983	79.9	95.1	47.4	207.9	32.4	22.6	45.2
1984	69.9	80.4	47.3	183.9	34.6	23.1	49.6
1985	78.5	95.2	42.8	182.2	29.8	21.5	40.6
1986	87.3	105.3	49.0	192.5	35.6	26.6	47.4
1987	90.8	110.0	49.9	195.4	37.6	24.0	57.0
1988	96.3	115.8	54.4	202.8	42.0	33.6	53.8
1989	93.1	116.3	43.5	181.6	30.2	19.4	45.3
1990	97.2	121.9	44.4	205.3	28.5	14.5	48.3
1991	96.9	120.7	45.9	166.2	34.8	27.9	44.7
1992	96.8	121.2	44.6	123.3	37.1	31.1	45.7
1993	63.0	73.1	41.6	115.7	33.8	32.7	35.2
1994	71.0	77.9	56.3	147.1	34.9	33.2	37.4
1995	90.9	105.1	60.4	169.9	42.8	44.4	40.4

Table II.13 *(concluded)*

Financial Year	All Participants[1]	Industrial Countries	Developing Countries: All developing countries	Developing Countries: Net creditor countries	Net debtor countries: All net debtor countries	Net debtor countries: With recent debt-servicing problems[2]	Net debtor countries: Without recent debt-servicing problems[2]
			Holdings of SDRs as percent of non-gold reserves				
1971	8.9	9.9	6.1	—	7.7	10.0	5.1
1972	8.9	9.3	7.2	0.4	9.6	10.9	8.1
1973	7.8	8.7	5.0	0.5	6.4	7.1	5.6
1974	7.2	9.2	3.6	0.4	4.6	4.6	4.5
1975	6.0	8.9	2.4	0.2	3.9	3.8	4.2
1976	5.4	8.3	2.0	0.2	3.3	3.6	3.1
1977	4.4	7.4	1.4	0.2	2.3	2.7	1.8
1978	3.5	5.3	1.4	0.2	2.1	2.6	1.5
1979	4.6	5.8	2.9	1.1	3.6	4.1	3.0
1980	5.6	7.1	3.5	1.5	4.4	4.7	4.2
1981	4.8	6.2	2.9	1.8	3.5	4.1	2.9
1982	5.3	6.9	3.0	1.6	3.7	4.5	3.1
1983	5.3	7.2	2.3	2.2	2.3	2.5	2.2
1984	4.2	5.6	2.0	1.9	2.1	2.0	2.1
1985	4.4	6.3	1.7	1.7	1.6	1.6	1.7
1986	5.1	6.7	2.0	1.8	2.2	2.2	2.2
1987	4.7	5.7	2.0	1.4	2.4	2.4	2.5
1988	4.4	5.1	2.0	1.4	2.5	3.3	2.1
1989	3.9	4.7	1.5	1.2	1.7	2.3	1.5
1990	3.9	4.6	1.5	1.5	1.4	1.5	1.4
1991	3.5	4.3	1.3	1.2	1.3	1.9	1.1
1992	3.2	4.4	1.0	0.8	1.1	1.5	0.9
1993	2.2	2.8	1.0	0.8	1.0	1.4	0.8
1994	2.2	2.7	1.1	1.0	1.1	1.3	1.1
1995	2.6	3.5	1.1	1.1	1.1	1.8	0.8

[1]Consists of member countries that are participants in the SDR Department. At the end of financial year 1995, of the total SDRs allocated to participants in the SDR Department (SDR 21.4 billion), SDR 2.0 billion was not held by participants but instead by the Fund and prescribed holders.

[2]Countries with recent debt-servicing problems are those that have incurred external payments arrears or rescheduled their debts in the period since 1986.

Table II.14
KEY IMF RATES, FINANCIAL YEAR ENDED APRIL 30, 1995
(In percent)

Period Beginning	SDR Interest Rate and Unadjusted Rate of Remuneration[1]	Basic Rate of Charge[1]
1994		
April 25	4.11	4.56
May 2	4.13	4.75
May 9	4.21	4.85
May 16	4.16	4.79
May 23	4.14	4.77
May 30	4.19	4.82
June 6	4.14	4.77
June 13	4.11	4.73
June 20	4.13	4.75
June 27	4.13	4.75
July 4	4.15	4.78
July 11	4.22	4.86
July 18	4.20	4.83
July 25	4.22	4.86
August 1	4.26	4.90
August 8	4.32	4.97
August 15	4.33	4.98
August 22	4.36	5.02
August 29	4.39	5.05
September 5	4.38	5.04
September 12	4.38	5.04
September 19	4.43	5.10
September 26	4.49	5.17
October 3	4.47	5.14
October 10	4.59	5.28
October 17	4.56	5.25
October 24	4.60	5.29
October 31	4.60	5.29
November 7	4.68	5.24
November 14	4.71	5.28
November 21	4.75	5.32
November 28	4.75	5.32
December 5	4.93	5.52
December 12	4.98	5.58
December 19	4.98	5.58
December 26	4.86	5.44
1995		
January 2	4.89	5.48
January 9	5.00	5.60
January 16	4.88	5.47
January 23	4.96	5.56
January 30	4.96	5.56
February 6	5.00	5.60
February 13	4.97	5.57
February 20	4.93	5.52
February 27	4.95	5.54
March 6	5.00	5.60
March 13	5.18	5.80
March 20	5.18	5.80
March 27	5.11	5.72
April 3	4.90	5.49
April 10	4.83	5.41
April 17	4.77	5.34
April 24	4.77	5.34
May 1	4.82	4.94

[1]The rate of remuneration is adjusted downward and the basic rate of charge is adjusted upward to share the burden of protecting the Fund's income from overdue charges and of contributing to the Fund's precautionary balances. These burden-sharing amounts are refundable when overdue charges are paid and when overdue obligations cease to be a problem.

Table II.15

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	Lithuania	May 3, 1994
Argentina	May 14, 1968	Luxembourg	February 15, 1961
Australia	July 1, 1965	Malaysia	November 11, 1968
Austria	August 1, 1962	Malta	November 30, 1994
Bahamas, The	December 5, 1973	Marshall Islands	May 21, 1992
Bahrain	March 20, 1973	Mauritius	September 29, 1993
Bangladesh	April 11, 1994	Mexico	November 12, 1946
Barbados	November 3, 1993	Micronesia, Federated States of	June 24, 1993
Belgium	February 15, 1961	Morocco	January 21, 1993
Belize	June 14, 1983	Nepal	May 30, 1994
Bolivia	June 5, 1967	Netherlands	February 15, 1961
Canada	March 25, 1952	New Zealand	August 5, 1982
Chile	July 27, 1977	Nicaragua	July 20, 1964
Costa Rica	February 1, 1965	Norway	May 11, 1967
Cyprus	January 9, 1991	Oman	June 19, 1974
Denmark	May 1, 1967	Pakistan	July 1, 1994
Djibouti	September 19, 1980	Panama	November 26, 1946
Dominica	December 13, 1979	Papua New Guinea	December 4, 1975
Dominican Republic	August 1, 1953	Paraguay	August 22, 1994
Ecuador	August 31, 1970	Peru	February 15, 1961
El Salvador	November 6, 1946	Portugal	September 12, 1988
Estonia	August 15, 1994	Qatar	June 4, 1973
Fiji	August 4, 1972	St. Kitts and Nevis	December 3, 1984
Finland	September 25, 1979	St. Lucia	May 30, 1980
France	February 15, 1961	St. Vincent and the Grenadines	August 24, 1981
Gambia, The	January 21, 1993	San Marino	September 23, 1992
Germany	February 15, 1961	Saudi Arabia	March 22, 1961
Ghana	February 21, 1994	Seychelles	January 3, 1978
Greece	July 7, 1992	Singapore	November 9, 1968
Grenada	January 24, 1994	Solomon Islands	July 24, 1979
Guatemala	January 27, 1947	South Africa	September 15, 1973
Guyana	December 27, 1966	Spain	July 15, 1986
Haiti	December 22, 1953	Sri Lanka	March 15, 1994
Honduras	July 1, 1950	Suriname	June 29, 1978
Iceland	September 19, 1983	Swaziland	December 11, 1989
India	August 20, 1994	Sweden	February 15, 1961
Indonesia	May 7, 1988	Switzerland	May 29, 1992
Ireland	February 15, 1961	Thailand	May 4, 1990
Israel	September 21, 1993	Tonga	March 22, 1991
Italy	February 15, 1961	Trinidad and Tobago	December 13, 1993
Jamaica	February 22, 1963	Tunisia	January 6, 1993
Japan	April 1, 1964	Turkey	March 22, 1990
Jordan	February 20, 1995	Uganda	April 5, 1994
Kenya	June 30, 1994	United Arab Emirates	February 13, 1974
Kiribati	August 22, 1986	United Kingdom	February 15, 1961
Korea	November 1, 1988	United States	December 10, 1946
Kuwait	April 5, 1963	Uruguay	May 2, 1980
Kyrgyz Republic	March 29, 1995	Vanuatu	December 1, 1982
Latvia	June 10, 1994	Venezuela	July 1, 1976
Lebanon	July 1, 1993	Western Samoa	October 6, 1994
		Zimbabwe	February 3, 1995

Table II.16
EXCHANGE RATE ARRANGEMENTS AS OF MARCH 31, 1995

Pegged				
Single currency			Currency composite	
U.S. dollar	French franc	Other	SDR	Other
Antigua and Barbuda	Benin	Bhutan (Indian rupee)	Libyan Arab Jamahiriya[3,4]	Bangladesh
Argentina	Burkina Faso	Estonia (deutsche mark)	Myanmar	Botswana
Bahamas, The[4]	Cameroon	Kiribati[7] (Australian dollar)	Seychelles	Burundi
Barbados	Central African Rep.	Lesotho (South African rand)		Cape Verde
Belize	Chad	Namibia (South African rand)		Cyprus[8]
Djibouti	Comoros	San Marino[7] (Italian lira)		Czech Republic[4]
Dominica	Congo	Swaziland (South African rand)		Fiji
Grenada	Côte d'Ivoire	Tajikistan, Republic of[4,7] (Russian ruble)		Iceland[9]
Iraq	Equatorial Guinea			Jordan
Liberia	Gabon			Kuwait
Lithuania	Mali			Malta
Marshall Islands[7]	Niger			Mauritania[4]
Micronesia, Federated States of[7]	Senegal			Morocco[11]
Nigeria[4]	Togo			Nepal
Oman				Slovak Republic[4]
Panama[7]				Solomon Islands
St. Kitts and Nevis				Thailand
St. Lucia				Tonga
St. Vincent and the Grenadines				Vanuatu
Syrian Arab Rep.[4]				Western Samoa
Turkmenistan[4]				
Venezuela				
Yemen[4]				

[1]In all countries listed in this column, the U.S. dollar was the currency against which exchange rates showed limited flexibility.

[2]This category consists of countries participating in the exchange rate mechanism (ERM) of the European Monetary System (EMS). In each case, the exchange rate is maintained within a margin of ±15 percent around the bilateral central rates against other participating currencies, with the exception of Germany, and the Netherlands, in which case the exchange rate is maintained within a margin of ±2.25 percent.

[3]The exchange rate is maintained within margins of ±47 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 ±10 percent on either side of a weighted composite of the currencies of the main trading partners.

[7]Country uses peg currency as legal tender.

[8]The exchange rate, which is pegged to the European currency unit (ECU), is maintained within margins of ±2.25 percent.

[9]The exchange rate is maintained within margins of ±2.25 percent.

[10]The exchange arrangement shown relates to the rate determined at the auctions, which is used for most transactions. The official exchange rate is still pegged to the U.S. dollar.

[11]The exchange rate is maintained within margins of ±3 percent.

[12]The exchange rate is maintained within margins of ±5 percent with regard to the currency basket.

Flexibility Limited vis-à-vis a Single Currency or Group of Currencies		More Flexible			
Single currency[1]	Cooperative arrangements[2]	Adjusted according to a set of indicators	Other managed floating	Independently floating	
Bahrain[5]	Austria	Chile[4,6]	Algeria	Afghanistan, Islamic State of[4]	Moldova[4]
Qatar[5]	Belgium	Ecuador[4]	Angola	Albania	Mongolia
Saudi Arabia[5]	Denmark	Nicaragua[4]	Belarus	Armenia[4]	Mozambique
United Arab Emirates[5]	France		Brazil	Australia	New Zealand
	Germany		Cambodia	Azerbaijan	Norway
	Ireland		China, People's Republic of	Bolivia	Papua New Guinea
	Luxembourg		Colombia	Bulgaria	Paraguay
	Netherlands		Croatia	Canada	Peru
	Portugal		Dominican Rep.[4]	Costa Rica	Philippines
	Spain		Egypt	El Salvador	Romania
			Eritrea[4]	Ethiopia[4,10]	Russian Federation
			Georgia	Finland	Rwanda
			Greece	Gambia, The	São Tomé and Príncipe[4]
			Guinea-Bissau	Ghana	Sierra Leone
			Honduras[4]	Guatemala	Somalia[4]
			Hungary	Guinea	South Africa
			Indonesia	Guyana	Suriname
			Israel[12]	Haiti	Sweden
			Korea	India	Switzerland
			Lao People's Democratic Republic	Iran, Islamic Rep. of[4]	Tanzania
			Latvia	Italy	Trinidad and Tobago
			Macedonia, Former Yugoslav Republic of	Jamaica	Uganda
			Malaysia	Japan	Ukraine[4]
			Maldives	Kazakhstan	United Kingdom
			Mauritius	Kenya	United States
			Pakistan	Kyrgyz Republic	Uzbekistan
			Poland[4]	Lebanon	Zaïre[4]
			Singapore	Madagascar	Zambia[4]
			Slovenia	Malawi	Zimbabwe
			Sri Lanka	Mexico	
			Sudan[4]		
			Tunisia		
			Turkey		
			Uruguay		
			Viet Nam		

TECHNICAL ASSISTANCE AND TRAINING

Technical assistance and training are extended by the Fund to members in a wide range of economic and financial areas, at Fund headquarters, at the Joint Vienna Institute, 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 adjustments programs, legal matters, debt management, exchange and trade issues, financial sector topics, accounting, statistics, and data processing.

IMF Institute

The IMF Institute trains officials from member and prospective member countries through courses and seminars at Fund headquarters, at the Joint Vienna Institute, and in regional or national centers. Courses in Washington are offered in Arabic, English, French, and Spanish; courses in Vienna are offered in English, with Russian interpretation, and in French; and courses in other overseas locations are offered in Arabic, English, French, or Spanish, with interpretation into local languages as needed. The Institute also arranges scholarships to train junior officials at universities in Japan and Australia, and it gives lecturing assistance to other regional or national training institutions. Institute staff also organize briefings at headquarters for visiting officials.

During 1994/95, training at headquarters consisted of 17 courses and 5 seminars for senior officials, attended by 757 participants. The program included five ten-week courses on financial programming and policy, three eight-week courses on techniques of financial analysis and programming, two six-week courses on external sector policies, and one five-week course on the economics of transition for trainers (given jointly with the Economic Development Institute of the World Bank). The financial programming and policy course covered financial programming and adjustment issues for officials with substantial macroeconomic background and practical experience; the course on techniques of financial analysis and programming provided a review of similar issues for officials with limited background in economics; while the external sector policies course gave senior and midlevel officials a deeper understanding of the issues involved in formulating such policies in the context of a macroeconomic framework for adjustment and growth. Two six-week courses on balance of payments methodology, two six-week courses on money and banking statistics, and one six-week course on government finance statistics were presented, all in collaboration with the Statistics Department. In addition, an eight-week course on public finance was presented in collaboration with the Fiscal Affairs Department. Seminars for senior officials were held on current legal issues affecting central banks (in collaboration with the Legal Department), orientation for senior officials from economies in transition, pension reform (with support from the Government of Japan), tax policy in transition economies (in collaboration with the Fiscal Affairs Department), and trade policy issues (in collaboration with the Policy Development and Review Department).

During 1994/95, Fund training at the Joint Vienna Institute consisted of 15 courses and 6 modules in the comprehensive course, attended by 491 participants. The program included one two-week course on public expenditure policy and fiscal policy management, one two-week course on the social safety net, one two-week course on value-added tax (VAT), one two-week course on public expenditure and treasury management, one two-week course on fiscal policy management, one two-week module on tax policy and administration, one two-week module on public expenditure policy and management, and one two-week module on fiscal policy management (in collaboration with the Fiscal Affairs Department); one one-week course on central bank accounting, one one-week course on large value payments systems, one one-week course on human resource management, one two-week course on bank supervision, and one two-week course on foreign exchange policies and operations (in collaboration with the Monetary and Exchange Affairs Department); one four-week course on macroeconomic statistics for users and one three-week course on government finance statistics (in collaboration with the Statistics Department); one five-week course and one nine-week course on macroeconomic analysis and policy, one three-week course on macroeconomic analysis and policy (in French), two two-week modules on comparative experience of market economies, and one two-week module on macroeconomic policy.

In addition to residential training courses in Washington and Vienna, the Institute conducted 30 overseas courses and 10 seminars for high-level officials covering some 1,100 participants. It also provided lecturing assistance to three training organizations. The courses were primarily on financial programming and policies, while the regional seminars also introduced the subject of structural adjustment policies. The Institute also organized 17 briefings at headquarters for a total of 343 visiting officials from member countries. Except for staff and teaching materials provided by the Institute, costs of overseas training are increasingly covered either by local partners or through cofinancing arrangements with other collaborating institutions and national authorities, including the United Nations Development Program (UNDP), the European Union, the World Bank, the Asian Development Bank, the Islamic Development Bank, the U.S. Agency for International Development, and the Governments of France, Japan, and Portugal.

The Japan–IMF Scholarship Program for Asia, financed by the Japanese authorities, was launched in September 1993. Scholarships are awarded to attend specially designed courses either at Saitama University (near Tokyo) or at the Australian National University in Canberra. The program is designed to train young officials from economies in transition for a period of one year, following which some are assigned to internships in the region. In 1994, an introductory course in China was added to the program to prepare candidates for the more advanced courses at Saitama and Australian National Universities. The second offering of the introductory course is under way with 30 participants. Nine officials have completed the one-year course at either Saitama University or the Australian National University. Another 18 officials are currently studying at these universities. Internships have been arranged for graduates of the one-year course in Australia, Hong Kong, Korea, Malaysia, New Zealand, and Thailand.

The Institute, in cooperation with the Research Department, has also been conducting an internal training program for Fund economists. Five internal training courses and seminars took place in fiscal year 1995, attended by some 230 economists. The Institute also hosted visits by individual special participants (normally senior officials who are attached to Fund departments for short periods).

Fiscal Affairs Department

In 1994/95, the technical assistance program of the Fiscal Affairs Department remained diverse both geographically and by fiscal discipline. The demand for fiscal technical assistance continued to rise, with more requests received than in the previous year. Strict priorities therefore had to be established. However, with the considerable external financial support available, notably from the Government of Japan (Administered Technical Assistance Account Japan), the UNDP, and the World Bank, the department was able to deliver more technical assistance than ever before. A total of some 95 person-years of technical assistance was provided to over 100 member countries.

Within the total, more assistance was provided to Africa, the Baltic countries, Russia and other countries of the former Soviet Union, and eastern Europe than in preceding years. Ongoing commitments, particularly for institution-building projects in areas such as tax administration and the development of treasury systems, generated a further expansion of assistance to Russia and other countries of the former Soviet Union and to certain east European economies. Nonetheless, the department had sufficient flexibility within the resources available to respond quickly to emergency situations. It was also possible to accommodate urgent, high-priority requests for policy advice—including advice on energy taxation in Russia and on social safety nets in a number of former centrally planned economies.

The pattern of assistance continued to evolve more toward the use of fiscal experts not on the Fund staff but drawn from a panel maintained by the department. In 1994/95, there were over 270 such expert assignments. A further increase was recorded in the number of long-term resident expert assignments—that is, those lasting for six months or longer; most of the experts work on tax administration and public expenditure management, or as general fiscal advisors. Many expert assignments (both short- and long-term) were financed externally; external financing now represents over 70 percent of the total funding for experts. The largest single source of external financing was the Government of Japan (Administered Technical Assistance Account Japan); substantial support was also received, however, from the UNDP and, to a lesser extent, from the World Bank. In a few instances, member countries themselves met the full costs of an expert assignment.

As in 1993/94, the bulk of the department's technical assistance activity was in the disciplines of tax and customs administration and public expenditure management. These lend themselves to resident expert assignments; taken together, they accounted for some 80 percent of the total technical assistance provided. However, the department also remained active in providing policy advice. There were approximately the same number of missions as last year in tax policy and in policy matters related to social safety nets and social security. Moreover, there has been an expanding interest from member countries in receiving policy advice on general fiscal management and on intergovernmental fiscal relations (fiscal federalism). Missions to both eastern Europe and Latin America demonstrated the importance of setting appropriate financial relationships between central and local government in securing overall fiscal control.

The department also remained active in providing training, both at headquarters to visiting delegations (for example, from China and India) and through specific courses offered both in Africa (Ghana and Kenya) and through the Joint Vienna Institute.

Legal Department

During the financial year, the Legal Department continued to meet an increasing demand from member countries for assistance in drafting monetary, fiscal, and foreign exchange legislation. This continued demand reflects an increased awareness that economic stability and development require the support of an appropriate legal system.

Although the Legal Department's technical assistance work is primarily in banking, fiscal, and foreign exchange law, it has also included bankruptcy and securities law. In the areas of banking and foreign exchange legislation, legal assistance has included central bank and commercial banking law, law for the foreign exchange system, and exchange control regulation. The work in bankruptcy law results from requests for this essential element of commercial law for economies in transition that have considerable need to resolve insolvent enterprises. The work in securities law has related to government securities issues and the organization and powers of the capital markets regulatory authority. In the area of fiscal law, the work of the department has included corporate and personal income tax, VAT, and tax administration.

In carrying out these tasks, the Legal Department cooperates closely with the area departments of the Fund, whose programs often anticipate progress in the legal infrastructure, and with the Fiscal Affairs and Monetary and Exchange Affairs Departments, so as to ensure that the legal advice and assistance, including the drafting of legislation, accommodate and reflect sound policy objectives.

To function effectively, a legal system must include not only adequate legislation but also an efficient institutional infrastructure for the design and administration of the law. Accordingly, increasing attention has been given to the need to extend legal assistance to the establishment of institutions and procedures that can ensure the proper conception, administration, and enforcement of legislation. The need for such extended legal assistance is particularly felt in the countries with economies in transition. In this connection, the Legal Department in cooperation with the IMF Institute prepared a program on financial sector legislation for presentation at the Joint Vienna Institute in June 1995 for judges and legislators of countries with economies in transition.

The Legal Department performs its technical assistance in close consultation with the legal staffs of national and other international organizations, such as the World Bank and the European Bank for Reconstruction and Development (EBRD), in order to arrive at a reasonable division of technical assistance tasks and to avoid duplication of work.

The Legal Department provides assistance to member countries partly from Fund headquarters and partly during missions. In providing this assistance, the Legal Department draws on its staff as well as on outside legal experts. During the financial year, the Legal Department provided advice on legislation to 54 member countries, often in regard to more than one area of legislation, and staff and experts traveled for the department on 55 missions to 30 member countries. In addition, members of the department participated in several seminars and workshops in which technical assistance was provided to a number of countries under the sponsorship of the Fund, other international organizations, and central banks.

Monetary and Exchange Affairs Department

During 1994/95, the Monetary and Exchange Affairs Department provided technical assistance to 107 countries. This assistance was provided through 131 advisory and assessment missions, of which 106 were advisory missions. In addition, 14 workshops were delivered, of which 8 were of a regional nature. As in the previous years, comprehensive technical assistance was provided to a number of countries in transition. The department continued to rely on subject-specific technical assistance workshops for a third year, the bulk of which were targeted toward the Baltic countries, Russia, and other countries of the former Soviet Union. The interactive learning environment of the workshop setting and its focus on concrete policy and operational matters promoted the cross-fertilization of ideas and strategies, facilitating the subsequent implementation of reforms. The workshops also seek to improve the effectiveness of technical assistance by encouraging skill building among participants. These countries accounted for almost 60 percent of staff advisory missions and about 70 percent of short-term expert assignments. Within this group, the largest proportion of advisory missions was to the Baltic countries, Russia, and other countries of the former Soviet Union. This work amounted to about 33 percent of total advisory missions, about half of all short-term expert assignments, and just under 80 percent of workshops delivered by the department. Technical assistance to eastern and central Europe accounted for an additional 18 percent of missions and 10 percent of short-term expert assignments.

As in the past, the department's technical assistance program was supported by a large number of outside experts, many of them drawn from cooperating central banks to support the comprehensive programs of technical assistance, notably in the Baltic countries, Russia, and other countries of the former Soviet Union. In 1994/95, a total of 518 short-term expert assignments and 138 long-term assignments (including renewals) were undertaken. This assistance totaled about 90 person-years, of which approximately 60 person-years were provided by long-term experts residing in member countries. The remaining 30 person-years consisted of short-term assignments involving either experts accompanying departmental missions or stand-alone, short-term visits organized by the department.

External financing—from the UNDP, the Government of Japan (Administered Technical Assistance Account Japan), and other sources—for the technical assistance provided by the department has grown in importance. In 1994/95, it accounted for about 30 person-years, compared with 25 person-years in the previous financial year. In addition, in an effort to leverage project-specific parallel assistance from other donors, the department supervises financial sector technical assistance for other organizations.

The coordination of technical assistance with cooperating central banks and other multilateral and bilateral institutions continued at a high level in 1994/95. The scope and frequency of coordination meetings, especially with Washington-based multilateral institutions, increased in 1994/95. This reflects not only intensified collaboration with other institutions providing financial sector technical assistance in the Baltic countries, Russia, and other countries of the former Soviet Union, but also technical assistance to other regions of the world. During the course of the year, the department assumed the coordinating role in the European Commission training project for the Central Bank of Russia, under which a number of cooperating central banks provided technical assistance. In addition, the department continued with its coordinating role in the reform of the Russian payment system through its chairmanship of the International Steering Committee on Payment System Reform in Russia.

In 1994/95, the department continued with its efforts to integrate the analysis, review, and jurisdiction functions of the department with its technical assistance activities. Its principal objective is to ensure consistency in policy advice on monetary and exchange rate issues across the membership, and to improve the integration of technical assistance work on the institutional and structural aspects of monetary and exchange policy within the overall structure of Fund programs.

During the financial year, the department coordinated efforts to ensure members' compliance with the Fund's jurisdiction over exchange systems and, in collaboration with other departments, provided advice on technical aspects of the exchange regimes of various countries and on issues of transition to Article VIII status and full convertibility. In addition, the department is involved in the Fund's review process. During the year, the department reviewed all countries' reports and briefings on Article IV consultations and the use of Fund resources from the perspective of the structural and institutional aspects of monetary and exchange policy. The department's operational research on monetary and exchange policy issues received a boost during the year with the launching of the department's operational paper series.

Statistics Department

The technical assistance activities of the Statistics Department during 1994/95 matched the unprecedented levels reached in the preceding year. During 1994/95, the department fielded 150 technical assistance missions to 73 countries, 13 of which were multisectoral assignments, the same as in 1993/94, which included 15 multisectoral missions.

The scope and composition of the department's technical assistance program in 1994/95 reflected the effort to sustain the level of technical assistance to countries in transition, as they continue to develop their statistical systems, as well as to meet the needs of countries in other regions. Central and eastern European countries, the Baltic countries, Russia, and other countries of the former Soviet Union received about 47 percent of all technical assistance provided by the department during 1994/95, compared with about 68 percent in 1993/94. Technical assistance in 1994/95 involved 106 trips by staff, headquarters-based consultants, and outside experts on 71 missions. Only 4 of these missions were multisectoral, in contrast to 11 such missions in 1992/93 and 8 in 1993/94, reflecting the need for follow-up work in specific areas of statistics after the diagnostic missions conducted in earlier years.

In addition to providing follow-up technical assistance to countries in transition, the department increased substantially its level of technical assistance to other member countries, in particular to those that were actual or prospective users of Fund resources or whose statistical infrastructure was at an early stage of development. The number of missions to these countries increased from 49 in 1993/94 to 79 in 1994/95. The department's technical assistance activities were again principally concentrated in the areas of monetary, balance of payments, and government finance statistics, which together accounted for about 64 percent of the total technical assistance provided during 1994/95. In addition, partly in response to the operational needs of the Fund, the department fielded 39 missions on consumer and producer prices, national accounts, and external trade statistics, 27 of which were directed to central and eastern European countries, the Baltic countries, Russia, and other countries of the former Soviet Union.

The provision of technical assistance in 1994/95 continued to require the use of an increasing number of outside experts for short-, medium-, and long-term assignments. During the year, there were 95 expert assignments, 12 of which were long term. About half of the assignments using such experts—41 short-term and 6 long-term—were financed with resources made available to the Fund by the Japanese Government under the Administered Technical Assistance Account Japan, and 6 under the Executing Agency Agreement with the UNDP. In addition, a significant amount of technical assistance was provided through participation of staff of the department in 16 missions of other departments, 5 of which were to countries of the former Soviet Union.

The department continued to offer training to national statisticians on statistical methodologies and their application, through courses offered at the IMF Institute at Fund headquarters and at the Joint Vienna Institute. The department's training program expanded substantially in 1994/95 through the provision of regional and local seminars, several of which were funded by Administered Technical Assistance Account Japan resources. The department conducted six regional seminars covering balance of payments, government finance, and monetary statistics for representatives from the Latin American region, the Arab Monetary Fund, the Central Bank of the West African States (BCEAO), and the Bank of Central African States (BEAC). A seminar on quarterly national accounts statistics was held in Moscow for officials from the Russian Federation, in cooperation with the Organization for Economic Cooperation and Development (OECD). Two seminars for Chinese officials were conducted during the year, one on monetary statistics held in China, and the other on government finance statistics at Fund headquarters.

Treasurer's Department

Technical assistance requests received by the Treasurer's Department are in areas related to members' financial relations with the Fund. The demand for such assistance—on the establishment and maintenance of the Fund accounts, the Fund's financial organization and operations, and the conduct of transactions by members with the Fund—remained high in 1994/95. The main recipients of technical assistance provided by the Treasurer's Department have been new members, in particular the transition economies, and members that previously had not had extensive relations with the Fund. Assistance has covered areas such as accounting for Fund-related assets and liabilities and a member's position in the Fund, recording and reporting on financial operations and transactions with the Fund, and the Fund's operational budget. In addition to technical assistance missions, Treasurer's Department staff participated in seminars and workshops for officials of the central banks and finance ministries of member countries, including a seminar at the Joint Vienna Institute to introduce officials from the central banks of the Baltic countries, Russia, and other countries of the former Soviet Union to a proposed chart of accounts for central banks and to accounting for a member's position in the Fund in the balance sheet of the central bank. Several aide-mémoire on specific accounting questions raised by members were prepared by Treasurer's Department staff in 1994/95.

Bureau of Computing Services

The Bureau of Computing Services maintains a narrowly focused program of technical assistance, provided to member countries in direct support of the Fund's economic and financial operations. The Bureau assists in the modernization of computer systems in central banks or finance ministries and in the planning and development of systems for processing, analyzing, and reporting of economic, financial, and administrative information. During 1994/95, short-term missions were undertaken to Tanzania, Cambodia, the Lao People's Democratic Republic, Viet Nam, Georgia, Kazakhstan, the Republic of Yemen, and Haiti; the Bureau received five delegations from member countries for training, as well as visitors for technical discussions, during the financial year. Technical assistance was provided by external experts (108 weeks), contractuals (43 weeks), and staff (63 weeks).

Because of the expanding role of computer technology and networks within member country institutions, and given the increased importance placed on members' accurate maintenance and reporting of economic and financial data, the number of requests received by the Fund for short-term computer technical assistance is expected to grow.

Relations with Other International Organizations and External Relations

Relations with Other International Organizations

Maintaining close relations with other international and regional institutions that share common interests and goals has been a long-standing objective of the Fund. The fast-changing world economic situation has further strengthened the need for close cooperation among these organizations in areas such as international monetary and financial matters, developmental issues, and the environment. In addition to close collaboration with the World Bank, Fund staff work closely with the United Nations and its specialized agencies, the General Agreement on Tariffs and Trade (GATT), the Organization for Economic Cooperation and Development (OECD), the European Commission, the Bank for International Settlements (BIS), and several other organizations.

Liaison with international and regional organizations is provided by the three offices of the Fund located away from headquarters. The Director of the Fund Office in the United Nations and Special Representative to the United Nations monitors developments at the United Nations and ensures that the collaborative relationship with the UN and its specialized agencies is maintained and strengthened. The activities of the Office in Europe, which is located in Paris, are largely associated with maintaining close contact with the BIS, the European Commission, and the OECD, whereas the Geneva Office monitors, reports on, and analyzes the activities of such institutions as the GATT, the World Trade Organization (WTO), the UN Conference on Trade and Development (UNCTAD), the International Labor Organization (ILO), and other organizations that are based in Geneva. Staff and technical experts from headquarters supplement the work of these offices and provide operational linkages when the need arises. Fund staff also attend other forums, 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 recently celebrated the fiftieth anniversary of the Bretton Woods Conference, and, since their inception, the two organizations have enjoyed a unique relationship. Their close affiliation involves joint participation in missions, attendance at each other's Executive Board meetings and seminars, joint preparation of Policy Framework Papers, and papers on the environment. Cooperation between these institutions also includes the regular exchange of information and documents and, recently, the design and implementation of social policies. Fund staff regularly attend aid coordination meetings and donors' conferences held under the auspices of the World Bank.

The Fund has continued its cooperative arrangements with the Contracting Parties concerning activities of the GATT Council and several other standing GATT committees. In its Madrid Declaration of October 1994, the Interim Committee called for close cooperation between the Fund and the WTO, which had been established under the Final Act of the Uruguay Round and which came into existence on January 1, 1995. Existing arrangements for the presentation of the Fund's report at consultations of the GATT Committee on Balance of Payments Restrictions were extended to the WTO, including consultations in the area of services. Informal contacts between Fund and WTO staff have begun under the guidance of the Executive Board, with a view to establishing a comprehensive framework for collaboration with the WTO that builds on the existing Fund-GATT relationship.

As one of the sponsoring institutions, the Fund continues its active participation in the programs of the Joint Vienna Institute. The Joint Vienna Institute is a cooperative venture whose purpose is to provide training to economies in transition to market-based systems. It offers a wide variety of courses in economic and financial management and administration for public officials, training officers, and private sector executives from countries of central and eastern Europe, the Baltic countries, Russia, and other countries of the former Soviet Union, as well as from similar economies in Asia. In addition to the Fund, the other sponsors of the Joint Vienna Institute are the BIS, the European Bank for Reconstruction and Development (EBRD), the OECD, and the World Bank.

An important aspect in maintaining close relations with other international organizations is the Managing Director's participation in meetings and seminars, most notably those of the UN, where he addressed the High-Level Meeting of the UN Economic and Social Council (ECOSOC) in New York on June 27, 1994 and the UN International Conference on Population and Development held in Cairo on September 5, 1994. In February 1995, the Managing Director participated in the BIS Central Bank Governors' meeting in Basle and attended the meeting of the UN Administrative Committee on Coordination (ACC) in Vienna. He addressed the UN World Summit for Social Development in Copenhagen on March 7, 1995 and will again address the High-Level Meeting of ECOSOC in Geneva on July 6, 1995.

External Relations

Information and Public Affairs

During the financial year, the role and functions of the Fund received unprecedented public scrutiny, as the fiftieth anniversary of the Bretton Woods Conference and accompanying events, evolving developments in the countries in transition, especially Russia and Ukraine, and the events surrounding Mexico's financial crisis and its aftermath combined to focus global attention on the Fund. Questions about the future role of the Fund (as defined in well-publicized reports such as that produced by the Bretton Woods Commission),[1] the campaign against the Fund and World Bank spearheaded by the "50 Years Is Enough" coalition of international nongovernmental organizations (NGOs), and the Fund and Bank's own commemorative Anniversary Conference in Madrid[2] all contributed to a lively worldwide debate about the functions and policies of the Fund.

To respond to these demands, the Fund continued to enlarge its efforts to explain the work and policies of the institution to an ever-widening global audience. The Managing Director, the Deputy Managing Directors, and other senior staff delivered speeches on a wide range of domestic, regional, and global economic issues in both national and international forums. To complement this effort, the Managing Director held press conferences for the national and international press, both at Fund headquarters and overseas; in the interests of greater openness about its work, Fund management and senior staff gave an increasing number of on-the-record interviews to a broad spectrum of media, both print and electronic; and Fund staff members delivered papers and participated in a wide range of conferences, seminars, and symposiums.

The Fund's contacts with the international news media continued to expand during the year. Management and senior staff actively developed these contacts through interviews, press conferences, and briefings to the press, both at headquarters and in the field, to explain major issues and developments. As of the end of the financial year, nearly 300 staff members had taken media training courses to prepare themselves for press relations at headquarters and abroad.

During the financial year, the Fund also strengthened its public affairs activities with NGOs, the U.S. Congress, research institutes, private businesses, labor unions, and universities. Economic forums, international seminars, and briefings were organized at Fund headquarters for the general public, visiting parliamentarians, labor groups, and NGO representatives. In addition, a seminar on economic reform in Russia and other economies in transition was held in Moscow for 80 representatives from the academic community in Russia and other countries of the former Soviet Union (a number of leading financial and economic journalists also attended as observers); and a seminar on structural adjustment was organized for 55 labor leaders and representatives of international labor groups from central and eastern Europe in Baden-bei Wien, Austria. Several special public affairs projects were undertaken to commemorate the fiftieth anniversary of the Bretton Woods Conference, including an exhibit mounted at the Annual Meetings site in Madrid and later displayed at headquarters.

Publications

The higher level and intensity of the Fund's external relations activity during the financial year entailed more extensive use of traditional instruments for informing members and the public about the Fund's activities and related monetary and financial issues, as well as the introduction of new ways of communicating with a wider audience. The publication program continued to expand, and studies were initiated—on strategic planning for publications, optimal dissemination of non-English publications, and enhanced data collection for order fulfillment and distribution—to improve efficiency and dissemination within existing resources. Time-series information from the Fund's statistical data bases continued to be made available on

[1] Bretton Woods Commission, *Bretton Woods: Looking to the Future* (Washington, July 1994).

[2] James M. Boughton and K. Sarwar Lateef, eds., *Fifty Years After Bretton Woods: The Future of the IMF and the World Bank*, proceedings of a conference held in Madrid, Spain, September 29–30, 1994 (Washington: International Monetary Fund and World Bank, 1995).

CD-ROM or machine-readable magnetic tape, as well as in print, and for the first time a selection of Fund information was offered on the Internet (address: gopher.imf.org; or, through the World Wide Web: gopher://gopher.imf.org). In addition to publication in Russian of selected books and Economic Reviews, production began on a series of five video documentaries in Russian to provide accessible, informational support for the Fund's efforts to assist Russia, Ukraine, and other countries of the former Soviet Union in their transition to market economies.

The publication program expanded qualitatively as well, with an effort to make the contents of publications more timely and informative through greater coverage of economic developments in individual countries. In the 1994 *Annual Report*, the coverage of Article IV consultations with member countries was substantially increased to provide regional balance and to include summaries of economic background and data on member countries. Throughout 1994, the *World Economic Outlook*, published twice a year in English, French, Spanish, and Arabic and made available in Chinese through China Financial Publishing House, included increased presentation of actual data and projections for major economic and financial indicators in selected individual industrial, developing, and transition economies. The detail and coverage of this country analysis was further augmented in the spring 1995 World Economic Outlook exercise. In November 1994, the Fund launched a new publication series, IMF Staff Country Reports, to make documentation from its most recent Article IV consultations, with the member country's approval, available to the public. By the end of the financial year, 46 volumes had been issued in the series. To increase public awareness of Fund research and analysis on country, policy, and systemic issues, in addition to the annual *Catalog of Publications* and ongoing promotional activities, an index of IMF Working Papers and Papers on Policy Analysis and Assessment was published, listing studies issued in October 1986 through March 1995; an overview of research activities of the Fund from January 1991 through December 1993, categorized in ten subject areas, was also published during the year.

In the May and October 1994 published editions and the April 1995 press edition, the *World Economic Outlook* devoted special attention to job creation and policies for sustained growth in the industrial countries; performance lags, surges in capital flows, and policy challenges in the developing countries; stabilization, adjustment, disinflation, and foreign direct investment in the transition economies; global economic achievements since the Bretton Woods Conference; and the adequacy of global saving. Other volumes issued in the series of World Economic and Financial Surveys included background studies for the *World Economic Outlook* and studies of international capital markets (including bond market volatility, hedge funds, and regulation of derivatives), issues in international exchange and payments systems, developments in international trade policies with reference to completion of the Uruguay Round, official and private market financing for developing countries, and officially supported export credits.

Thirteen Occasional Papers were published during the financial year; topics covered were non-oil commodity prices, exchange rates and "fundamentals," the scope for improving the international monetary system, regional issues in sub-Saharan Africa and the Asia-Pacific Economic Cooperation Council, and economic developments in Poland, China, Morocco, Singapore, Lebanon, Uganda, Colombia, and Japan.

The series of Economic Reviews, established in 1992 to report developments in countries of central and eastern Europe, the Baltic countries, Russia, and other countries of the former Soviet Union, was expanded in 1993 to include other countries; among this latter group in 1994 were Cambodia and Viet Nam. Thirteen Economic Reviews were published in English during the financial year; selected Economic Reviews continued to be issued in Russian editions.

The Fund published seven books in English on various economic and financial issues during 1994/95, among them the proceedings of the Fund–World Bank Anniversary Conference held in Madrid on September 29–30, 1994. In *Staff Papers*, the Fund's quarterly economic journal, the number of articles written by consultant-scholars, providing analytical perspective from outside the Fund, increased during the year. The *IMF Survey*, the bi-weekly newsletter summarizing Fund policies and activities and world developments related to the Fund's work, expanded its coverage to include interviews with senior Fund officials, more country articles, more detailed data on lending and technical assistance, and more information on the availability of Fund documents and publications. The annual *IMF Survey Supplement on the IMF* was made available in Arabic. The monthly *IMF Memorandum* for the press continued to summarize key indicators from the Fund's major statistical publications. During the year, *Staff News*, the quarterly internal newsletter of Fund staff, included stories about the increased involvement of the staff in voluntary community service in the greater Washington, D.C. metropolitan area.

A complete list of publications issued during the financial year appears in Table IV.1.

Table IV.1
PUBLICATIONS ISSUED, FINANCIAL YEAR ENDED APRIL 30, 1995

Reports and Other Documents

Annual Report of the Executive Board for the Financial Year Ended April 30, 1994
(English, French, German, and Spanish). Free.

Exchange Arrangements and Exchange Restrictions, Annual Report 1994
$70.00 ($35.00 to full-time university faculty members and students).

Selected Decisions of the International Monetary Fund and Selected Documents, Nineteenth Issue
(English). Free.

IMF Staff Country Reports Released to the Public During 1994/95

No. 94/1	Zimbabwe	Recent Economic Developments
No. 94/2	Lesotho	Recent Economic Developments
No. 94/3	Togo	Recent Economic Developments
No. 94/4	Malaysia	Recent Economic Developments
No. 94/5	Guinea	Statistical Annex
No. 94/6	Zambia	Statistical Appendix
No. 94/7	Bhutan	Recent Economic Developments
No. 94/8	Croatia	Background Notes and Statistical Appendix
No. 94/9	Burkina Faso	Statistical Annex
No. 94/10	El Salvador	Recent Economic Developments
No. 94/11	Mali	Recent Economic Developments
No. 94/12	St. Vincent and the Grenadines	Recent Economic Developments
No. 94/13	Western Samoa	Recent Economic Developments
No. 94/14	Seychelles	Statistical Annex
No. 94/15	Ethiopia	Recent Economic Developments
No. 95/1	Botswana	Background Papers and Statistical Appendix
No. 95/2	Costa Rica	Recent Economic Developments
No. 95/3	Cyprus	Recent Economic Developments
No. 95/4	Eritrea	Recent Economic Developments
No. 95/5	Cameroon	Background Papers and Statistical Appendix
No. 95/6	Comoros	Recent Economic Developments
No. 95/7	Kazakhstan	Background Paper and Statistical Appendix
No. 95/8	Belgium	Selected Background Issues
No. 95/9	Cape Verde	Background Issues and Statistical Update
No. 95/10	Fiji	Recent Economic Developments
No. 95/11	Mongolia	Background Paper
No. 95/12	Sudan	Recent Economic Developments
No. 95/13	Colombia	Recent Economic Developments
No. 95/14	Belize	Recent Economic Developments
No. 95/15	Suriname	Recent Economic Developments
No. 95/16	Trinidad and Tobago	Economic Developments and Selected Issues
No. 95/17	Tunisia	Statistical Annex
No. 95/18	Bangladesh	Statistical Appendix
No. 95/19	Honduras	Recent Economic Developments
No. 95/20	Mauritania	Recent Economic Developments
No. 95/21	South Africa	Selected Economic Issues
No. 95/22	Switzerland	Recent Economic Developments
No. 95/23	Uzbekistan	Background Paper and Statistical Appendix
No. 95/24	Bolivia	Statistical Annex
No. 95/25	Jamaica	Statistical Appendix
No. 95/26	Norway	Recent Economic Developments
No. 95/27	Turkmenistan	Background Paper and Statistical Appendix
No. 95/28	Vanuatu	Recent Economic Developments
No. 95/29	Australia	Background Material
No. 95/30	Niger	Statistical Annex
No. 95/31	Chad	Background Issues and Statistical Update

$15.00 each.

Table IV.1 (*continued*)

Periodic Publications

Balance of Payments Statistics Yearbook
Vol. 45. A two-part yearbook. $56.00 a year.

Direction of Trade Statistics
Quarterly, with yearbook. $96.00 a year. $48.00 to full-time university faculty members and students. $30.00 for yearbook only.

Government Finance Statistics Yearbook
Vol. 18, 1994 (Introduction and titles of lines in English, French, and Spanish). $54.00.

International Financial Statistics
Monthly, with yearbook (English, French, and Spanish) $218.00 a year. $109.00 to full-time university faculty members and students. $50.00 for yearbook only.

Staff Papers
Four times a year. $50.00 a year. $25.00 to full-time university faculty members and students.

The five publications listed above may be obtained at a special rate of $330.00 ($165.00 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. *International Financial Statistics* is also available on CD-ROM. Price information is available on request.

The IMF Committee on Balance of Payments Statistics, Annual Report, 1994.

Finance and Development
Issued jointly with the World Bank; quarterly (English, Arabic, Chinese, French, German, Portuguese, and Spanish). Free.
Airspeed delivery, $20.00.

IMF Survey
Twice monthly, but only once in December (English, French, and Spanish). Private firms and individuals are charged at an annual rate of $79.00.

Occasional Papers

No. 112. *The Behavior of Non-Oil Commodity Prices*
By Eduardo Borensztein, Mohsin S. Khan, Carmen M. Reinhart, and Peter Wickham.

No. 113. *Poland: The Path to a Market Economy*
By Liam P. Ebrill, Ajai Chopra, Charalambos Christofides, Paul Mylonas, Inci Otker, and Gerd Schwartz.

No. 114. *Economic Reform in China: A New Phase*
By Wanda Tseng, Hoe Ee Khor, Kalpana Kochhar, Dubravko Mihaljek, and David Burton.

No. 115. *Exchange Rates and Economic Fundamentals: A Framework for Analysis*
By Peter B. Clark, Leonardo Bartolini, Tamim Bayoumi, and Steven Symansky.

No. 116. *Improving the International Monetary System: Constraints and Possibilities*
By Michael Mussa, Morris Goldstein, Peter B. Clark, Donald J. Mathieson, and Tamim Bayoumi.

No. 117. *Resilience and Growth Through Sustained Adjustment: The Moroccan Experience*
By Saleh M. Nsouli, Sena Eken, Klaus Enders, Van-Can Thai, Jörg Decressin, and Filippo Cartiglia, with Janet Bungay.

No. 118. *Sub-Saharan Africa: Growth, Savings, and Investment*
By Michael T. Hadjimichael, Dhaneshwar Ghura, Martin Mühleisen, Roger Nord, and E. Murat Uçer.

No. 119. *Singapore: A Case Study in Rapid Development*
Edited by Kenneth Bercuson.

No. 120. *Economic Dislocation and Recovery in Lebanon*
By Sena Eken, Paul Cashin, S. Nuri Erbas, Jose Martelino, and Adnan Mazarei.

No. 121. *Uganda: Adjustment with Growth, 1987–94*
By Robert L. Sharer, Hema R. De Zoysa, and Calvin A. McDonald.

No. 122. *Capital Flows in the APEC Region*
Edited by Mohsin S. Khan and Carmen M. Reinhart.

No. 123. *Comprehensive Tax Reform: The Colombian Experience*
Edited by Parthasarathi Shome.

No. 124. *Saving Behavior and the Asset Price "Bubble" in Japan: Analytical Studies*
Edited by Ulrich Baumgartner and Guy Meredith.

Occasional Papers Nos. 80–86 are available for $10.00 each, with a special price of $7.50 each to full-time university faculty members and students, and Nos. 87–124 are $15.00 each, with a special price of $12.00 each to full-time university faculty members and students.

World Economic and Financial Surveys

World Economic Outlook: A Survey by the Staff of the International Monetary Fund
Twice a year (May and October) (Arabic, English, French, and Spanish).
$34.00 ($23.00 to full-time university faculty members and students).

Table IV.1 (*continued*)

International Capital Markets: Developments, Prospects, and Policy Issues
By a staff team led by Morris Goldstein and David Folkerts-Landau.
$20.00 ($12.00 to full-time university faculty members and students).

Issues in International Exchange and Payments Systems
By a staff team from the Monetary and Exchange Affairs Department.
$20.00 ($12.00 to full-time university faculty members and students).

International Trade Policies: The Uruguay Round and Beyond
Vol. I. Principal Issues
By a staff team led by Naheed Kirmani.
$20.00 ($12.00 to full-time university faculty members and students).

International Trade Policies: The Uruguay Round and Beyond
Vol. II. Background Papers
By a staff team led by Naheed Kirmani.
$20.00 ($12.00 to full-time university faculty members and students).

Officially Supported Export Credits: Recent Developments and Prospects
By Michael G. Kuhn, Balazs Horvath, and Christopher J. Jarvis.
$20.00 ($12.00 to full-time university faculty members and students).

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By a staff team in the Policy Development and Review Department.
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Books

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Edited by Richard C. Barth and Chorng-Huey Wong.
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Edited by J.B. Zulu, Ian S. McCarthy, Susana Almuiña, and Gabriel Sensenbrenner.
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No. 16. Russian Federation (English and Russian)
No. 17. Ukraine (English and Russian)

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Table IV.1 (*concluded*)

Pamphlets

No. 45. *Financial Organization and Operations of the IMF*
By the Treasurer's Department. Third edition (French, Spanish, Russian). Free.

No. 47. *Social Dimensions of the IMF's Policy Dialogue*
By the Fiscal Affairs and Policy Development and Review Departments (English). Free.

Booklets

The Baltic States in Transition
By John M. Starrels (Russian). Free.

The IMF at Fifty: Facing the Challenges Ahead
By Michel Camdessus (English, French, Spanish). Free.

IMF Working Papers and Papers on Policy Analysis and Assessment: October 1986–March 1995 (English). Free.

Research Activities of the International Monetary Fund: January 1991–December 1993 (English). Free.

Pacific Island IMF Member Countries: Recent Economic Developments and Medium-Term Prospects
By Christopher Browne (English). Free.

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.
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PRINCIPAL POLICY DECISIONS OF THE EXECUTIVE BOARD

A. Surveillance over Exchange Rate Policies—Review and Amendment of 1977 Document

The Executive Board has reviewed the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63),[1] adopted April 29, 1977, as amended, as required by paragraph 2 of that decision. In light of this review, it decides that paragraphs 2 and 3 of the section entitled "Principles of Fund Surveillance over Exchange Rate Policies" shall read as follows:

> 2. In its surveillance of the observance by members of the principles set forth above, the Fund shall consider the following developments as among those which might indicate the need for discussion with a member:
>
> (i) protracted large-scale intervention in one direction in the exchange market;
>
> (ii) an unsustainable level of official or quasi-official borrowing, or excessive and prolonged short-term official or quasi-official lending, for balance of payments purposes;
>
> (iii) (a) the introduction, substantial intensification, or prolonged maintenance, for balance of payments purposes, of restrictions on, or incentives for, current transactions or payments, or
>
> (b) the introduction or substantial modification for balance of payments purposes of restrictions on, or incentives for, the inflow or outflow of capital;
>
> (iv) the pursuit, for balance of payments purposes, of monetary and other domestic financial policies that provide abnormal encouragement or discouragement to capital flows;
>
> (v) behavior of the exchange rate that appears to be unrelated to underlying economic and financial conditions including factors affecting competitiveness and long-term capital movements; and
>
> (vi) unsustainable flows of private capital.
>
> 3. The Fund's appraisal of a member's exchange rate policies shall be based on an evaluation of the developments in the member's balance of payments, including the size and sustainability of capital flows, against the background of its reserve position and its external indebtedness. This appraisal shall be made within the framework of a comprehensive analysis of the general economic situation and economic policy strategy of the member, and shall recognize that domestic as well as external policies can contribute to timely adjustment of the balance of payments. The appraisal shall take into account the extent to which the policies of the member, including its exchange rate policies, serve the objectives of the continuing development of the orderly underlying conditions that are necessary for financial stability, the promotion of sustained sound economic growth, and reasonable levels of employment.
>
> The next review of the document shall be conducted no later than September 15, 1996.

Decision No. 10950-(95/37)
April 10, 1995

B. Access Policy—Guidelines on Access Limits—Review

1. Pursuant to Decision No. 10181-(92/132),[2] adopted November 3, 1992, the Fund has reviewed the guidelines and the limits for access to the Fund's general resources under the credit tranches and the extended Fund facility, and decides that during a period of three years from October 24, 1994, the annual access limit shall be increased from 68 percent of quota to 100 percent of quota. Accordingly, during that period, the Fund may approve outright purchases in the credit tranches and stand-by or extended arrangements for up to a total annual amount of purchases of 100 percent of quota. During that period, the other provisions of Decision No. 10181-(92/132) will continue to apply.

2. This decision shall be reviewed annually, at the time of the reviews prescribed by Decision No. 10181-(92/132).

Decision No. 10819-(94/95)
October 24, 1994

[1]See *Selected Decisions*, Nineteenth Issue (June 30, 1994), pages 8–13.

[2]Ibid., pages 185–86.

C. Compensatory and Contingency Financing Facility—Compensatory Financing of Fluctuations in Cost of Cereal Imports—Extension

Paragraph 23 of Section IV of the Decision on the Compensatory and Contingency Financing Facility (Decision No. 8955-(88/126),[3] adopted August 23, 1988, as amended), shall be amended to read as follows:

> Until January 13, 1996, 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.

Decision No. 10725-(94/58)
June 24, 1994

D. Operational Budget—Review of Guidelines for Allocation of Currencies

The Fund has reviewed the guidelines for the use of currencies under the Fund's operational budget approved by Decision No. 10279-(93/19),[4] adopted February 10, 1993, and decides that they remain appropriate. These guidelines will be reviewed again by the Fund not later than December 31, 1996.

Decision No. 10904-(95/13)
February 6, 1995

E. Official Clearing and Payments Arrangements—Temporary Exemption from Three-Month Rule

Pending completion of the forthcoming review of the jurisdictional aspects of official clearing and payments arrangements, the Fund shall not object to the maintenance in existing official clearing or payments arrangements of settlement provisions that do not require the settlement of balances at least as frequently as every three months if such provisions were in force before July 1, 1994.

Decision No. 10749-(94/67)
July 20, 1994

F. Fund's Income Position

(a) Rate of Charge as of November 1, 1994; and Retroactive Reduction of Rate of Charge for FY 1995 and Increase in Net Income Target for FY 1996

Effective November 1, 1994, the proportion of the rate of charge under Rule I-6(4)(a) shall be 112.0 percent. Net income for financial year (FY) 1995 in excess of 5 percent of the Fund's reserves at the beginning of the year shall be used first to reduce retroactively the proportion of the rate of charge under Rule I-6(4)(a) for the period May 1, 1994 to October 31, 1994 to the extent possible but not below 112.0 percent. Any remaining amount of net income at the end of FY 1995 in excess of the target amount shall be used to reduce further the proportion effective May 1, 1994. If net income for FY 1995 is below the target amount for that year, the net income target for FY 1996 shall be increased by the equivalent of that shortfall.

Decision No. 10850-(94/107)
December 9, 1994

(b) Disposition of Net Income for FY 1995

The Fund's net income for financial year 1995 of SDR 85,073,615 shall be placed to the Special Reserve after the end of the financial year.

Decision No. 10957-(95/40)
April 14, 1995

(c) Net Income Target and Rate of Charge on Use of Fund Resources for FY 1996

1. The target amount of net income for financial year 1996 shall be 5 percent of the Fund's reserves at the beginning of the financial year.

2. Effective May 1, 1995, the proportion of the rate of charge referred to in Rule I-6(4) to the SDR interest rate under Rule T-1 shall be 102.5 percent.

3. Any net income for financial year 1996 in excess of the target amount of net income 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 for financial year 1996. If net income for financial year 1996 is below the target amount for that year, the net income target for financial year 1997 shall be increased by the equivalent of that shortfall.

Decision No. 10962-(95/41)
April 19, 1995

G. Stand-By and Extended Arrangements Approved During 1988–91—Review of Experience

1. Pursuant to Decision No. 9790-(91/106),[5] adopted July 31, 1991, the Fund has reviewed the experience with recent programs supported by the stand-by and extended arrangements and decides that the guidelines on conditionality will remain in force in the present circumstances.

2. The Fund decides to postpone until an appropriate time the review of the provisions of the extended Fund facility envisaged in Section 3 of Decision No. 9790-(91/106).

[3] Ibid., pages 128–55.
[4] Ibid., pages 199–200.
[5] Ibid., pages 102–103.

3. The Fund will again review the experience with programs supported by stand-by and extended arrangements at an appropriate time pursuant to paragraph 12 of the guidelines on conditionality.

Decision No. 10723-(94/58)
June 30, 1994

H. Increase in Quotas of Members

(a) Periods for Consent to and Payment for Increases in Quotas Under Ninth General Review—Extension

1. Pursuant to Paragraph 4 of the Resolution of the Board of Governors No. 45-2, "Increases in Quotas of Members—Ninth General Review," the Executive Board decides that notices in accordance with Paragraph 2 of that Resolution must be received in the Fund before 6:00 p.m., Washington time, on June 30, 1995.

2. Pursuant to Paragraph 5 of the Board of Governors Resolution 45-2, the Executive Board decides that each member shall pay to the Fund the increase in its quota under the Ninth Review within 961 days after the later of (a) the date on which it notifies the Fund of its consent or (b) November 11, 1992.

Decision No. 10872-(95/1)
December 23, 1994

(b) Tenth General Review of Quotas—Report to Board of Governors and Proposed Resolution

1. Article III, Section 2(a) of the Articles of Agreement provides that "[t]he Board of Governors shall at intervals of not more than five years conduct a general review, and if it deems it appropriate propose an adjustment, of the quotas of the members." This Report and the attached Resolution on the Tenth General Review of Quotas are submitted to the Board of Governors in accordance with Article III, Section 2.

2. The five-year period prescribed by Article III, Section 2(a) for the Tenth General Review of Quotas ended on March 31, 1993, five years from the date on which the Ninth General Review of Quotas should have been concluded. As the Tenth General Review was not completed by March 31, 1993, the Board of Governors decided to continue its review of quotas under the Tenth General Review (Resolution No. 48-3,[6] adopted April 14, 1993). That Resolution was as follows:

RESOLVED:

That the Board of Governors, having noted the report of the Executive Board entitled Increases in Quotas of Members—Tenth General Review, hereby resolves to continue its review under Article III, Section 2(a) and requests the Executive Board to complete its work on this matter and to submit a report together with appropriate proposals to the Board of Governors not later than December 31, 1994.

3. The Executive Board established a Committee of the Whole on the Tenth General Review of Quotas on March 31, 1992 in accordance with Rule D-3. The Committee met on March 18, 1994 and on December 12, 1994. The Committee undertook a substantive review of the issues relating to the Tenth Review including a review of the quota formulas, as called for in the Executive Board's report to the Board of Governors on the Ninth Review.

4. The Executive Board reviewed the working of the quota formulas and the results of quota calculations based on the present five formulas and updated economic data for members through 1990. The Executive Board noted that the results of the quota formulas purport to give a reasonably comprehensive measure of the relative economic size of member countries, and the Executive Board is of the view that the quota formulas are broadly working as intended. However, in connection with its work in connection with the Eleventh General Review, the Executive Board intends to examine further the extent to which a number of countries have actual quota shares that remain substantially out of line with their shares in the total of calculated quotas, issues relating to the long-run decline in the share of developing countries in the total of Fund quotas, the use of population and other variables in the quota formulas, and a review of the methodology employed in calculating quotas for the successor states of the former Soviet Union.

5. In connection with its work on the Tenth General Review, the Executive Board has considered the adequacy of the quotas of members in the Fund. The Executive Board is of the view that the overall size of the Fund is for the time being broadly sufficient to enable the Fund to promote effectively its purposes and to fulfill its central role in the international monetary system. In coming to this conclusion, the Executive Board noted that the increase in quotas under the Ninth General Review, which came into effect in late 1992, provided the Fund with substantial usable resources. Furthermore, the recent increase in access limits to the Fund's resources over the next three years, the establishment of the systemic transformation facility in April 1993, and the possible extension, with augmented access, of that facility, as well as the possible development of further facilities, would enable the Fund to meet members' needs for balance of payments assistance in the period ahead. The Executive Board also noted that the recent extension and enlargement of the enhanced structural adjustment facility will be of increased benefit to the Fund's low-

[6]Ibid., page 502.

income developing countries over the next few years. The Executive Board expressed its view that the Fund is at present relatively well-positioned to meet a prospective substantial demand for its resources over the next three years. Nevertheless, the Fund's liquidity position is expected to decline over the next few years from its currently strong position. Furthermore, considerable uncertainties can be expected as regards the supply of usable resources, which depends on the continued relative strength in the balance of payments and reserve positions of mainly the industrial countries in the Fund. The continued adequacy of members' quotas, including the Fund's liquidity position, will be closely monitored by the Executive Board in the period ahead.

6. In view of the foregoing considerations, it is recommended that the work on the Tenth Review be concluded and that the Board of Governors adopt the Resolution set forth in the attachment to this report.

Attachment
Proposed Resolution of the Board of Governors

The Board of Governors, having noted the Report of the Executive Board entitled *Tenth General Review of Quotas—Completion of Review Under Article III, Section 2,*

RESOLVED:

That the Tenth General Review of Quotas is hereby completed and requests the Executive Board to continue its work on quotas in connection with the Eleventh General Review of Quotas, as indicated in its report entitled *Tenth General Review of Quotas—Completion of Review Under Article III, Section 2.*

Board of Governors Resolution No. 50-1
January 17, 1995

I. Systemic Transformation Facility

(a) Amendments

Paragraph 4(a) of the Decision on the Systemic Transformation Facility (Decision No. 10348-(93/61) STF,[7] adopted April 23, 1993) is amended by deleting "12 months" and replacing it with "18 months."

Decision No. 10760-(94/71) STF
July 29, 1994

In the Decision on the Systemic Transformation Facility (Decision No. 10348-(93/61) STF, adopted April 23, 1993, as amended), paragraphs 1(a) and 11 are amended by deleting the references to "December 31, 1994" and by replacing them with "April 30, 1995."

Decision No. 10855-(94/109) STF
December 14, 1994

(b) Future

The period of the systemic transformation facility is not extended. In accordance with the terms of the decision establishing this facility, the period within which a member may make a first purchase will expire on April 30, 1995. With respect to members that will have only made their first purchase by April 30, 1995, the period during which they may make their second purchase will expire on December 31, 1995.

Decision No. 10961-(95/41) STF
April 19, 1995

J. Establishment of a Framework Administered Account for Technical Assistance Activities

1. Pursuant to Article V, Section 2(b), the Fund adopts the Instrument to establish an account for the administration by the Fund of resources to be contributed by: (i) governments or other official agencies of countries and (ii) intergovernmental organizations, in accordance with the terms and conditions of the Instrument set forth in the Annex [to the staff paper].

2. The provisions of the Instrument may only be amended by a decision of the Fund and with the concurrence of the contributors that are financing activities through the account at the time of such decision.

Decision No. 10942-(95/33)
April 3, 1995

Annex
Instrument for a Framework Administered Account for Technical Assistance Activities

To help fulfill its purposes, the International Monetary Fund (the "Fund") has adopted this Instrument to establish an account in accordance with Article V, Section 2(b) which shall be governed by, and administered in accordance with, the provisions of this Instrument.

1. The Fund hereby establishes an account (the "Framework Account") for the purpose of the administration of resources to be contributed by: (i) governments or other official agencies of countries and (ii) intergovernmental organizations ("Donors"), in order to finance technical assistance activities of the Fund.

2. The resources contributed by Donors to the Framework Account shall be in the form of grants and may be used by the Fund for technical assistance activities consistent with its purposes in accordance with the procedure specified in paragraph 3 of this Instrument.

[7] Ibid., pages 177–81.

3. The financing of technical assistance activities shall be implemented through the establishment and operation of subaccounts within the Framework Account. The establishment of a subaccount shall be subject to prior approval by the Fund, upon the recommendation of the Managing Director. When recommending approval of the establishment of a subaccount, the Managing Director shall specify the essential terms of the understandings that have been reached between the Donor and the Managing Director regarding (i) the nature, design, and implementation of the technical assistance activities to be financed from the subaccount in question and (ii) the method by which the costs of the technical assistance activities will be financed from resources contributed to the subaccount by the Donor. Following the establishment of a subaccount, the Fund shall be authorized to use the resources in the subaccount in accordance with the understandings reached between the Donor and the Managing Director.

4. Costs charged to a subaccount of the Framework Account as a result of costs incurred by the Fund in the performance of technical assistance activities shall be based on standard costs as determined by the Fund, unless otherwise agreed between the Fund and the Donor. A subaccount shall also be charged an amount equivalent to a percentage of such costs so as to help cover the expenses incurred by the Fund in the administration of the technical assistance activities financed from the subaccount in question.

5. Resources in a subaccount may be used to make disbursements to the Fund's General Resources Account as required to reimburse the Fund for expenditures incurred by the Fund on account of any technical assistance activity financed by resources from such subaccount.

6. All transactions and operations of the Framework Account shall be denominated in U.S. dollars.

7. Resources held in a subaccount of the Framework Account pending disbursement shall be invested at the discretion of the Managing Director. Earnings net of any costs associated with such investments shall accrue to the subaccount and shall be available for the purposes of the subaccount.

8. Subject to the requirement of Fund approval specified in paragraph 3, the Managing Director is authorized (i) to make all arrangements, including establishment of accounts in the name of the Fund, as he deems necessary to carry out the operations of the Framework Account; and (ii) to take all other measures he deems necessary to implement the provisions of this Instrument.

9. Assets held in the Framework Account shall be accounted for separately from the assets and property of other accounts of, or administered by, the Fund. The assets and property held in such other accounts shall not be used to discharge or meet any liabilities, obligations, or losses of the Fund incurred in the administration of the Framework Account nor shall the assets of the Framework Account be used to discharge or meet any liabilities, obligations, or losses incurred by the Fund in the administration of such other accounts. The assets and property held in each subaccount of the Framework Account shall not be used to discharge or meet any liabilities, obligations, or losses of the Fund incurred in the administration of any other subaccount of the Framework Account.

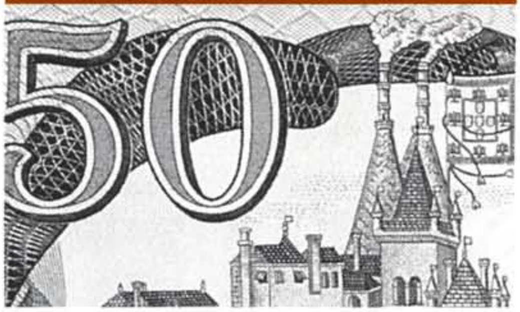
10. (a) The Fund shall maintain separate financial records and prepare separate financial statements for the Framework Account. Such records and statements, which shall include a breakdown with respect to each subaccount, will be maintained in accordance with generally accepted accounting principles. The financial statements for the Framework Account shall be expressed in U.S. dollars. Each Donor shall receive annually, or more often if agreed, a report on expenditures from that Donor's contributions to the Framework Account and a review of the activities financed by that Donor through the Framework Account.

(b) The External Audit Committee selected under Section 20 of the Fund's By-Laws shall audit the operations and transactions conducted through the Framework Account. The audit shall relate to the financial year of the Fund.

(c) The Fund shall report on the position of the Framework Account, including a breakdown with respect to each subaccount, in the *Annual Report* of the Executive Board to the Board of Governors and shall include in that *Annual Report* the report of the External Audit Committee on the Framework Account.

11. Subject to the provisions of this Instrument, the Fund, in administering the Framework Account, shall apply, mutatis mutandis, the same rules and procedures as apply to the operation of the General Resources Account of the Fund.

12. The Framework Account or any subaccount thereof may be terminated by the Fund at any time; the termination of the Framework Account shall terminate each subaccount thereof. A subaccount may also be terminated by the Donor of the resources to the subaccount. Termination shall be effective on the date that the Fund or the Donor, as the case may be, receives notice of termination, or such later date, if any, as may be specified in the notice of termination. Any balances, net of the amounts of continuing liabilities and commitments under the activities financed, that may remain in a subaccount upon its termination shall be transferred promptly to the contributing Donor.



Press Communiqués of the Interim Committee and the Development Committee

Interim Committee of the Board of Governors on the International Monetary System

PRESS COMMUNIQUÉS

Forty-Third Meeting, Madrid, Spain, October 2, 1994

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its forty-third meeting in Madrid, Spain, on October 2, 1994, under the chairmanship of Mr. Philippe Maystadt, Minister of Finance of Belgium.

2. Meeting at a time of encouraging developments in the world economy, the Committee focused on the policies required to sustain a noninflationary expansion, reduce unemployment, and raise living standards worldwide. It recalled the contribution of policy cooperation to global economic progress in the fifty years since the Bretton Woods Agreement, and reaffirmed the growing importance of such cooperation in a highly integrated global economy. In this spirit, the Committee adopted the attached declaration on cooperation to strengthen the global expansion.

3. In order to complement and support this strategy for durable growth, the Interim Committee considered several measures to strengthen the Fund's financial assistance to member countries.

With regard to access to IMF resources, the Committee considered a proposal for a temporary increase in annual access limits from 68 percent to at least 85 percent of quota. Committee members recommended that the Executive Board further consider this proposal with a view to its early adoption.

The Committee had a broad-ranging exchange of views with regard to the proposal to extend the systemic transformation facility with increased access. The Committee also had a broad-ranging exchange of views relating to proposals for allocation of special drawing rights. Committee members requested the Chairman to conduct further consultations and to call a meeting of the Committee when he judges that the prospects for resolution of these issues are favorable.

4. The Committee requests the Executive Board to accelerate its consideration of issues relating to the distribution among member countries of the cost of operating the Fund with a view to ensuring a more effective and equitable mechanism.

5. The Committee recognizes the special needs and problems of countries emerging from economic and political disruption and also of the poorest, most indebted countries, and requests the Executive Board to examine proposals in these areas.

6. The Committee attaches great importance to the ongoing effort to enhance the Fund's role in the international monetary system and its ability to serve its member countries. The Committee requests the Executive Board to pursue its work on strengthening Fund surveillance, as the central element of the Fund's contribution to better economic policies and more effective cooperation, and to continue its work on capital markets. With that objective in mind, the Committee requests for its Spring meeting a report on the methodological aspects of multilateral surveillance. Committee members affirmed their intention to reinforce the Committee's role in the process of policy cooperation and coordination, having particularly in mind the medium-term strategy.

Interim Committee Declaration on Cooperation to Strengthen the Global Expansion

1. The immediate prospects for economic growth in the world economy are better than they have been at any time in this decade. But serious policy challenges remain. For the industrial countries the most

important are to sustain economic growth, reduce unemployment, and prevent a resurgence of inflation. Growth in the developing countries (and in particular, in the poorest countries) must be maintained and extended. The economies in transition must be integrated into the international economy and set firmly on the path of sustainable growth.

2. The planned entry into force of the Uruguay Round trade agreements on January 1, 1995, will enhance world economic prospects by deepening global economic integration. The Committee urges ratification of the agreements without delay, and calls for action to sustain the impetus of trade liberalization and for close cooperation between the Fund and the proposed WTO. The Committee also welcomes the growing trend toward currency convertibility and encourages member countries to remove impediments to the free flow of capital.

3. The recent success of many developing economies illustrates once again the validity of a strategy based on steadfast implementation of strong programs of macroeconomic adjustment and structural reform. The Committee urges other countries to follow a similar bold strategy for sustained economic growth and domestic and external financial stability. Such efforts by developing countries must be supported by a global environment characterized by improved access to industrial country markets and timely financial support on appropriate terms, including a flexible approach to official bilateral debt reduction for low-income countries, in the context of strong policies.

4. The impressive turnaround in several economies in transition also attests to the benefits of macroeconomic discipline and structural reforms. The Committee urges all other economies in transition to be bolder in their approaches to stabilization and reform. Experience has demonstrated the central importance of early fiscal reforms and firm monetary discipline in the early stages of the transformation process to achieve financial stability. This needs to be accompanied by institution building, price and external sector liberalization, enterprise restructuring and privatization, and financial sector reform. Social safety nets that are well targeted and cost efficient are also necessary, to alleviate the adverse impact of higher open unemployment. As in the case of developing countries, the Committee recognizes the importance of a supportive international environment.

5. The improved economic outlook for the industrial countries creates an opportunity for them to strengthen growth and reduce unemployment, while safeguarding the progress toward price stability. The Committee attaches particular importance to the following three elements of a common strategy.

• Structural reforms to eliminate impediments to sustained growth, including steps to dismantle nontariff trade barriers and to ensure the long-term financial viability of health care and public pension systems. The Committee notes that problems of long-term unemployment and lack of jobs for young and unskilled persons should be addressed by efforts to improve education and training and by fundamental labor market reforms to reduce disincentives to employment.

• A strengthening of fiscal consolidation efforts in 1995 and beyond as part of a medium-term strategy to significantly reduce fiscal deficits beyond the effects of cyclical recovery, and cut debt-to-GDP ratios, thereby facilitating lower real interest rates. The Committee notes in particular that countries with especially serious fiscal problems must not delay major corrective action.

• Readiness to adjust monetary conditions to maintain price stability, as a condition for sustaining medium-term growth, including by timely increases in interest rates with a view to preventing the emergence of inflationary pressures. This will reinforce the hard-won credibility of anti-inflationary monetary policies.

6. The Interim Committee will review progress in implementing the agreed common strategy at its Spring 1995 meeting.

Annex: Interim Committee Attendance
October 2, 1994

Chairman

Philippe Maystadt, Minister of Finance, Belgium

Managing Director

Michel Camdessus

Members or Alternates

Hamad Al-Sayari, Governor, Saudi Arabian Monetary Agency (Alternate for Mohammad Abalkhail, Minister of Finance and National Economy, Saudi Arabia)
Edmond Alphandéry, Minister of Economy, France
Ahmed Humaid Al-Tayer, Minister of State for Finance and Industry, United Arab Emirates
Anwar Ibrahim, Deputy Prime Minister and Minister of Finance, Malaysia
Lloyd M. Bentsen, Secretary of the Treasury, United States
Domingo Felipe Cavallo, Minister of Economy and Public Works and Services, Argentina
Kenneth Clarke, Chancellor of the Exchequer, United Kingdom
Eneas Da Conceicao Comiche, Minister of Finance, Mozambique
Lamberto Dini, Minister of the Treasury, Italy
Marcel Doupamby Matoka, Minister of Finance, Budget, and Participations, Gabon

Ciro Ferreira Gomes, Minister of Finance, Brazil
Torstein Moland, Governor, Norges Bank (Alternate for Sigbjoern Johnsen, Minister of Finance, Norway)
Abdelouahab Keramane, Governor, Banque d'Algérie
Paul Martin, Minister of Finance, Canada
Jacques Santer, Prime Minister and Minister of Treasury, Luxembourg (Item 2), Ivan Kocarnik, Deputy Prime Minister and Minister of Finance, Czech Republic (Item 3), and Ferdinand Lacina, Federal Minister of Finance, Austria (Item 5) (Alternates for Philippe Maystadt, Minister of Finance, Belgium)
Aleksandr N. Shokhin, Deputy Prime Minister, Russian Federation
Manmohan Singh, Minister of Finance, India
Pedro Solbes, Minister of Economy and Finance, Spain
Otto Stich, Minister of Finance, Switzerland
Yasushi Mieno, Governor, The Bank of Japan (Alternate for Masayoshi Takemura, Minister of Finance, Japan)
Theo Waigel, Federal Minister of Finance, Germany
Ralph Willis, Treasurer, Australia
Gerrit Zalm, Minister of Finance, Netherlands
Chen Yuan, Deputy Governor, People's Bank of China (Alternate for Zhu Rongji, Vice Premier and Governor, People's Bank of China)

Observers

Mourad Cherif, Chairman, Joint Development Committee
Henning Christophersen, Vice President, CEC
Andrew D. Crockett, General Manager, BIS
Roger Lawrence, Deputy to the Secretary-General, Global Interdependence Division, UNCTAD
Jean-Claude Milleron, Under-Secretary-General, Department of Economic and Social Information and Policy Analysis, UN
Lewis T. Preston, President, World Bank
Peter D. Sutherland, Director-General, GATT
Salvatore Zecchini, Assistant-Secretary-General, OECD

Forty-Fourth Meeting, Washington, D.C., April 26, 1995

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its forty-fourth meeting in Washington, D.C., on April 26, 1995 under the chairmanship of Mr. Philippe Maystadt, Minister of Finance of Belgium.

2. The Committee welcomed the entry into force of the Uruguay Round agreement and the formation of the World Trade Organization, and encouraged the Bretton Woods institutions to develop a close relationship with it in promoting an open exchange and trade system. The Committee noted that developments in the world economy have been generally favorable, and provide an opportunity that countries should use wisely, by implementing policies to achieve the objectives set out in the Declaration on Cooperation to Strengthen the Global Expansion adopted in Madrid in October 1994.

3. In reviewing progress in implementing the Madrid Declaration, the Committee reaffirmed its intention to reinforce the Committee's role in the process of policy cooperation and coordination, having particularly in mind the medium-term strategy. In this context the Committee observed that:

- In the industrial countries, growth has been stronger than expected, and inflation has remained moderate. The Committee welcomed the timely increases in interest rates to dampen incipient inflationary pressures in countries approaching full capacity utilization, and the easier stance of monetary policy in some other countries where the expansion is more recent. It emphasized the importance of bolder fiscal consolidation to increase savings, investment, and employment. The Committee considered that recent exchange rate movements for some major currencies had gone farther than warranted by fundamentals and agreed that orderly reversal of these movements is desirable. In this context the Committee agreed that stronger efforts were needed to reduce internal and external imbalances. These efforts should focus on measures to raise national saving in a medium-term perspective, in particular through fiscal consolidation, as well as broader deregulation and market opening to increase the responsiveness of domestic sectors to world competition.
- In many developing countries, sound macroeconomic policies and vigorous structural reforms have yielded robust growth; nevertheless policy challenges remain. The long-term prospects of a number of countries, particularly in Asia, remain bright, although in the short run caution is necessary to address signs of overheating. Developing countries in the Western Hemisphere are expected to experience somewhat slower growth. Many developing countries need to act to bring inflation under firm control. Stronger action is required to raise growth rates in many poorer countries above the rate of population increase.
- The Committee also reviewed developments relating to the financial crisis in Mexico. It welcomed the strengthened adjustment program being implemented by the Mexican authorities with the exceptional support of the international community. It noted that early contagion effects had been contained, thanks to the prompt international response and strong adjustment efforts by affected countries.
- The Committee welcomed the strong expansion now under way in an increasing number of transition countries following strong stabilization and reform programs. Although many transition countries are

now committed to stabilization and reform, further substantial efforts are still required. The Committee welcomed the courageous policies being implemented by Russia and Ukraine and some other transition countries with the support of the Fund, the World Bank, the EBRD, and other regional development banks.

4. The Committee discussed the evolving role of the International Monetary Fund in an environment of increased globalization and integration of markets for goods, services, and capital. It concluded that this new environment required stricter policy discipline from all members to guard against sudden adverse market reactions. The Committee therefore agreed that Fund surveillance should be strengthened in a symmetrical manner and taking into account the lessons to be drawn, by member countries and by the Fund itself, from the recent crisis in Mexico. Endorsing a report by the Executive Board on strengthening Fund surveillance, the Committee agreed that the policy dialogue between the Fund and its members should be improved as follows:

First, the Committee encouraged the Fund to establish a closer and more continuous policy dialogue with member countries, to strengthen its analysis, and to be frank and candid in its recommendations concerning the possible risks attached to policies followed by members. Second, the Committee stressed the importance of regular and timely provision by all members of economic data to the Fund, thereby enabling the identification of emerging tensions at an early stage; in that context, it also noted the Fund's intention to make greater use of financial market data. Third, the Committee emphasized that timely publication by members of comprehensive data would give greater transparency to their economic policies; it requested the Executive Directors to work toward the establishment of standards to guide members in the provision of data to the public, and to submit proposals for consideration by the Committee at its next meeting. Fourth, the Committee noted the risks attached to overreliance on easily reversible capital inflows, and invited the Fund to pay more attention to members' financing policies, and the soundness of their financial sectors, in its surveillance activities. Fifth, the Committee concluded that the Fund should better focus its surveillance, rebalancing its efforts to give increased emphasis to the situation of those members where economic disturbances or policies could have broader implications for other countries, while maintaining the quality of its policy dialogue with all member countries.

5. The Committee agreed that the Fund's liquidity position is adequate at present, despite recent large demands on Fund resources, but noted that the Fund's liquidity is projected to decline sharply over the next two years. It requested the Executive Board to continue to review the adequacy of the Fund's resources, and, in connection with its review of the role of the Fund, to carry forward its work on the Eleventh General Review of Quotas. The Committee also saw a need to examine the issues related to borrowing by the Fund from members and, in particular, the role of the General Arrangements to Borrow.

6. The Committee continued its consideration of SDR issues, in light of the Chairman's report on his consultations with members and the Executive Board's further consideration of these issues. It noted that there was not now a basis for agreement on an allocation but requested the Executive Board to keep this matter under review. The Committee requested the Fund to initiate a broad review, with the involvement of outside experts, of the role and functions of the SDR in light of changes in the world financial system.

7. The Committee welcomed the application by Paris Club creditors of Naples Terms for low-income countries. It took note of the Executive Board's discussion of the multilateral debt of heavily indebted poor countries, and stressed that multilateral lending to these countries should be on appropriately concessional terms. It agreed that continued Fund support for the poorest developing countries on ESAF terms is desirable. In this context the Committee requested the Executive Board to examine the options for continued financing and adapting of the ESAF.

8. The Committee had a broad-ranging discussion on how the Fund can better assist members in coping with sudden market disturbances, consistent with its catalytic role. It invited the Executive Board to embark on a further examination of all the relevant issues, in close collaboration with other institutions.

9. The Committee will meet again on October 8, 1995, when it will further review progress in implementing policies to maintain global recovery and ensure stable financial market conditions, and in strengthening Fund surveillance and financing.

Annex: Interim Committee Attendance April 26, 1995

Chairman

Philippe Maystadt, Minister of Finance, Belgium

Managing Director

Michel Camdessus

Members or Alternates

Mohammad Abalkhail, Minister of Finance and National Economy, Saudi Arabia

Edmond Alphandéry, Minister of Economy, France

Sultan N. Al-Suwaidi, Governor, United Arab Emirates Central Bank (Alternate for Ahmed Humaid Al-Tayer, Minister of State for Finance and Industry, United Arab Emirates)

Domingo Felipe Cavallo, Minister of Economy and Public Works and Services, Argentina
Anatoli Chubais, First Deputy Chairman, Russian Federation
Kenneth Clarke, Chancellor of the Exchequer, United Kingdom
Lamberto Dini, Prime Minister and Minister of the Treasury, Italy
Marcel Doupamby Matoka, Minister of Finance, Economy, Budget, and Equity Financing, Gabon
Sigbjoern Johnsen, Minister of Finance, Norway
Abdelouahab Keramane, Governor, Banque d'Algérie
Pedro Sampaio Malan, Minister of Finance, Brazil
Adriano Afonso Maleiane, Governor, Banco de Mocambique
Paul Martin, Minister of Finance, Canada
Maria Schaumayer, Governor, Austrian National Bank, Austria (p.m. session) and Alfons Verplaetse, Governor, Banque Nationale de Belgique (a.m. session) (Alternates for Philippe Maystadt, Minister of Finance, Belgium)
Guillermo Ortiz, Secretary of Finance and Public Credit, Mexico
Robert E. Rubin, Secretary of the Treasury, United States
Manmohan Singh, Minister of Finance, India
Otto Stich, Minister of Finance, Switzerland
Masayoshi Takemura, Minister of Finance, Japan
Vijit Supinit, Governor, Bank of Thailand
Theo Waigel, Federal Minister of Finance, Germany
George Gear, Assistant Treasurer, Australia (Alternate for Ralph Willis, Treasurer, Australia)
H. J. Brouwer, Treasurer-General, Ministry of Finance, Netherlands (Alternate for Gerrit Zalm, Minister of Finance, Netherlands)
Chen Yuan, Deputy Governor, People's Bank of China (Alternate for Zhu Rongji, Vice Premier and Governor, People's Bank of China)

Observers

S. Abrahamian, Officer-in-Charge, Global Interdependence Division, UNCTAD
Andrew D. Crockett, General Manager, BIS
Yves-Thibault de Silguy, Commissioner, CEC
Mohamed Kabbaj, Chairman, Development Committee
Gautam S. Kaji, Acting President, World Bank
Jean-Claude Milleron, Under-Secretary-General for Economic and Social Information and Policy Analysis, UN
Jean-Claude Paye, Secretary-General, OECD
Gary P. Sampson, Director, Development Division, WTO

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

Forty-Ninth Meeting, Madrid, Spain, October 3, 1994

1. The forty-ninth meeting of the Development Committee was held in Madrid, Spain on October 3, 1994 under the chairmanship of Mr. Mourad Cherif, Minister of Finance and Investments of Morocco.[1] On its own twentieth anniversary, the Committee joined in congratulations to the World Bank and IMF on the fiftieth anniversary of the Bretton Woods Agreement, and welcomed the World Bank's publication "Learning from the Past—Embracing the Future."

Transfer of Resources

2. The Committee's main task is to keep under review the transfer of resources to developing and transition countries. It therefore welcomes the continued high level of total flows to these countries. It notes the slow rate of growth in official development assistance, and calls on donor countries to enhance their aid as soon as possible and to increase its focus on the poorest countries. Where appropriate, the Committee favors a reduction in the stock of debt and an increase in concessionality for the poorest countries facing special difficulties. The Committee recognizes the special needs and problems of countries emerging from economic and political disruption and also of the poorest, most indebted countries, and requests the Executive Boards to examine proposals in these areas.

3. The Committee welcomes the increased volume of private flows in recent years to a growing number of countries which are implementing economic reforms. It notes uncertainties about the sustainability of such flows in changing world conditions, and the fact that they continue to be concentrated in a small number of countries. It urges countries not currently receiving such flows to improve their creditworthiness through macroeconomic reform, and to create a climate favorable to sound private sector development; these measures will attract more foreign portfolio and direct investment. The Committee asks the World Bank Group, the IMF, and industrial countries to continue their efforts to facilitate and encourage private flows to all developing and transition countries.

Aid Effectiveness

4. Effective aid requires closer collaboration between receiving countries, international organizations, and donors. For aid to be most effective, it has to be adequate, and to operate in a favorable environment. Prime responsibility for domestic policies which contribute to aid effectiveness rests, of course, with the recipient countries themselves. The guiding principles for recipients are:

a. Appropriate domestic economic policies tailored to local conditions are essential if aid is to be effective;

b. The effective use of aid requires strong administrative and institutional capacity;

c. "Ownership" by the government and participation by other stakeholders, including beneficiaries, are essential;

5. The guiding principles for donors and international agencies are these:

a. The best conditions and policies for aid cannot substitute for strong "ownership," by the recipient government, and good governance. Donors and recipients must collaborate to make this the basis for effective aid.

b. Donors should support participation by relevant stakeholders (especially women, the poor, and other disadvantaged groups); this helps to improve the design of projects and ensure that they are properly implemented and operated. The Bank should strengthen its skill mix and incentive system for these purposes.

c. Technical assistance (TA) is likely to be most effective when it responds to clearly defined needs and absorptive capacity of the recipient. TA should work within, and if necessary seek to strengthen, the institutional environment along the lines approved by the OECD Development Assistance Committee (DAC).

d. Multilateral agencies, including the IMF, the World Bank Group, and the regional development

[1]Mr. Lewis T. Preston, President of the World Bank, Mr. Michel Camdessus, Managing Director of the International Monetary Fund, Mr. Willy W. Zapata, President of the Banco de Guatemala and Chairman of the Group of 24, Mr. Peter Sutherland, Director-General of the GATT, Mr. James H. Michel, Chairman of the DAC, and Mr. Peter Mountfield, Executive Secretary, took part in the meeting. Observers from a number of international and regional organizations also attended.

banks, work closely to support countries' own efforts to put in place a sound framework for macroeconomic and structural policies which foster the private sector and strengthen public sector management. Aid programs should be consistent with this framework, and with the country's own development priorities. Innovative approaches to achieve this objective are to be encouraged. The World Bank will strengthen its consultations with other donors who in turn will collaborate in this approach.

e. Efforts to coordinate and simplify donor aid procedures and practices should be accelerated. Aid operations should be made more transparent to improve accountability. Donors should avoid setting up mechanisms which are inconsistent with the recipients' own efforts to manage their own budgets and implement aid. Ministers support recent efforts in the DAC to reduce the use of tied aid credits. They also urge donors to minimize the additional costs associated with trade-distorting tying of aid, where this can be done without reducing volume.

f. The DAC Principles provide an appropriate framework for improving aid coordination. Consultative Groups and Roundtable Meetings are more effective when preceded by active involvement of the recipient government, and consultation with other donors. The agenda for Consultative Groups should cover issues of development strategy, aid utilization, aid coordination, and technical assistance, in addition to mobilization of financial resources.

g. Recent efforts to improve the effectiveness of the World Bank and other development agencies, focusing on their development impact and on results in the field, need to be sustained and extended. Particular attention should be given to: shifting the focus from projects to country programs; improving the "quality at entry" of projects; strengthening evaluation and disclosure policies; streamlining procedures; addressing urgently the adequacy of field office networks; and changing staff incentives to focus on development impact.

h. Aid can also help to stimulate private investment; institutions like the IFC and MIGA can play a valuable role but must pay due attention to development effectiveness.

i. Many of these principles apply with equal force to the countries in transition. However, more attention needs to be given in these countries, in differing degrees, to informing both policymakers and public opinion at large of the workings of a market economy and the complementary roles of the public and private sectors.

6. The Committee will follow up these issues carefully at future meetings and particularly looks forward to the report of its Task Force on the Multilateral Development Banks.

The Uruguay Round and the Developing and Transition Countries

7. The Committee reviewed the results of the recently completed Uruguay Round negotiations and their impact on the developing and transition countries. At this stage, it was only possible to make a preliminary assessment of the likely effects. They also considered the implications for the future work of the World Bank and the IMF. The Committee believes that:

a. In addition to its global effects, the successful conclusion of the Uruguay Round will bring significant benefits to developing countries over time, through increased market access, the integration of new areas into the system, and through strengthened rules and institutions. Early ratification and implementation are therefore essential.

b. These benefits will accrue particularly to those countries which pursue sound macroeconomic policies and adopt market-based reforms.

c. A number of developing countries should benefit in particular from the phased integration of textiles and clothing into the multilateral system, although the timetable for liberalization will delay these benefits.

d. Some countries may need help to adjust to higher world food prices and the erosion of preferences, although most of them will gain from the reduction of agricultural subsidies. Initial studies made by the Bank and the Fund indicate that the negative effects are likely to be fairly small, and existing instruments seem adequate to deal with them. Further research may refine these findings. Meanwhile, the Bank and the Fund must be ready to address these problems.

e. In the longer run, it is important to keep up the momentum of mutually advantageous trade liberalization and avoid new forms of protectionism.

f. The task of the Bank and the Fund is to assist developing and transition countries to ease the change to the new trading system, by providing policy advice, financial support, and technical assistance in order to maximize the gains from new market opportunities.

g. It will also be necessary to bring the transition countries (many of whom are not yet members of GATT) into the multilateral process as quickly as possible, so that they can fully share the benefits of trade liberalization and enlarged market access, without discrimination. The Bank and the Fund should encourage and assist these countries in their efforts to become more fully integrated into the multilateral trading system and to adopt policies that will facilitate their accession to the WTO.

8. The Committee believes it is essential for both institutions to collaborate closely with the new World Trade Organization and notes that the ministerial Declaration at the end of the Uruguay Round calls for early talks between the Director-General of the WTO and the heads of the Bank and Fund.

Population

9. Ministers from the participating countries welcomed the outcome of the recent United Nations Conference on Population and Development, which it discussed at its last meeting. The Committee called on the World Bank and conference participants to play an active part in implementing the Programme of Action approved by the Conference.

Desertification

10. It also welcomed last month's agreement on the antidesertification convention, called for its early ratification, and encouraged the World Bank to continue its active support for development and environmental management in dryland areas.

Next Meeting

11. The Committee agreed to meet again in Washington, D.C., on April 27, 1995, when the principal topic for discussion will be the financing of infrastructure in developing countries.

Fiftieth Meeting, Washington, D.C., April 27, 1995

1. The fiftieth meeting of the Development Committee was held in Washington, D.C., on April 27, 1995, under the chairmanship of Mr. Mohamed Kabbaj, Minister of Finance and Foreign Investment of Morocco.[2] The Committee expressed its deep regret at the departure of Mr. Lewis T. Preston and recorded its great appreciation of his distinguished leadership as President of the World Bank. It offered its congratulations to his successor, Mr. James D. Wolfensohn.

Resource Flows to Developing and Transition Countries

2. The Committee welcomed the continued high level of total resource flows, and the increase since 1990 in various forms of private finance, especially foreign direct investment which does not add to debt-servicing burdens. At a time of rapid globalization and liberalization of financial markets, it noted the recent high volatility of financial flows, as exemplified by currency movements. But portfolio flows have declined, and Ministers recognized that markets are likely to be more selective in their provision of such capital. This emphasizes the need for recipient countries to follow sound macroeconomic policies to gain or maintain access to private markets, and to mobilize significant domestic savings. They should avoid excessive reliance on short-term flows to finance longer-term development needs. The strong policy base and solid long-term prospects of many developing and transition countries suggest that they should be able to attract continued foreign direct investment.

3. The Committee expressed its concern about the prospect of a fall in total official development assistance. Given the pressing needs of the poorest countries, it urged continued strong support for the International Development Association (IDA) and for the Special Program of Assistance for Africa (SPA). It welcomed the recent agreement in the Paris Club to implement "Naples Terms" for the poorest and most heavily indebted countries, and called for them to be applied flexibly. The Committee noted that some of these countries have a heavy burden of debt owed to multilateral institutions. It invited the Executive Boards of the World Bank and the IMF to continue their review of this subject, so that Ministers can return to it at the next meeting.

Trade

4. The Committee welcomed the establishment on January 1 of the World Trade Organization (WTO) and urged close collaboration between the WTO and the Bretton Woods institutions. It called on the Bank and Fund to assist those countries which are not yet members of the WTO to join the organization and to become more fully integrated into the multilateral trading system. It noted the Bank's new estimates of the likely impact of the Uruguay Round upon the trade of developing countries. It welcomed evidence of the positive effect the Round will have on most developing countries, especially on those who are taking this opportunity to reform their own policies. It noted the Bank's view that the adverse impact upon food-importing countries and those which will lose preferential access to industrial markets is likely to be small. It asked the Bank and Fund to monitor the impact on individual countries and to be prepared to

[2]Mr. Michel Camdessus, Managing Director of the International Monetary Fund, Mr. Gautam S. Kaji, Acting President of the World Bank, Mr. N'Goran Niamien (Côte d'Ivoire), Chairman of the Group of 24, and Mr. Peter Mountfield, Executive Secretary took part in the meeting. Observers from a number of international and regional organizations, and Mr. Abdlatif Y. Al-Hamad, Chairman, and Mr. W.A. Wapenhans, Secretary of the Task Force on Multilateral Development Banks, also attended.

help as necessary. It agreed that further liberalization of the agricultural and service sectors would provide important additional gains.

Infrastructure

5. The Committee noted that developing countries currently invest over $200 billion a year in infrastructure, more than 90 percent of it in the public sector. Adequate, efficient, and carefully designed infrastructure with full regard to the environment is crucial to sustainable development. More investment and improved performance in infrastructure will require a series of reforms in the structure and delivery of services. Governments have a continuing responsibility, whether as providers or regulators of infrastructure. In particular, efficiency requires prices which reflect all long-run economic costs, more businesslike management, increased involvement of the private sector, and better-targeted subsidies. Such reforms should be designed to increase incentives to devote sufficient resources to maintenance, in order to make best use of existing assets and reduce the need for expensive replacements.

6. Improvement will also involve more use of private finance in various forms. The options chosen will vary for each country and service depending on conditions such as the level of domestic savings and the depth of financial markets. Private participation can be encouraged through build-own-operate and build-own-operate-transfer concessions, leases, operating contracts, partial guarantees from the public sector, and privatization. The aim must be to pass the commercial risks to the private sector and to reduce the call on public funding and public guarantees.

7. The Committee agreed that the poor stand to gain directly and quickly from better infrastructure, which can also help to improve environmental conditions. Donor countries can help the poorest countries by providing financial and technical support, and investment guarantees for the development of infrastructure within a policy framework that encourages efficient operation, maintenance, and responsiveness to users. The multilateral institutions (including IDA) have a major responsibility for providing advice and financial support. They can also play a catalytic role in mobilizing funds from a wider range of private sector sources, using all the means available, including World Bank guarantees, IFC, and MIGA.

Social Summit

8. The Committee generally welcomed the outcome of the recent Social Summit in Copenhagen, and agreed to discuss the implications for the developing and transition countries, and for donors and the Bank and Fund, at its next meeting in Washington, D.C., on October 9, 1995.

Executive Secretary

9. The Committee expressed its deep appreciation to Peter Mountfield, the retiring Executive Secretary, for his dedicated service to the Committee over the past four years.

APPENDIX VII

Executive Directors and Voting Power on April 30, 1995

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of Fund Total[2]
Appointed				
Karin Lissakers	United States	265,518	265,518	17.83
Barry S. Newman				
Stefan Schoenberg	Germany	82,665	82,665	5.55
Erika Wagenhoefer				
Hachiro Mesaki	Japan	82,665	82,665	5.55
Toshihiko Fukuyama				
Marc-Antoine Autheman	France	74,396	74,396	5.00
Michel Sirat				
Huw Evans	United Kingdom	74,396	74,396	5.00
Jon Shields				
Elected				
Willy Kiekens	Austria	12,133		
(Belgium)	Belarus	3,054		
Johann Prader	Belgium	31,273		
(Austria)	Czech Republic	6,146		
	Hungary	7,798		
	Kazakhstan	2,725		
	Luxembourg	1,605		
	Slovak Republic	2,824		
	Slovenia	1,755		
	Turkey	6,670	75,983	5.10
J. de Beaufort Wijnholds	Armenia	925		
(Netherlands)	Bulgaria	4,899		
Oleh Havrylyshyn	Croatia	2,866		
(Canada)	Cyprus	1,250		
	Georgia	1,360		
	Israel	6,912		
	Macedonia, former Yugoslav Republic of	746		
	Moldova	1,150		
	Netherlands	34,692		
	Romania	7,791		
	Ukraine	10,223	72,814	4.89
Luis E. Berrizbeitia	Costa Rica	1,440		
(Venezuela)	El Salvador	1,506		
Vicente J. Fernández	Guatemala	1,788		
(Spain)	Honduras	1,200		

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of Fund Total[2]
Elected ***(continued)***				
	Mexico	17,783		
	Nicaragua	1,211		
	Spain	19,604		
	Venezuela	19,763	64,295	4.32
Giulio Lanciotti (Italy)	Albania	603		
Nikolaos Coumbis (Greece)	Greece	6,126		
	Italy	46,157		
	Malta	925		
	Portugal	5,826		
	San Marino	350	59,987	4.03
Ian D. Clark (Canada)	Antigua and Barbuda	335		
Garrett F. Murphy (Ireland)	The Bahamas	1,199		
	Barbados	739		
	Belize	385		
	Canada	43,453		
	Dominica	310		
	Grenada	335		
	Ireland	5,500		
	Jamaica	2,259		
	St. Kitts and Nevis	315		
	St. Lucia	360		
	St. Vincent and the Grenadines	310	55,500	3.73
Jarle Bergo (Norway)	Denmark	10,949		
Eva Srejber (Sweden)	Estonia	715		
	Finland	8,868		
	Iceland	1,103		
	Latvia	1,165		
	Lithuania	1,285		
	Norway	11,296		
	Sweden	16,390	51,771	3.48
Muhammad Al-Jasser (Saudi Arabia) *Abdulrahman A. Al-Tuwaijri (Saudi Arabia)*	Saudi Arabia	51,556	51,556	3.46
Ewen L. Waterman (Australia)	Australia	23,582		
Jung-Ho Kang (Korea)	Kiribati	290		
	Korea	8,246		
	Marshall Islands	275		
	Micronesia, Federated States of	285		
	Mongolia	621		
	New Zealand	6,751		
	Papua New Guinea	1,203		
	Philippines	6,584		
	Seychelles	310		
	Solomon Islands	325		
	Vanuatu	375		
	Western Samoa	335	49,182	3.30

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of Fund Total[2]
Elected *(continued)*				
A. Shakour Shaalan	Bahrain	1,078		
(Egypt)	Egypt	7,034		
Yacoob Yousef Mohammed	Iraq	5,290		
(Bahrain)	Jordan	1,467		
	Kuwait	10,202		
	Lebanon	1,710		
	Libya	8,426		
	Maldives	305		
	Oman	1,444		
	Qatar	2,155		
	Syrian Arab Republic	2,349		
	United Arab Emirates	4,171		
	Yemen, Republic of	2,015	47,646	3.20
Dmitri V. Tulin	Russia	43,381	43,381	2.91
(Russia)				
Aleksei V. Mozhin				
(Russia)				
J.E. Ismael (Indonesia)	Cambodia	900		
Latifah Merican Cheong	Fiji	761		
(Malaysia)	Indonesia	15,226		
	Lao People's Democratic Republic	641		
	Malaysia	8,577		
	Myanmar	2,099		
	Nepal	770		
	Singapore	3,826		
	Thailand	5,989		
	Tonga	300		
	Viet Nam	2,666	41,755	2.80
Daniel Kaeser	Azerbaijan	1,420		
(Switzerland)	Kyrgyz Republic	895		
Krzysztof Link (Poland)	Poland	10,135		
	Switzerland	24,954		
	Tajikistan	850		
	Turkmenistan	730		
	Uzbekistan	2,245	41,229	2.77
Abbas Mirakhor	Islamic State of Afghanistan	1,454		
(Islamic Republic of Iran)	Algeria	9,394		
Mohammed Daïri (Morocco)	Ghana	2,990		
	Islamic Republic of Iran	11,035		
	Morocco	4,527		
	Pakistan	7,832		
	Tunisia	2,310	39,542	2.66
Alexandre Kafka (Brazil)	Brazil	21,958		
Alberto Calderón	Colombia	5,863		
(Colombia)	Dominican Republic	1,838		
	Ecuador	2,442		
	Guyana	922		
	Haiti	857		
	Panama	1,746		

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of Fund Total[2]
Elected ***(continued)***				
	Suriname	926		
	Trinidad and Tobago	2,718	39,270	2.64
K.P. Geethakrishnan	Bangladesh	4,175		
(India)	Bhutan	295		
W. Hettiarachchi	India	30,805		
(Sri Lanka)	Sri Lanka	3,286	38,561	2.59
Barnabas S. Dlamini	Angola	2,323		
(Swaziland)	Botswana	616		
Dinah Z. Guti	Burundi	822		
(Zimbabwe)	Eritrea	365		
	Ethiopia	1,233		
	The Gambia	479		
	Kenya	2,244		
	Lesotho	489		
	Liberia	963		
	Malawi	759		
	Mozambique	1,090		
	Namibia	1,246		
	Nigeria	13,066		
	Sierra Leone	1,022		
	Swaziland	615		
	Tanzania	1,719		
	Uganda	1,589		
	Zambia	2,953		
	Zimbabwe	2,863	36,456	2.45
ZHANG Ming (China)	China	34,102	34,102	2.29
WEI Benhua (China)				
Carlos Saito (Peru)	Argentina	15,621		
A. Guillermo Zoccali	Bolivia	1,512		
(Argentina)	Chile	6,467		
	Paraguay	971		
	Peru	4,911		
	Uruguay	2,503	31,985	2.15
Yves-Marie T. Koissy	Benin	703		
(Côte d'Ivoire)	Burkina Faso	692		
Alexandre Barro Chambrier	Cameroon	1,601		
(Gabon)	Cape Verde	320		
	Central African Republic	662		
	Chad	663		
	Comoros	315		
	Congo	829		
	Côte d'Ivoire	2,632		
	Djibouti	365		
	Equatorial Guinea	493		
	Gabon	1,353		
	Guinea	1,037		
	Guinea-Bissau	355		
	Madagascar	1,154		
	Mali	939		
	Mauritania	725		
	Mauritius	983		
	Niger	733		
	Rwanda	845		

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of Fund Total[2]
Elected *(concluded)*				
	São Tomé and Príncipe	305		
	Senegal	1,439		
	Togo	793	19,936	1.34
			1,474,591[3,4]	99.02[5]

[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 (1,489,187) in the General Department and the SDR Department.

[3]This total does not include the votes of Somalia and South Africa, which did not participate in the 1994 Regular Election of Executive Directors. The combined votes of those members total 14,596—0.98 percent of those in the General Department and SDR Department.

[4]This total does not include the votes of Sudan and Zaïre, which were suspended effective August 9, 1993 and June 2, 1994, respectively, pursuant to Article XXVI, Section 2 *(b)* of the Articles of Agreement.

[5]This figure may differ from the sum of the percentages shown for individual Directors because of rounding.

APPENDIX VIII

Changes in Membership of Executive Board

Changes in membership of the Executive Board between May 1, 1994 and April 30, 1995 were as follows:

Corentino Santos (Cape Verde) was re-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, São Tomé and Príncipe, Senegal, and Togo, effective June 21, 1994.

Hiroo Fukui (Japan) relinquished his duties as Executive Director for Japan, effective July 31, 1994.

Hachiro Mesaki (Japan) was appointed as Executive Director for Japan, effective August 1, 1994.

John Dorrington (United Kingdom) relinquished his duties as Alternate Executive Director to Huw Evans (United Kingdom), effective October 16, 1994.

Jon Shields (United Kingdom) was appointed as Alternate Executive Director to Huw Evans (United Kingdom), effective October 17, 1994.

Konstantin G. Kagalovsky (Russia) completed his term of service as Executive Director for Russia, effective October 31, 1994.

Roberto Marino (Mexico) completed his term of service as Executive Director for Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, and Venezuela, effective October 31, 1994.

L.J. Mwananshiku (Zambia) completed his term of service as Executive Director for Angola, Botswana, Burundi, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe, effective October 31, 1994.

Godert A. Posthumus (Netherlands) completed his term of service as Executive Director for Armenia, Bulgaria, Cyprus, Georgia, Israel, Moldova, Netherlands, Romania, and Ukraine, effective October 31, 1994.

Corentino V. Santos (Cape Verde) 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, São Tomé and Príncipe, Senegal, and Togo, effective October 31, 1994.

Douglas E. Smee (Canada) completed his term of service as Executive Director for Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, effective October 31, 1994.

A. Guillermo Zoccali (Argentina) completed his term of service as Executive Director for Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay, effective October 31, 1994.

Kleo-Thong Hetrakul (Thailand) relinquished her duties as Alternate Executive Director to J.E. Ismael (Indonesia), effective October 31, 1994.

Alberto F. Jiménez de Lucio (Peru) relinquished his duties as Alternate Executive Director to A. Guillermo Zoccali (Argentina), effective October 31, 1994.

Gerver Torres (Venezuela) relinquished his duties as Alternate Executive Director to Roberto Marino (Mexico), effective October 31, 1994.

Muhammad Al-Jasser (Saudi Arabia) was re-elected Executive Director by Saudi Arabia, effective November 1, 1994.

Jarle Bergo (Norway) was re-elected Executive Director by Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden, effective November 1, 1994.

Luis E. Berrizbeitia (Venezuela) was elected Executive Director by Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, and Venezuela, effective November 1, 1994.

Ian D. Clark (Canada), was 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 and the Grenadines, effective November 1, 1994.

Barnabas S. Dlamini (Swaziland), formerly Alternate Executive Director to L.J. Mwananshiku (Zambia), was elected Executive Director by Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe, effective November 1, 1994.

K.P. Geethakrishnan (India) was re-elected Executive Director by Bangladesh, Bhutan, India, and Sri Lanka, effective November 1, 1994.

J.E. Ismael (Indonesia) was re-elected Executive Director by Cambodia, Fiji, Indonesia, Lao P.D.R., Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, and Viet Nam, effective November 1, 1994.

Daniel Kaeser (Switzerland) was re-elected Executive Director by Azerbaijan, the Kyrgyz Republic, Poland, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan, effective November 1, 1994.

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, 1994.

Willy Kiekens (Belgium) was re-elected Executive Director by Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovak Republic, Slovenia, and Turkey, effective November 1, 1994.

Yves-Marie T. Koissy (Côte d'Ivoire), formerly Alternate Executive Director to Corentino V. Santos (Cape Verde), 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, São Tomé and Príncipe, Senegal, and Togo, effective November 1, 1994.

Giulio Lanciotti (Italy) was re-elected Executive Director by Albania, Greece, Italy, Malta, Portugal, and San Marino, effective November 1, 1994.

Abbas Mirakhor (Islamic Republic of Iran) was re-elected Executive Director by the Islamic State of Afghanistan, Algeria, Ghana, the Islamic Republic of Iran, Morocco, Pakistan, and Tunisia, effective November 1, 1994.

Carlos Saito (Peru) was elected Executive Director by Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay, effective November 1, 1994.

A. Shakour Shaalan (Egypt) was re-elected Executive Director by Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, and the Republic of Yemen, effective November 1, 1994.

Dmitri V. Tulin (Russia) was elected Executive Director by Russia, effective November 1, 1994.

Ewen L. Waterman (Australia) was re-elected Executive Director by Australia, Kiribati, Korea, the Marshall Islands, the Federated States of Micronesia, Mongolia, New Zealand, Papua New Guinea, Philippines, Seychelles, Solomon Islands, Vanuatu, and Western Samoa, effective November 1, 1994.

J. de Beaufort Wijnholds (Netherlands) was elected Executive Director by Armenia, Bulgaria, Croatia, Cyprus, Georgia, Israel, the former Yugoslav Republic of Macedonia, Moldova, Netherlands, Romania, and Ukraine, effective November 1, 1994.

ZHANG Ming (China) was re-elected Executive Director by China, effective November 1, 1994.

Alexandre Barro Chambrier (Gabon) was appointed as Alternate Executive Director to Yves-Marie T. Koissy (Côte d'Ivoire), effective November 1, 1994.

Latifah Merican Cheong (Malaysia) was appointed as Alternate Executive Director to J.E. Ismael (Indonesia), effective November 1, 1994.

Vicente J. Fernandez (Spain) was appointed as Alternate Executive Director to Luis E. Berrizbeitia (Venezuela), effective November 1, 1994.

Dinah Z. Guti (Zimbabwe) was appointed as Alternate Executive Director to Barnabas S. Dlamini (Swaziland), effective November 1, 1994.

Amando M. Tetangco, Jr. (Philippines) relinquished his duties as Alternate Executive Director to Ewen L. Waterman (Australia), effective November 1, 1994.

A. Guillermo Zoccali (Argentina), formerly Executive Director for Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay, was appointed as Alternate Executive Director to Carlos Saito (Peru), effective November 1, 1994.

Jung-Ho Kang (Korea) was appointed as Alternate Executive Director to Ewen L. Waterman (Australia), effective November 2, 1994.

L. Eustace N. Fernando (Sri Lanka) relinquished his duties as Alternate Executive Director to K.P. Geethakrishnan (India), effective January 2, 1995.

W. Hettiarachchi (Sri Lanka) was appointed as Alternate Executive Director to K.P. Geethakrishnan (India), effective January 3, 1995.

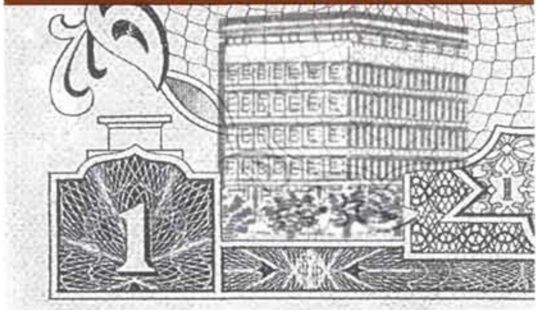
The following served at certain meetings of the Executive Board during 1994/95 as Temporary Alternate Executive Directors to the Executive Directors indicated:

Temporary Alternate Executive Director	Executive Director for Whom Temporary Alternate Served
John M. Abbott *(United States)*	Karin Lissakers *(United States)*
John O. Aderibigbe *(Nigeria)*	L.J. Mwananshiku *(Zambia)*
	Barnabas S. Dlamini *(Swaziland)*
Meekal A. Ahmed *(Pakistan)*	Abbas Mirakhor *(Iran, Islamic Republic of)*
Saleh Eid Al-Huseini *(Saudi Arabia)*	Muhammad Al-Jasser *(Saudi Arabia)*
Raymond N. A. Ally *(Guyana)*	Alexandre Kafka *(Brazil)*
Benny Andersen *(Denmark)*	Jarle Bergo *(Norway)*
Sjamsul Arifin *(Indonesia)*	J.E. Ismael *(Indonesia)*
Maria Celina B. Arraes *(Brazil)*	Alexandre Kafka *(Brazil)*
David Barr *(United Kingdom)*	Huw Evans *(United Kingdom)*
Taye Berrihun *(Ethiopia)*	L.J. Mwananshiku *(Zambia)*
	Barnabas S. Dlamini *(Swaziland)*
Rita D. Bessone Basto *(Portugal)*	Giulio Lanciotti *(Italy)*
Georg Michael Blome *(Germany)*	Stefan Schoenberg *(Germany)*
Peter I. Botoucharov *(Bulgaria)*	J. de Beaufort Wijnholds *(Netherlands)*
Martha Brettschneider *(United States)*	Karin Lissakers *(United States)*
Juan M. Burdiel *(Spain)*	Roberto Marino *(Mexico)*
Pierre Cailleteau *(France)*	Marc-Antoine Autheman *(France)*
Alan G. Cathcart *(United Kingdom)*	Huw Evans *(United Kingdom)*
Amoy Chang Fong *(Trinidad and Tobago)*	Alexandre Kafka *(Brazil)*
Roberto F. Cippa *(Switzerland)*	Daniel Kaeser *(Switzerland)*
Ana Lucia Coronel *(Ecuador)*	Alexandre Kafka *(Brazil)*
Jose Antonio Costa *(Argentina)*	A. Guillermo Zoccali *(Argentina)*
	Carlos Saito *(Peru)*
Ákos Cserés *(Hungary)*	Willy Kiekens *(Belgium)*
Cao Dac Cuong *(Viet Nam)*	J.E. Ismael *(Indonesia)*
Daniel Daco *(Belgium)*	Willy Kiekens *(Belgium)*
Johanne W. Dagustun *(United Kingdom)*	Huw Evans *(United Kingdom)*
Dominique Desruelle *(France)*	Marc-Antoine Autheman *(France)*
Maiga Dzervite *(Latvia)*	Jarle Bergo *(Norway)*
Gamal Zaki El-Masry *(Egypt)*	A. Shakour Shaalan *(Egypt)*
Julio C. Estrella *(Dominican Republic)*	Alexandre Kafka *(Brazil)*
Salam K. Fayyad *(Jordan)*	A. Shakour Shaalan *(Egypt)*
Raphael Ferrillo *(Switzerland)*	Daniel Kaeser *(Switzerland)*
Laurent Fontaine *(France)*	Marc-Antoine Autheman *(France)*
Antonio Galicia *(Mexico)*	Roberto Marino *(Mexico)*
	Luis E. Berrizbeitia *(Venezuela)*
Catherine Gaseltine *(United Kingdom)*	Huw Evans *(United Kingdom)*
Toufic K. Gaspard *(Lebanon)*	A. Shakour Shaalan *(Egypt)*
Massimo Giulimondi *(Italy)*	Giulio Lanciotti *(Italy)*
Grigori Glazkov *(Russia)*	Konstantin G. Kagalovsky *(Russia)*
Rachel Glennerster *(United Kingdom)*	Huw Evans *(United Kingdom)*
Hassan Golriz *(Iran, Islamic Republic of)*	Abbas Mirakhor *(Iran, Islamic Republic of)*

Temporary Alternate Executive Director	Executive Director for Whom Temporary Alternate Served
Celia M. Gonzalez *(Philippines)*	Ewen L. Waterman *(Australia)*
Andreas Guennewich *(Germany)*	Stefan Schoenberg *(Germany)*
Javier Guzmán-Calafell *(Mexico)*	Luis E. Berrizbeitia *(Venezuela)*
Jérôme Hamilius *(Luxembourg)*	Willy Kiekens *(Belgium)*
Mohamed Ali Hammoudi *(Algeria)*	Abbas Mirakhor *(Iran, Islamic Republic of)*
HE Jianxiong *(China)*	ZHANG Ming *(China)*
Oussama A. Himani *(Lebanon)*	Muhammad Al-Jasser *(Saudi Arabia)*
HON Chee-Won *(Singapore)*	J.E. Ismael *(Indonesia)*
Gerrit Hendrik Huisman *(Netherlands)*	Godert A. Posthumus *(Netherlands)* J. de Beaufort Wijnholds *(Netherlands)*
Chorobek Imashev *(Kyrgyz Republic)*	Daniel Kaeser *(Switzerland)*
Timur Isataev *(Kazakhstan)*	Willy Kiekens *(Belgium)*
Shinya Ishida *(Japan)*	Hiroo Fukui *(Japan)* Hachiro Mesaki *(Japan)*
Abdel Rehman Ismael *(Mauritius)*	Corentino V. Santos *(Cape Verde)* Yves-Marie T. Koissy *(Côte d'Ivoire)*
James Jamnik *(Canada)*	Douglas E. Smee *(Canada)*
Patrick J. Jilek *(Australia)*	Ewen L. Waterman *(Australia)*
Jiri Jonáš *(Czech Republic)*	Willy Kiekens *(Belgium)*
J. Mills Jones *(Liberia)*	L.J. Mwananshiku *(Zambia)* Barnabas S. Dlamini *(Swaziland)*
José Justiniano *(Bolivia)*	Carlos Saito *(Peru)*
Teruhide Kanada *(Japan)*	Hiroo Fukui *(Japan)* Hachiro Mesaki *(Japan)*
Ramalinga Kannan *(India)*	K.P. Geethakrishnan *(India)*
Werner Ch. Keller *(Switzerland)*	Daniel Kaeser *(Switzerland)*
Aguil M. Koulizade *(Azerbaijan)*	Daniel Kaeser *(Switzerland)*
Ekaterina Kouprianova *(Russia)*	Konstantin G. Kagalovsky *(Russia)* Dmitri V. Tulin *(Russia)*
Kwassivi Kpetigo *(Togo)*	Corentino V. Santos *(Cape Verde)* Yves-Marie T. Koissy *(Côte d'Ivoire)*
Tuseno-Mino Kudiwu *(Zaïre)*	Corentino V. Santos *(Cape Verde)* Yves-Marie T. Koissy *(Côte d'Ivoire)*
Vural Kural *(Turkey)*	Willy Kiekens *(Belgium)*
Nicole L. Laframboise *(Canada)*	Douglas E. Smee *(Canada)* Ian Clark *(Canada)*
Kathryn J. Langdon *(Canada)*	Douglas E. Smee *(Canada)* Ian Clark *(Canada)*
Young-Hoi Lee *(Korea)*	Ewen L. Waterman *(Australia)*
Jorge Leiva *(Chile)*	Carlos Saito *(Peru)*
Boris M. Lvin *(Russia)*	Konstantin G. Kagalovsky *(Russia)* Dmitri V. Tulin *(Russia)*
John Mafararikwa *(Zimbabwe)*	L.J. Mwananshiku *(Zambia)* Barnabas S. Dlamini *(Swaziland)*
Noel Mancebo *(Uruguay)*	A. Guillermo Zoccali *(Argentina)*
Yossi Margoninsky *(Israel)*	J. de Beaufort Wijnholds *(Netherlands)*
Juan Carlos Martinez Oliva *(Italy)*	Giulio Lanciotti *(Italy)*
Sarah McDougall *(New Zealand)*	Ewen L. Waterman *(Australia)*
Melhem F. Melhem *(Lebanon)*	Muhammad Al-Jasser *(Saudi Arabia)*
Pedro Antonio Merino *(Spain)*	Roberto Marino *(Mexico)*
Raphael Meron *(Israel)*	Godert A. Posthumus *(Netherlands)*
Mohammad Jafar Mojarrad *(Iran, Islamic Republic of)*	Abbas Mirakhor *(Iran, Islamic Republic of)*

Temporary Alternate Executive Director	Executive Director for Whom Temporary Alternate Served
Frank Moss *(Belgium)*	Willy Kiekens *(Belgium)*
George Toma Mucibabici *(Romania)*	J. de Beaufort Wijnholds *(Netherlands)*
James A.K. Munthali *(Malawi)*	L.J. Mwananshiku *(Zambia)*
	Barnabas S. Dlamini *(Swaziland)*
Jean-Christian Obame *(Gabon)*	Corentino V. Santos *(Cape Verde)*
	Yves-Marie T. Koissy *(Côte d'Ivoire)*
Sean O'Connor *(Canada)*	Douglas E. Smee *(Canada)*
	Ian Clark *(Canada)*
Susana del Carmen Olgiati *(Argentina)*	A. Guillermo Zoccali *(Argentina)*
Juan Ortiz Vely *(Paraguay)*	A. Guillermo Zoccali *(Argentina)*
Toshio Oya *(Japan)*	Hiroo Fukui *(Japan)*
	Hachiro Mesaki *(Japan)*
Yasmin Patel *(Mozambique)*	L.J. Mwananshiku *(Zambia)*
	Barnabas S. Dlamini *(Swaziland)*
Jarmo Pesola *(Finland)*	Jarle Bergo *(Norway)*
Hinauri Petana *(Western Samoa)*	Ewen L. Waterman *(Australia)*
Murray Petrie *(New Zealand)*	Ewen L. Waterman *(Australia)*
Carsten F. Pillath *(Germany)*	Stefan Schoenberg *(Germany)*
Robert Kenneth W. Powell *(United Kingdom)*	Huw Evans *(United Kingdom)*
Neeraj Prasad *(India)*	K.P. Geethakrishnan *(India)*
Roderick Rainford *(Jamaica)*	Douglas E. Smee *(Canada)*
	Ian Clark *(Canada)*
Ganga P. Ramdas *(United States)*	Alexandre Kafka *(Brazil)*
Ahmad Raza *(India)*	K. P. Geethakrishnan *(India)*
Vladimir Rigász *(Slovak Republic)*	Willy Kiekens *(Belgium)*
Sadok Rouai *(Tunisia)*	Abbas Mirakhor *(Iran, Islamic Republic of)*
Angel Ruocco *(Venezuela)*	Luis E. Berrizbeitia *(Venezuela)*
Matthew W. Ryan *(United States)*	Karin Lissakers *(United States)*
Daniel Saha *(Cameroon)*	Corentino V. Santos *(Cape Verde)*
	Yves-Marie T. Koissy *(Côte d'Ivoire)*
Gabriel A. Sánchez *(Argentina)*	A. Guillermo Zoccali *(Argentina)*
Bassirou A. Sarr *(Mauritania)*	Corentino V. Santos *(Cape Verde)*
	Yves-Marie T. Koissy *(Côte d'Ivoire)*
Floris A. Schilthuis *(Netherlands)*	Godert A. Posthumus *(Netherlands)*
	J. de Beaufort Wijnholds *(Netherlands)*
Guiseppe Schlitzer *(Italy)*	Giulio Lanciotti *(Italy)*
Arnór Sighvatsson *(Iceland)*	Jarle Bergo *(Norway)*
Tarmiden Sitorus *(Indonesia)*	J.E. Ismael *(Indonesia)*
David L. Stanton *(United Kingdom)*	Huw Evans *(United Kingdom)*
Julio Roberto Suárez *(Guatemala)*	Roberto Marino *(Mexico)*
	Luis E. Berrizbeitia *(Venezuela)*
Khamsouk Sundara *(Lao PDR)*	J.E. Ismael *(Indonesia)*
Lisa Tase *(Romania)*	Godert A. Posthumus *(Netherlands)*
Norbert Toé *(Burkina Faso)*	Corentino V. Santos *(Cape Verde)*
	Yves-Marie T. Koissy *(Côte d'Ivoire)*
Åke Törnqvist *(Sweden)*	Jarle Bergo *(Norway)*
Vishwapati Trivedi *(India)*	K.P. Geethakrishnan *(India)*
Jan Willem Van der Kaaij *(Netherlands)*	Godert A. Posthumus *(Netherlands)*
Vitali Y. Verjbitski *(Russia)*	Konstantin G. Kagalovsky *(Russia)*
	Dmitri V. Tulin *(Russia)*
Andrei Vernikov *(Russia)*	Dmitri V. Tulin *(Russia)*
Andrus Viirg *(Estonia)*	Jarle Bergo *(Norway)*
Ruediger von Kleist *(Germany)*	Stefan Schoenberg *(Germany)*

Temporary Alternate Executive Director	Executive Director for Whom Temporary Alternate Served
Silvia Vori *(Italy)*	Giulio Lanciotti *(Italy)*
WANG Xiangyong *(China)*	ZHANG Ming *(China)*
WANG Yanzhi *(China)*	ZHANG Ming *(China)*
Jeremy B. Wire *(United States)*	Karin Lissakers *(United States)*
WU Hongwei *(China)*	ZHANG Ming *(China)*
YANG Xiangyuan *(China)*	ZHANG Ming *(China)*
Edgar L. Zamalloa *(Peru)*	Carlos Saito *(Peru)*



Administrative and Capital Budgets, Staffing, and Organization

Financial Year 1995

Expenditures

The Fund's Administrative and Capital Budgets are considered in the context of rolling three-year and five-year medium-term budget outlooks that are reviewed once a year by the Executive Board. The medium-term outlook endorsed by the Board in December 1994 reflected the Fund management's commitment to reduce administrative expenditures in real terms in financial years 1996 and 1997 and to maintain constant dollar expenditures in financial year 1998 on a budget-to-budget basis. The outlook for the Capital Budget is also constrained. Capital project budgets will be reduced compared with previous years, except for major building projects that have already been approved or are under consideration.

The Fund's Administrative Budget for the financial year ended April 30, 1995 (1994/95) was $488.3 million, and capital projects totaling $17.4 million ($10.0 million for building systems and $7.4 million for electronic data-processing equipment) were also approved. Actual administrative expenditures during the year totaled $462.2 million, and capital project disbursements totaled $32.9 million, including $12.9 million for building-addition projects (Table IX.1). During the year, a number of steps were taken to increase the efficiency of the Fund and reduce costs (Table IX.2). These included increased automation of Fund work activities and adjustments in administrative procedures, including the full-year effect of dollar-denominated travel budgets. In addition, several initiatives were delayed, including replacement of the current microcomputer operating system.

During 1994/95, resources were used to support the work of the Fund in the following proportions: country-specific work, with 109 countries classified as program/intensive, 66 resident representative posts authorized, and 203 staff years of Fund-financed technical assistance (47.2 percent); policy development, evaluation, and research devoted to substantive policy-related work, including the World Economic Outlook exercise (12.2 percent); statistics, information, and external relations including production of the Fund's statistical publications, work with members on statistical policy, and increased demands on external relation activities as a result of efforts to provide greater openness of the institution (7.1 percent); external training, which encompasses the scholastic program of the IMF Institute, the Joint Vienna Institute, and regional courses (4.5 percent); administrative support, where investments in technology, coupled with work process improvements, have combined to produce a series of savings in the diverse activities within this category (16.8 percent); and Board of Governors and Executive Board (12.2 percent). (See Chart 10.)

Organization and Staffing

The first change in the Fund's senior management structure since 1949 took place in financial year 1994 with the expansion from one to three in the number of Deputy Managing Directors. This change permitted a more team-oriented approach and strengthened the Fund's management structure, which had carried an increased burden of responsibilities for a greatly enlarged membership in recent years.

At the end of the financial year, there were 2,184 staff members from 115 countries.

Financial Year 1996

Expenditures

Early in 1995, the Board approved an Administrative Budget for 1995/96 of $475.1 million—a decrease of 2.7 percent over the revised budget for the previous year—and a capital project budget of $13.4 million ($5.6 million for building systems, $0.5 million for work-practice improvements, and $7.3 million for electronic data-processing equipment). The 1995/96 Administrative Budget represented a decision to hold expenses to a minimal real growth level. A policy of budgetary consolidation was adopted with across-the-board reductions in staffing positions as a result of productivity improvements. In addition, some targeted staffing reductions have also been possible through the introduction of new technologies and the substitution of external funding for some technical assistance experts who were previously financed from Fund resources. Among the limited number of new initiatives was a scheduled updating of the operating system on the Fund's microcomputers.

Organization and Staffing

The total authorized staffing of the Fund has been reduced by 40 staff-years in financial year 1996. Of this reduction, 15.5 staff-years represent the abolition of regular staff positions, with the balance of the reduction composed of contractual resources, overtime, and Fund-financed technical assistance experts. At the same time, vacant positions will continue to be filled, thereby moderating the ceiling reduction.

No major organizational changes for financial year 1996 are planned at this time.

Table IX.1

ADMINISTRATIVE BUDGET AS APPROVED BY THE EXECUTIVE BOARD FOR THE FINANCIAL YEAR ENDING APRIL 30, 1996 COMPARED WITH ACTUAL EXPENSES FOR THE FINANCIAL YEARS ENDED APRIL 30, 1993, APRIL 30, 1994, AND APRIL 30, 1995; AND CAPITAL BUDGETS AS APPROVED BY THE EXECUTIVE BOARD FOR CAPITAL PROJECTS IN FINANCIAL YEARS 1993, 1994, 1995, AND 1996

(Values expressed in thousands of U.S. dollars)[1]

	Financial Year Ended April 30, 1993: Actual Expenses	Financial Year Ended April 30, 1994: Actual Expenses	Financial Year Ended April 30, 1995: Actual Expenses	Financial Year Ending April 30, 1996: Budget
Administrative Budget				
I. Personnel expenses				
Salaries	174,551	192,920	202,885	210,665
Other personnel expenses	95,961	122,785	127,143	132,860
Subtotal	270,512	315,705	330,028	343,525
II. Travel expenses				
Business travel	43,675	41,820	41,081	42,180
Other travel	24,492	27,099	31,287	26,195
Subtotal	68,167	68,919	72,369	68,375
III. Other administrative expenses				
Communications	8,954	10,303	10,126	10,625
Building occupancy	28,361	37,613	39,800	41,525
Books and printing	5,864	7,040	7,609	7,860
Supplies and equipment	8,436	8,614	7,935	8,175
Data processing	14,207	15,857	16,006	17,300
Miscellaneous	6,484	8,956	9,377	11,950
Subtotal	72,306	88,383	90,852	97,435
IV. Reimbursements	–21,913	–24,712	–31,007	–34,190
Total Administrative Budget	**389,072**	**448,295**	**462,242**	**475,145**
Less: Reimbursement for administering the SDR Department	–4,067	–5,392	–6,143	—
Reimbursement for administering the SAF/ESAF	–23,200	–26,392	–33,079	—
Net Administrative Budget expenses[2]	361,805	416,511	423,020	475,145
Capital Budget				
Capital project budgets[3]	9,050	124,760	17,445	13,400
Capital project disbursements	17,576	25,975	32,889	—

[1]Due to rounding, details may not add to total.

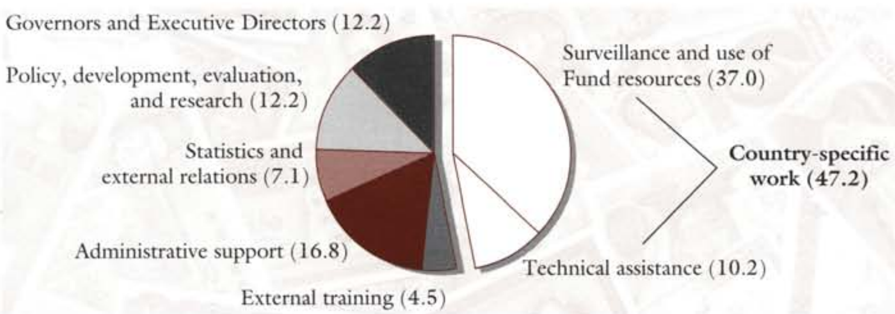
[2]Net Administrative Budget expenses exclude valuation gain or loss on administrative currency holdings.

[3]Multiyear Capital Budgets for projects beginning in each financial year approved as of May 1995.

Table IX.2
COST OF MAJOR FUND ACTIVITIES, FINANCIAL YEARS 1994–96
(In millions of U.S. dollars)

	Financial Years		
Activity	1994	1995	1996
Country-specific work	212.6	218.1	224.6
All except technical assistance	166.2	171.2	177.7
Technical assistance	46.4	46.9	46.9
Policy development, research, and evaluation	52.8	56.3	57.6
Statistics, information, and external relations	32.9	33.0	32.8
Administrative support	80.4	77.5	84.5
External training	21.3	21.0	23.7
Board of Governors and Executive Board	48.3	56.3	52.0
Total	**448.3**	**462.2**	**475.2**

Chart 10
COST OF MAJOR ACTIVITIES
(As a percentage of total costs)



Note: Information is based on financial year 1995 outturn of expenditures. The cost of general supervision, training, professional development, and leave has been distributed proportionally to each of the other categories.

APPENDIX X

Financial Statements

Report of the External Audit Committee

Washington, D.C.
June 30, 1995

Authority and Scope of Audit

In accordance with Section 20(b) of the By-Laws of the International Monetary Fund we have audited the financial statements of the International Monetary Fund covering the:

- General Department for the year ended April 30, 1995,
- SDR Department for the year ended April 30, 1995, and
- the Accounts Administered by the International Monetary Fund, for the year ended April 30, 1995, which consist of the:

1. Enhanced Structural Adjustment Facility Trust,
2. Enhanced Structural Adjustment Facility Administered Accounts:

— Austria,	— Indonesia,
— Belgium,	— Iran,
— Botswana,	— Portugal,
— Chile,	— Saudi Fund for Development Special Account,
— Greece,	

3. Administered Accounts Established at the Request of a Member:
   — Administered Account Japan,
   — Administered Technical Assistance Account Japan,
4. Trust Fund,
5. Supplementary Financing Facility Subsidy Account,
6. Retired Staff Benefits Investment Account.

Our audit was conducted in accordance with generally accepted auditing standards and included reviews of accounting and internal control systems, and tests of the accounting records. We evaluated the extent and results of the work of the outside accounting firm as well as that of the Office of Internal Audit and Review of the International Monetary Fund and also used other audit procedures as deemed necessary.

Audit Opinion

In our opinion, the financial statements of the General Department, the SDR Department, and the Accounts Administered by the International Monetary Fund, including new accounts established in financial year 1995, 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 respective financial positions and the allocations and holdings of SDRs as at April 30, 1995, and of the financial results of operations and transactions during the period then ended.

EXTERNAL AUDIT COMMITTEE:

/s/ Gerwald Kern, Chairman *(Germany)*
/s/ Iqbal Batty *(Botswana)*
/s/ Ioane Naiveli *(Fiji)*

General Department
Balance Sheets
as at April 30, 1995 and 1994

(In thousands of SDRs)
(Note 1)

	1995	1994
Assets		
General Resources Account		
Currencies and securities (Notes 2 and 5)	145,298,032	140,980,507
SDR holdings (Note 3)	1,000,655	6,037,761
Gold holdings (Note 4)	3,624,797	3,624,797
Charges receivable (Note 5)	1,517,412	1,319,916
Interest receivable on SDR holdings	20,447	65,944
Other receivables (Notes 2 and 5)	77,380	77,380
Other assets (Note 6)	120,064	107,672
Total General Resources Account	151,658,787	152,213,977
Special Disbursement Account		
Structural adjustment facility loans	1,650,737	1,835,247
Investments	184,910	226,465
Interest receivable	9,889	6,098
Total Special Disbursement Account	1,845,536	2,067,810
Total Assets	153,504,323	154,281,787
Quotas, Reserves, Liabilities, and Resources		
General Resources Account		
Quotas (Note 2)	144,954,400	144,859,000
Reserves (Note 7)	1,786,546	1,701,472
Special Contingent Accounts (Note 5)	1,369,915	1,154,493
Liabilities		
Borrowing (Note 8)	1,959,626	3,060,000
Remuneration payable (Note 5)	234,119	182,459
Interest payable	21,357	26,515
Other liabilities	230,657	187,103
	2,445,759	3,456,077
Deferred income from charges (Note 5)	1,102,167	1,042,935
Total General Resources Account	151,658,787	152,213,977
Special Disbursement Account		
Accumulated resources	1,842,328	2,065,219
Deferred income (Note 5)	3,208	2,591
Total Special Disbursement Account	1,845,536	2,067,810
Total Quotas, Reserves, Liabilities, and Resources	153,504,323	154,281,787

The accompanying notes and schedules are an integral part of the financial statements.

/s/ Günter Wittich
Acting Treasurer

/s/ M. Camdessus
Managing Director

General Department
Income Statements
for the years ended April 30, 1995 and 1994

(In thousands of SDRs)
(Note 1)

	1995	1994
General Resources Account		
Operational Income (Note 5)		
Periodic charges	1,282,853	1,173,120
Interest on SDR holdings	216,410	299,507
Service charges	52,958	26,202
Stand-by, special charges, and other income	1,568	9,292
Burden-sharing contributions net of refunds (Note 5)		
Additional charges	83,207	96,645
Reduction of remuneration	192,153	154,367
	1,829,149	1,759,133
Operational Expense		
Remuneration (Note 5)	1,053,525	992,862
Interest on borrowing	127,610	147,156
Allocation to the Special Contingent Accounts (Note 5)	215,422	242,597
Deferred income, net of settlements	59,232	(15,015)
	1,455,789	1,367,600
Net Operational Income	373,360	391,533
Administrative Expenses (Notes 1 and 9)	288,286	318,002
Net Income of General Resources Account Before Net Effect of Changes in Accounting Methods	85,074	73,531
Cumulative effects of changes in accounting methods (Notes 1 and 9)		
Accounting for property and equipment	—	48,418
Accrual of post-retirement medical and life insurance benefits	—	(47,800)
Net Income of General Resources Account	85,074	74,149
Special Disbursement Account		
Investment income	9,091	23,906
Interest and special charges	8,099	8,727
	17,190	32,633
Administrative expenses (Note 9)	22,524	19,200
Net (Loss) Income of Special Disbursement Account	(5,334)	13,433

The accompanying notes and schedules are an integral part of the financial statements.

General Department
Statements of Changes in Reserves and Resources for the years ended April 30, 1995 and 1994

(In thousands of SDRs)
(Note 1)

	1995	1994
Reserves—General Resources Account		
Special Reserve (Note 7)		
Balance, beginning of the year	1,335,892	1,261,743
Net income	85,074	74,149
Balance, end of the year	1,420,966	1,335,892
General Reserve (Note 7)		
Balance, beginning and end of the year	365,580	365,580
Total Reserves of the General Resources Account	1,786,546	1,701,472
Resources—Special Disbursement Account		
Balance, beginning of the year	2,065,219	2,499,884
Transfers from Trust Fund	3,724	59,605
Transfers from SFF Subsidy Account	632	—
Transfers to ESAF Trust	(221,913)	(507,703)
	1,847,662	2,051,786
Net (loss) income	(5,334)	13,433
Total Resources of the Special Disbursement Account	1,842,328	2,065,219

The accompanying notes and schedules are an integral part of the financial statements.

General Department
Notes to the Financial Statements
April 30, 1995 and 1994

General Department

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, 1995.

General Resources Account

The General Resources Account reflects the receipt of quota subscriptions, purchases and repurchases, collection of charges on members' use of Fund credit and payment of remuneration on creditor positions in the Fund, and repayment of principal and interest to the Fund's lenders. Assets held in the General Resources Account include (1) currencies (including securities) of the Fund's member countries, (2) SDR holdings, and (3) gold.

The Fund makes its resources available to its members under policies on the use of its resources by selling to members, in exchange for their own currencies, SDRs or currencies of other members. When members make purchases, they incur an obligation to repurchase the Fund's holdings of their currencies, within the periods specified by the Fund, by the payment to the Fund of SDRs or currencies of other members specified by the Fund. The Fund's policies on the use of its general resources are intended to ensure that their use is temporary and will be reversed within the relevant repurchase periods.

The composition of the Fund's holdings of members' currencies changes as a result of the Fund's transactions, including purchases and repurchases. Currencies and securities consist of holdings of currencies or notes payable on demand that substitute for the members' currencies, 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 that reflect the member's use of Fund credit, are less than the member's quota. A member's reserve tranche is considered a part of the member's external reserves, which it may draw at any time when it represents that it has a need. Reserve tranche purchases are not considered a use of Fund credit and are not subject to repurchase obligations or charges.

A member is entitled to repurchase at any time the Fund's holdings of its currency on which the Fund levies charges and is expected to make repurchases as and when its balance of payments and reserve position improve.

Special Disbursement Account

The Special Disbursement Account was activated on June 30, 1981 to receive transfers from the Trust Fund, which is in the process of being wound up. A structural adjustment facility (SAF) was established in March 1986 within the Special Disbursement Account to provide balance of payments assistance on concessional terms to qualifying low-income developing members.

The Special Disbursement Account is a part of the General Department of the Fund. The assets and income of the account are held separate from resources of other accounts of the General Department. Assets that exceed the needs of the account are transferred to the Reserve Account of the Enhanced Structural Adjustment Facility Trust (ESAF Trust), which is separately administered by the Fund as Trustee. Resources of the ESAF Trust Reserve Account that are determined to be in excess of its estimated needs are to be transferred back to the Special Disbursement Account. Upon liquidation of the ESAF Trust, the amounts remaining in the ESAF Trust Reserve Account after the discharge of remaining liabilities shall be transferred to the Special Disbursement Account. In financial years 1994 and 1995, the Fund transferred certain resources derived from the termination of the 1976 Trust Fund to the ESAF Trust Subsidy Account. Upon liquidation of the ESAF Trust, any resources remaining in the ESAF Trust Subsidy Account will be returned to the Special Disbursement Account and the contributors of the ESAF Trust Subsidy Account.

1. Summary of Significant Accounting Practices

Unit of Account

The accounts of the General Department are expressed in terms of the SDR. SDRs are interest-earning assets allocated to participants in the Fund's SDR Department. 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 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 review of the SDR valuation basket, which is conducted every five years. The SDR valuation basket was last reviewed in financial year 1991. The currencies comprising the basket and their amounts in the basket are as follows:

Currency	Amount
U.S. dollar	0.572
Deutsche mark	0.453
Japanese yen	31.8
French franc	0.800
Pound sterling	0.0812

Valuation of Currencies

Currencies are valued in terms of the SDR on the basis of the representative exchange rate determined for each currency. Each member is obligated to maintain the value of the balances of its currency held by the Fund in the General Resources Account in terms of the SDR. Whenever the Fund revalues its holdings of a member's currency, a receivable or a payable is established for the amount of currency payable by or to the member in order to maintain the SDR value of the Fund's holdings of the currency. The balances of the receivables or payables are reflected in the Fund's total currency holdings.

Income Recognition

The Fund maintains its accounts on an accrual basis; accordingly, income is recognized as it is earned, and expenses are recorded as they are incurred, except that income from charges from members that are overdue in settling 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 also Note 5).

Capital Assets

On May 1, 1993, the Fund adopted depreciation accounting and capitalized land and buildings at their historical cost less their estimated depreciation. The Fund capitalizes assets with a cost in excess of \$100,000. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

Post-Retirement Benefits

The Fund provides certain health care benefits to staff and retirees that elect to participate in its medical benefits and life insurance plans. Participants and the Fund contribute toward meeting the costs of these benefits. During financial year 1994, the Fund adopted the accrual method of accounting for its share of the expense of providing post-retirement medical and life insurance benefits to retirees. Prior to financial year 1994, the Fund recognized these costs on a pay-as-you-go basis.

2. Quotas, Currencies, and Securities

Each member is 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 in 1978 members were permitted to pay the entire increase in their own currencies. A member's quota is not increased until the member consents to the increase and pays the subscription. 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 $^1/_4$ 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, 1995 were as follows:

	April 30, 1995	April 30, 1994	Net Change
	In millions of SDRs		
Members' quotas	144,954	144,859	95
Members' outstanding use of Fund credit in the GRA	32,140	25,533	6,607
Less other receivables	(77)	(77)	—
Members' outstanding reserve tranche positions in the GRA	(31,720)	(29,338)	(2,382)
Administrative currency balances	1	4	(3)
Currencies and securities	145,298	140,981	4,317

On December 14, 1992, the Republic of Bosnia and Herzegovina and the Federal Republic of Yugoslavia (Serbia/Montenegro) agreed, as successor states, to share in the assets and liabilities of the former Socialist Federal Republic of Yugoslavia. As of April 30, 1995, these states had not succeeded to Fund membership. Fund credit outstanding at April 30, 1995 and 1994 includes overdue credit amounting to SDR 77.4 million with respect to these two states. This amount is disclosed separately as other receivables in the balance sheets.

Each member is obligated to maintain the value of the balances of its currency held by the Fund in the General Resources Account in terms of the SDR, and therefore the Fund periodically revalues its holdings of a member's currency. At April 30, 1995, when all holdings of currencies of members were last revalued, receivables and payables arising from valuation adjustments amounted to SDR 21,174.0 million and SDR 2,355.0 million, respectively (SDR 18,644.5 million and SDR 809.1 million, respectively at April 30, 1994). The receivable or payable balances are reflected in the Fund's total currency holdings. At June 27, 1995, the amounts receivable were SDR 9,348.7 million, and the amounts payable were

SDR 748.5 million. The Fund's holdings of members' currencies at April 30, 1995 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. The Fund receives SDRs from members in the settlement of their financial obligations to the Fund and uses SDRs in transactions and operations between the Fund and its members. The Fund earns interest on its SDR holdings at the same rate as all other holders of SDRs.

4. Gold Holdings

At April 30, 1995 and April 30, 1994, the Fund held 3,217,341 kilograms equal to 103,439,916 fine ounces of gold at designated depositories. Gold held by the Fund is valued on the basis of 0.888671 gram of fine gold per SDR, which is equivalent to SDR 35 per fine ounce, except for 21,396 fine ounces that were acquired in financial year 1993 at a market value equivalent to SDR 5.1 million.

5. Fund Operations

The Fund's financial resources are made available to members under a number of policies and facilities that differ in the type of balance of payments need they seek to address, in the length of repurchase period, and in the degree of conditionality attached to them. Changes in the outstanding use of Fund credit under various facilities during the year ended April 30, 1995 were as follows:

	April 30, 1994	Purchases	Repurchases	April 30, 1995
	In millions of SDRs			
Regular facilities	6,236	7,587	1,264	12,559
Compensatory and contingency financing facility	3,756	287	1,022	3,021
Extended Fund facility	6,327	1,039	506	6,860
Systemic transformation facility	2,725	1,123	—	3,848
Supplementary financing facility	191	—	—	191
Enlarged access	6,298	556	1,193	5,661
Total	25,533	10,592	3,985	32,140

Members' use of Fund credit is shown in Schedule 1.

Charges

The Fund levies periodic charges on its holdings of members' currencies that derive from their use of Fund credit. The rate of charge is set as a proportion of the SDR interest rate. This rate is adjusted periodically to offset the effect on income of the deferral of charges and to finance the additions to the Special Contingent Accounts, which are further discussed below. Special charges are levied on holdings that are not repurchased when due, and on overdue charges that are not settled when due, except that these charges do not apply to members that are six months or more overdue to the Fund. A service charge is levied by the Fund on each purchase, except on a reserve tranche purchase; a stand-by fee is charged on stand-by and extended arrangements and is refunded in proportion to purchases made under the arrangement.

At April 30, 1995, the total holdings on which the Fund levied charges amounted to SDR 32,140.4 million (SDR 25,532.7 million at April 30, 1994).

Remuneration

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 member's norm. The norm varies for each member and, on average, amounted to 94.5 percent of quota at April 30, 1995. The rate of remuneration is equal to the SDR interest rate and is adjusted subject to a specific floor, to offset the effect of the deferral of charges on income and to finance the additions to the Special Contingent Accounts, as discussed below.

At April 30, 1995, the total creditor positions on which the Fund paid remuneration amounted to SDR 25,332.1 million (SDR 22,950.5 million at April 30, 1994).

Overdue Obligations

At April 30, 1995, six members were six months or more overdue in settling their financial obligations to the Fund (seven members at April 30, 1994); five of these members were overdue to the General Department (six at April 30, 1994). In addition, the Republic of Bosnia and Herzegovina and the Federal Republic of Yugoslavia (Serbia/Montenegro) were also six months or more overdue in meeting their financial obligations to the Fund. Credit extended to these members and successor states through the General Resources Account and the Special Disbursement Account, including SAF loans, amounted to SDR 1,851.2 million as of April 30, 1995 (SDR 1,894.8 million as of April 30, 1994).

One of the overdue members (Zambia) has been settling obligations as they fall due and is implementing a rights accumulation program that could lead to the settlement of its arrears. During the year ended April 30, 1995, one member (Haiti) fully settled its overdue financial obligations to the Fund. This restored this member's eligibility to use the Fund's general resources.

Overdue repurchases and SAF loan repayments and charges and SAF interest of the five members (six members at April 30, 1994) and the two successor states of the former Socialist Federal Republic of Yugoslavia that are six months or more overdue to the General Department were as follows:

	Repurchases and SAF Loans		Charges and SAF Interest	
	1995	1994	1995	1994
	In millions of SDRs			
Total overdue	1,728	1,705	1,081	1,025
Overdue for six months or more	1,701	1,667	1,049	994
Overdue for three years or more	1,512	1,432	868	718

The type and duration of the arrears of these members and two successor states of the former Socialist Federal Republic of Yugoslavia were as follows:

	Repurchases and SAF Loans	Charges and SAF Interest	Total Obligation	Longest Overdue Obligation
	In millions of SDRs			
Bosnia and Herzegovina, Republic of	17.7	2.7	20.4	September 1992
Liberia	201.6	179.3	380.9	January 1985
Somalia	101.1	62.0	163.1	July 1987
Sudan	594.9	508.3	1,103.2	August 1984
Yugoslavia, Federal Republic of (Serbia/Montenegro)	48.8	7.4	56.2	September 1992
Zaïre	219.6	40.2	259.8	February 1991
Zambia	544.6	280.7	825.3	July 1986
Total	1,728.3	1,080.6	2,808.9	

Strengthened Cooperative Strategy

The Fund follows a cooperative strategy aimed at resolving the issue of overdue obligations to the Fund. Three major elements form the basis of the cooperative strategy: (1) preventative measures, (2) remedial and deterrent measures, and (3) intensified collaboration and the rights approach. Under the intensified collaborative approach, the Fund has developed 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 under a successor arrangement after clearance of arrears and when all the requirements for that successor arrangement are met.

Deferred Income and Special Contingent Accounts

It is the policy of the Fund to exclude from current income charges due 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 excluded from income are recorded as deferred income. Charges due and accrued by members that are six months or more overdue and that have been deferred amounted to SDR 1,102.2 million at April 30, 1995 (SDR 1,042.9 million at April 30, 1994).

Since May 1, 1986, the Fund has adopted decisions whereby debtor and creditor members share the financial consequences of overdue obligations. An amount equal to deferred charges (excluding special charges) is generated and included in the Fund's income 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 for the financing of deferred charges and the first Special Contingent Account (see following paragraphs). The proceeds from the subsequent 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.

In view of the existence of protracted overdue obligations, the Fund accumulates precautionary balances, inter alia, in the Special Contingent Accounts. At April 30, 1995, SDR 1,369.9 million was held in the first and second Special Contingent Accounts (SCA-1 and SCA-2). A total of SDR 602.3 million was held in the SCA-1 (SDR 517.2 million at April 30, 1994), and SDR 767.6 million was held in the SCA-2 at April 30, 1995 (SDR 637.3 million at April 30, 1994). The Special Contingent Accounts are also financed by additional quarterly adjustments to the rate of charge and the rate of remuneration. Balances in the SCA-1 are to be distributed to the members that share the cost of financing it when there are no outstanding overdue charges and repurchases, or at such earlier time as the Fund may decide.

The SCA-2 was established on July 1, 1990 (as part of the strengthened cooperative strategy) so as to accumulate SDR 1.0 billion over a period of approximately five years. It is financed by a further adjustment to the rate of charge and to the rate of remuneration, subject to the floor to the rate of remuneration of 80 percent of the SDR interest rate. The resources accumulated in the SCA-2 safeguard against potential losses arising from 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. Refunds of contributions are to be made after all repurchases under the rights approach have been made, or at such earlier date as the Fund may determine. Use of Fund credit in the General Resources Account following the completion and encashment of rights accumulation programs amounted to SDR 621.0 million at April 30, 1995 and April 30, 1994.

The allocations to the SCA-1 and SCA-2, the costs of deferred charges, and corresponding adjustments to charges and remuneration during the year ended April 30, 1995 were as follows:

	Total Costs and Allocations	Adjustments to Charges	Adjustments to Remuneration
	In millions of SDRs		
Deferred charges	96.0	48.1	47.9
SCA-1	85.2	42.7	42.5
SCA-2	130.3	10.6	119.7
Total	215.5	53.3	162.2
Refunds of deferred charges	36.1	18.2	17.9
Burden-sharing contributions net of refunds	275.4	83.2	192.2

The cumulative charges, net of settlements, that have been deferred since May 1, 1986, and have resulted in adjustments to charges and remuneration, amount to SDR 847.4 million (SDR 787.5 million at April 30, 1994). The cumulative refunds for the same period amount to SDR 679.7 million (SDR 643.6 million at April 30, 1994).

6. *Other Assets*

Other assets include capital assets, which at April 30, 1995 amounted to SDR 90.0 million (SDR 78.1 million at April 30, 1994), net of accumulated depreciation of SDR 62.2 million (SDR 57.8 million at April 30, 1994). These consist of land (SDR 33.6 million), buildings (SDR 32.1 million), equipment (SDR 9.9 million), and construction in progress (SDR 14.4 million). A net amount of SDR 48.4 million was capitalized as a result of the accounting change on May 1, 1993 and was included in the Income Statement and in other assets for the year ended April 30, 1994.

7. *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. An administrative deficit for any financial year must be charged first against the Special Reserve.

8. *Borrowing*

Outstanding borrowing by the Fund amounted to SDR 1,960 million at April 30, 1995, representing outstanding balances under the bilateral arrangements with Japan, which will be repaid during financial year 1996 (SDR 3,060 million at April 30, 1994, consisting of SDR 2,985 million outstanding under the bilateral arrangements with Japan and SDR 75 million outstanding under enlarged access arrangements).

Bilateral Arrangements with Japan

In December 1986, the Government of Japan agreed to make available to the Fund SDR 3.0 billion to help finance the Fund's support of adjustment programs of member countries. Calls were made by the Fund over a period of four years until resources under this borrowing agreement were fully drawn by the end of March 1991. The final maturity of each call is five years from the initial date of the call. Interest on amounts borrowed is based on the weighted average of six-month domestic interest rates in the countries that make up the currency basket of the SDR.

Enlarged Access

The Fund entered into borrowing agreements under which the lenders made resources equal to SDR 13.5 billion available to the Fund to finance purchases by members under the enlarged access policy. Interest rates on amounts borrowed varied and were based on Eurocurrency deposit rates and weighted average yields of domestic instruments denominated in the five currencies in the SDR valuation basket. Balances outstanding under these arrangements as of April 30, 1994 were fully repaid during financial year 1995.

General Arrangements to Borrow

Under the General Arrangements to Borrow (GAB), the Fund may borrow up to SDR 18.5 billion when supplementary resources are needed, in particular, to forestall or to cope with an impairment of the international monetary system. The GAB became effective on October 24, 1962 and has been extended through December 25, 1998. At April 30, 1995, the GAB had not been activated.

9. *Administrative Expenses*

For the year ended April 30, 1995, the Fund incurred administrative expenses for personnel (SDR 217.5 million), travel (SDR 48.0 million), and other administrative needs (SDR 22.8 million). Administrative expenses, which are net of reimbursements, include pension plan contributions, post-retirement benefits other than pensions, and depreciation expense. The General Resources Account is reimbursed for expenses incurred in administering the SDR Department (SDR 4.2 million for the year ended April 30, 1995), the Special Disbursement Account and the Enhanced Structural Adjustment Facility Trust (SDR 22.5 million for the year ended April 30, 1995), and for other services (SDR 16.4 million for the year ended April 30, 1995).

The Fund has a defined-benefit Staff Retirement Plan and a defined-benefit Supplemental Retirement Benefits Plan ("the Plans"). All contributions to the Plans and all other assets, liabilities, and income of the Plans are administered separately from the General Department and can be used only for the benefit of the participants in the Plans and their beneficiaries. Participants contribute a fixed percentage of their pensionable remuneration. The Fund contributes the remainder of the cost of funding the Plans and pays certain administrative costs of the Plans. The Fund uses the aggregate cost method for determining its pension cost and for funding the Plans. Under this method, the Fund's contributions, including those for cost-of-living adjustments and for experience gains and losses, are spread over the expected future working lifetimes of the participants in the Plans and are determined annually as a percentage of pensionable remuneration of the participants. The funding and cost of the Plans for the year ended April 30, 1995 are based on an actuarial valuation at April 30, 1994.

The Fund provides certain health care benefits to retirees who elect to continue participation in its medical benefits and group life insurance plans through retirement. Participants and the Fund contribute toward meeting the costs of these benefits. As described in note 1, the Fund recognizes its share of health care costs on an accrual basis. The Fund's cost, which includes a current-year cost and a past-service obligation, is determined actuarially on the basis of the actual experience of the Fund's medical and life insurance plans, a discount rate of 8.5 percent, and an increase in medical costs at an annual rate of 12 percent, declining to 6 percent over time, and other factors on the demographics of participants. The cumulative cost was actuarially estimated at SDR 81.7 million as of April 30, 1995 (SDR 121.4 million as of April 30, 1994). At April 30, 1995, SDR 70.7 million of the cumulative cost has been charged in full to the Fund's income (SDR 61.4 million as of April 30, 1994, of which SDR 47.8 million, representing the future cost of medical benefits for retirees at the time of the accounting change, is reflected as the cumulative effect of a change in accounting method). The unrecognized portion, equal to SDR 11.0 million, is being amortized over the average remaining service life of staff.

On April 3, 1995, the Fund established a Retired Staff Benefits Investment Account (RSBIA) to hold and invest the resources contributed by the Fund toward the payment of post-retirement medical and life insurance benefits. The RSBIA shall also accumulate resources to fund future medical and life insurance benefits to current staff after their retirement. The resources of the account shall be kept separate from the property and assets of all other accounts of, or administered by, the Fund. An amount of SDR 73.3 million was invested in the RSBIA during financial year 1995. The Fund will make periodic contributions to the RSBIA, based on the actuarially determined cost, which is recognized as an expense in the General Resources Account.

10. Arrangements in the General Department

At April 30, 1995, 33 arrangements were in effect, and undrawn balances under these arrangements amounted to SDR 8,326.0 million. These arrangements are listed in Schedule 3. It should be noted that Mexico's stand-by arrangement, amounting to SDR 5,259.9 million at April 30, 1995, may be augmented by up to SDR 6,810.3 million to the extent that the contributions of governments and central banks fall short of $10.0 billion.

The systemic transformation facility (STF) was established to provide Fund credit to members that are in an early stage of the transition process. Use of Fund credit under the STF was limited to 50 percent of quota, divided into two equal disbursements. In accordance with the decision establishing this facility, the period within which a member could make a first purchase expired on April 30, 1995. With respect to members that have only made their first purchase under the STF at April 30, 1995, the period during which they may make their second purchase will expire on December 31, 1995. At April 30, 1995, 20 members had made drawings under this facility amounting to SDR 3,848.0 million. A further SDR 447.2 million may still be drawn by eight of these members by December 31, 1995.

Schedule 1

General Department
Quotas, Fund's Holdings of Currencies, Members' Use of Fund Resources, and Reserve Tranche Positions as at April 30, 1995

(In thousands of SDRs)

	General Resources Account					
		Fund's holdings of currencies[1]				
Member	Quota	Total	Percent of quota	Use of resources[2]	Reserve tranche position	Special Disbursement Account Loans
Afghanistan, Islamic State of	120,400	115,488	95.9	—	4,928	—
Albania	35,300	48,425	137.2	13,125	5	—
Algeria	914,400	1,752,043	191.6	837,645	7	—
Angola	207,300	207,445	100.1	—	—	—
Antigua and Barbuda	8,500	8,499	100.0	—	1	—
Argentina	1,537,100	5,386,367	350.4	3,849,242	—	—
Armenia, Republic of	67,500	84,375	125.0	16,875	5	—
Australia	2,333,200	1,991,452	85.4	—	341,756	—
Austria	1,188,300	775,359	65.2	—	412,898	—
Azerbaijan	117,000	146,250	125.0	29,250	10	—
Bahamas, The	94,900	88,663	93.4	—	6,239	—
Bahrain	82,800	40,229	48.6	—	42,580	—
Bangladesh	392,500	392,430	100.0	—	74	122,619
Barbados	48,900	85,722	175.3	36,840	25	—
Belarus, Republic of	280,400	420,600	150.0	140,200	20	—
Belgium	3,102,300	2,480,894	80.0	—	621,399	—
Belize	13,500	10,587	78.4	—	2,914	—
Benin	45,300	43,203	95.4	—	2,099	22,024
Bhutan	4,500	3,930	87.3	—	570	—
Bolivia	126,200	117,339	93.0	—	8,875	45,804
Bosnia and Herzegovina, Republic of	—	—	—	20,539	—	—
Botswana	36,600	16,342	44.7	—	20,259	—
Brazil	2,170,800	2,299,073	105.9	127,500	—	—
Bulgaria	464,900	1,048,109	225.4	615,834	32,630	—
Burkina Faso	44,200	36,999	83.7	—	7,201	18,960
Burundi	57,200	51,345	89.8	—	5,860	19,215
Cambodia	65,000	71,250	109.6	6,250	—	—
Cameroon	135,100	163,664	121.1	28,910	356	—
Canada	4,320,300	3,543,706	82.0	—	776,621	—
Cape Verde	7,000	6,999	100.0	—	1	—
Central African Republic	41,200	51,818	125.8	10,710	94	16,416
Chad	41,300	51,347	124.3	10,325	280	18,054
Chile	621,700	797,377	128.3	175,694	18	—
China	3,385,200	2,816,024	83.2	—	569,179	—
Colombia	561,300	467,301	83.3	—	94,000	—
Comoros	6,500	5,962	91.7	—	540	2,250
Congo	57,900	70,931	122.5	13,500	469	—
Costa Rica	119,000	141,928	119.3	31,640	8,725	—
Côte d'Ivoire	238,200	324,958	136.4	86,839	88	—
Croatia, Republic of	261,600	411,731	157.4	150,119	—	—

Schedule 1 *(continued)*

Member	General Resources Account					Special Disbursement Account Loans
	Quota	Fund's holdings of currencies[1]		Use of resources[2]	Reserve tranche position	
		Total	Percent of quota			
Cyprus	100,000	74,555	74.6	—	25,453	—
Czech Republic	589,600	589,600	100.0	—	3	—
Denmark	1,069,900	728,803	68.1	—	341,104	—
Djibouti	11,500	11,500	100.0	—	—	—
Dominica	6,000	5,992	99.9	—	9	1,506
Dominican Republic	158,800	283,070	178.3	124,270	—	—
Ecuador	219,200	328,998	150.1	126,917	17,125	—
Egypt	678,400	743,920	109.7	119,250	53,750	—
El Salvador	125,600	125,603	100.0	—	—	—
Equatorial Guinea	24,300	24,309	100.0	—	—	11,414
Eritrea	11,500	11,500	100.0	—	5	—
Estonia, Republic of	46,500	109,270	235.0	62,775	6	—
Ethiopia	98,300	91,272	92.9	—	7,033	49,420
Fiji	51,100	41,115	80.5	—	9,986	—
Finland	861,800	668,667	77.6	—	193,136	—
France	7,414,600	5,679,012	76.6	—	1,735,612	—
Gabon	110,300	182,916	165.8	72,661	52	—
Gambia, The	22,900	21,418	93.5	—	1,485	7,067
Georgia, Republic of	111,000	138,750	125.0	27,750	10	—
Germany	8,241,500	5,123,505	62.2	—	3,118,005	—
Ghana	274,000	340,721	124.4	84,092	17,375	117,588
Greece	587,600	473,913	80.7	—	113,687	—
Grenada	8,500	8,501	100.0	—	—	—
Guatemala	153,800	153,806	100.0	—	—	—
Guinea	78,700	78,637	99.9	—	68	19,686
Guinea-Bissau	10,500	10,500	100.0	—	*[3]	2,775
Guyana	67,200	91,041	135.5	23,839	—	34,440
Haiti	60,700	75,856	125.0	15,200	45	3,528
Honduras	95,000	151,190	159.1	56,189	—	—
Hungary	754,800	1,426,361	189.0	727,655	56,097	—
Iceland	85,300	74,818	87.7	—	10,483	—
India	3,055,500	5,419,069	177.4	2,576,097	212,630	—
Indonesia	1,497,600	1,280,001	85.5	—	217,600	—
Iran, Islamic Republic of	1,078,500	1,078,510	100.0	—	—	—
Iraq	504,000	504,013	100.0	—	—	—
Ireland	525,000	359,491	68.5	—	165,519	—
Israel	666,200	844,844	126.8	178,640	—	—
Italy	4,590,700	3,231,448	70.4	—	1,359,253	—
Jamaica	200,900	408,891	203.5	207,937	—	—
Japan	8,241,500	4,809,630	58.4	—	3,431,876	—
Jordan	121,700	242,588	199.3	120,890	2	—
Kazakhstan, Republic of	247,500	445,500	180.0	198,000	5	—
Kenya	199,400	187,110	93.8	—	12,312	85,910
Kiribati	4,000	4,001	100.0	—	—	—
Korea	799,600	404,571	50.6	—	395,034	—

Schedule 1 *(continued)*

Member	Quota	General Resources Account: Fund's holdings of currencies[1] Total	Percent of quota	Use of resources[2]	Reserve tranche position	Special Disbursement Account Loans
Kuwait	995,200	852,622	85.7	—	142,586	—
Kyrgyz Republic	64,500	108,360	168.0	43,860	5	—
Lao People's Democratic Republic	39,100	39,100	100.0	—	—	19,924
Latvia, Republic of	91,500	201,300	220.0	109,800	5	—
Lebanon	146,000	127,169	87.1	—	18,833	—
Lesotho	23,900	20,392	85.3	—	3,512	9,211
Liberia	71,300	272,836	382.7	201,554	28	—
Libya	817,600	498,628	61.0	—	318,980	—
Lithuania, Republic of	103,500	238,050	230.0	134,550	5	—
Luxembourg	135,500	112,074	82.7	—	23,429	—
Macedonia, former Yugoslav Republic of	49,600	63,185	127.4	13,583	—	—
Madagascar	90,400	90,389	100.0	—	12	38,844
Malawi	50,900	61,406	120.6	12,725	2,224	23,622
Malaysia	832,700	513,203	61.6	—	319,498	—
Maldives	5,500	4,621	84.0	—	879	—
Mali	68,900	60,490	87.8	318	8,733	32,512
Malta	67,500	42,767	63.4	—	24,755	—
Marshall Islands	2,500	2,500	100.0	—	1	—
Mauritania	47,500	47,506	100.0	—	—	14,597
Mauritius	73,300	65,974	90.0	—	7,329	—
Mexico	1,753,300	9,412,120	536.8	7,658,804	—	—
Micronesia	3,500	3,500	100.0	—	1	—
Moldova, Republic of	90,000	218,750	243.1	128,750	5	—
Mongolia	37,100	48,038	129.5	10,938	5	—
Morocco	427,700	477,284	111.6	79,896	30,313	—
Mozambique	84,000	84,000	100.0	—	7	26,840
Myanmar	184,900	184,903	100.0	—	—	—
Namibia	99,600	99,592	100.0	—	9	—
Nepal	52,000	46,277	89.0	—	5,730	20,142
Netherlands	3,444,200	2,492,351	72.4	—	951,848	—
New Zealand	650,100	545,146	83.9	—	104,962	—
Nicaragua	96,100	108,883	113.3	12,773	—	—
Niger	48,300	50,849	105.3	11,109	8,561	14,601
Nigeria	1,281,600	1,281,589	100.0	—	68	—
Norway	1,104,600	533,665	48.3	—	570,952	—
Oman	119,400	83,528	70.0	—	35,984	—
Pakistan	758,200	1,265,992	167.0	507,850	62	360,558
Panama	149,600	229,022	153.1	91,270	11,861	—
Papua New Guinea	95,300	100,618	105.6	5,354	53	—
Paraguay	72,100	57,578	79.9	—	14,525	—
Peru	466,100	1,108,819	237.9	642,686	—	—
Philippines	633,400	1,227,321	193.8	681,012	87,104	—
Poland, Republic of	988,500	1,551,676	157.0	640,300	77,125	—
Portugal	557,600	308,371	55.3	—	249,229	—
Qatar	190,500	159,850	83.9	—	30,651	—

Schedule 1 *(continued)*

Member	General Resources Account					Special Disbursement Account Loans
	Quota	Fund's holdings of currencies[1] Total	Fund's holdings of currencies[1] Percent of quota	Use of resources[2]	Reserve tranche position	
Romania	754,100	1,590,690	210.9	836,585	—	—
Russian Federation	4,313,100	7,906,752	183.3	3,594,400	841	—
Rwanda	59,500	49,727	83.6	—	9,791	8,760
St. Kitts and Nevis	6,500	6,488	99.8	—	15	—
St. Lucia	11,000	11,000	100.0	—	1	—
St. Vincent and the Grenadines	6,000	5,500	91.7	—	500	—
San Marino, Republic of	10,000	7,650	76.5	—	2,351	—
São Tomé and Príncipe	5,500	5,503	100.1	—	—	720
Saudi Arabia	5,130,600	4,549,276	88.7	—	581,330	—
Senegal	118,900	148,670	125.0	30,914	1,165	34,295
Seychelles	6,000	5,197	86.6	—	804	—
Sierra Leone	77,200	77,189	100.0	—	24	31,652
Singapore	357,600	160,457	44.9	—	197,177	—
Slovak Republic	257,400	645,780	250.9	388,376	—	—
Slovenia, Republic of	150,500	141,221	93.8	3,589	12,875	—
Solomon Islands	7,500	6,967	92.9	—	538	—
Somalia	44,200	140,907	318.8	96,701	—	8,840
South Africa	1,365,400	1,979,774	145.0	614,430	58	—
Spain	1,935,400	1,022,845	52.8	—	912,436	—
Sri Lanka	303,600	283,381	93.3	—	20,250	131,629
Sudan	169,700	764,591	450.6	594,871	11	—
Suriname	67,600	67,601	100.0	—	—	—
Swaziland	36,500	33,520	91.8	—	3,002	—
Sweden	1,614,000	1,162,593	72.0	—	451,416	—
Switzerland	2,470,400	1,664,305	67.4	—	806,137	—
Syrian Arab Republic	209,900	209,903	100.0	—	5	—
Tajikistan, Republic of	60,000	60,000	100.0	—	2	—
Tanzania	146,900	136,932	93.2	—	9,975	57,780
Thailand	573,900	265,005	46.2	—	308,898	—
Togo	54,300	55,354	101.9	1,303	254	23,232
Tonga	5,000	3,800	76.0	—	1,205	—
Trinidad and Tobago	246,800	293,925	119.1	47,135	10	—
Tunisia	206,000	413,265	200.6	207,300	36	—
Turkey	642,000	920,228	143.3	310,500	32,275	—
Turkmenistan, Republic of	48,000	48,000	100.0	—	5	—
Uganda	133,900	133,907	100.0	—	—	48,804
Ukraine	997,300	1,575,950	158.0	578,650	*[3]	—
United Arab Emirates	392,100	231,544	59.1	—	160,557	—
United Kingdom	7,414,600	5,908,599	79.7	—	1,506,071	—
United States	26,526,800	17,494,072	65.9	—	9,030,712	—
Uruguay	225,300	229,282	101.8	19,350	15,375	—
Uzbekistan, Republic of	199,500	249,375	125.0	49,875	5	—
Vanuatu	12,500	10,012	80.1	—	2,488	—
Venezuela	1,951,300	3,588,223	183.9	1,781,871	144,950	—
Viet Nam	241,600	374,560	155.0	132,960	5	—

Schedule 1 *(concluded)*

Member	Quota	Fund's holdings of currencies[1] Total	Percent of quota	Use of resources[2]	Reserve tranche position	Special Disbursement Account Loans
		General Resources Account				
Western Samoa	8,500	7,837	92.2	—	664	—
Yemen, Republic of	176,500	176,490	100.0	—	13	—
Yugoslavia, Federal Republic of (Serbia/ Montenegro)	—	—	—	56,823	—	—
Zaïre	291,000	472,771	162.5	181,771	—	145,500
Zambia	270,300	814,851	301.5	544,567	19	—
Zimbabwe	261,300	419,315	160.5	158,100	88	—
Total	144,954,400	145,298,032		32,140,401	31,719,688	1,650,737

[1]Includes nonnegotiable, non-interest-bearing notes that members are entitled to issue in substitution for currencies.

[2]Includes the share of the Republic of Bosnia and Herzegovina and the Federal Republic of Yugoslavia (Serbia/Montenegro) in the liabilities of the former Socialist Federal Republic of Yugoslavia, although these states have not succeeded to Fund membership.

[3]Less than SDR 500.

Schedule 2

General Department
Schedule of Repurchases and Repayments of Loans
as at April 30, 1995

(In thousands of SDRs)

Financial Year Ending April 30	General Resources Account[1]	Special Disbursement Account
Overdue	1,691,291	42,862
1996	4,361,321	321,992
1997	4,064,068	345,129
1998	3,999,537	328,620
1999	6,861,267	262,644
2000	5,786,230	175,076
2001	1,820,424	78,708
2002	1,397,964	53,697
2003	1,145,453	24,881
2004	715,296	13,841
2005	297,550	3,287
Total	32,140,401	1,650,737

[1]A member is entitled to repurchase at any time the Fund's holdings of its currency subject to charges and is expected to make repurchases as and when its balance of payments and reserve positions improve.

Schedule 3

General Department
Status of Arrangements
as at April 30, 1995

(In thousands of SDRs)

Member	Date of Arrangement	Expiration	Total Amount Agreed	Undrawn Balance
General Resources Account				
Stand-By Arrangements				
Algeria	May 27, 1994	May 26, 1995	457,200	72,000
Cameroon	March 14, 1994	September 13, 1995	81,060	59,150
Congo	May 27, 1994	May 26, 1995	23,160	10,660
Croatia, Republic of	October 14, 1994	April 13, 1996	65,400	52,320
Ecuador	May 11, 1994	March 31, 1996	173,900	75,000
Estonia, Republic of	April 11, 1995	July 10, 1996	13,950	13,950
Haiti	March 8, 1995	March 7, 1996	20,000	4,800
Kazakhstan, Republic of	January 26, 1994	May 31, 1995	123,750	49,500
Latvia, Republic of	April 21, 1995	May 20, 1996	27,450	27,450
Lesotho	September 23, 1994	September 22, 1995	8,365	8,365
Malawi	November 16, 1994	June 30, 1995	15,000	2,275
Mexico	February 1, 1995	August 15, 1996	5,259,900	—
Moldova, Republic of	March 22, 1995	March 21, 1996	58,500	52,200
Poland	August 5, 1994	March 4, 1996	693,300	410,000
Romania	May 11, 1994	December 10, 1995	131,970	75,410
Russian Federation	April 11, 1995	April 10, 1996	4,313,100	3,594,250
Slovak Republic	July 22, 1994	March 21, 1996	115,800	83,650
Turkey	July 8, 1994	March 7, 1996	610,500	300,000
Ukraine	April 7, 1995	April 6, 1996	997,300	917,300
Total Stand-By Arrangements			13,189,605	5,808,280
Extended Arrangements				
Argentina	March 31, 1992	March 30, 1996	4,020,250	768,550
Egypt	September 20, 1993	September 19, 1996	400,000	400,000
Jamaica	December 11, 1992	December 10, 1995	109,125	22,375
Jordan	May 25, 1994	May 24, 1997	189,300	112,810
Lithuania, Republic of	October 24, 1994	October 23, 1997	134,550	113,850
Pakistan	February 22, 1994	February 21, 1997	379,100	255,900
Peru	March 18, 1993	March 17, 1996	1,018,100	375,414
Philippines	June 24, 1994	June 23, 1997	474,500	438,000
Zimbabwe	September 11, 1992	September 10, 1995	114,600	27,700
Total Extended Arrangements			6,839,525	2,514,599
Total General Resources Account			20,029,130	8,322,879

Schedule 3 *(concluded)*

Member	Date of Arrangement	Expiration	Total Amount Agreed	Undrawn Balance
Special Disbursement Account				
Structural Adjustment Facility Arrangement				
Ethiopia	October 28, 1992	November 8, 1995	49,420	—
SAF Resources Committed Under ESAF Arrangements[1]				
Benin	January 25, 1993	January 24, 1996	7,000	—
Burkina Faso	March 31, 1993	March 30, 1996	15,800	3,160
Equatorial Guinea	February 3, 1993	February 2, 1996	2,950	—
Mali	August 28, 1992	March 31, 1996	10,160	—
Total SAF Resources Committed Under ESAF		35,910	3,160	
Total Special Disbursement Account			85,330	3,160
Total General Department			20,114,460	8,326,039

[1]Resources under enhanced structural adjustment facility (ESAF) arrangements may be provided from the structural adjustment facility (SAF) within the Special Disbursement Account and from the Enhanced Structural Adjustment Facility Trust.

SDR Department
Statements of Allocations and Holdings
as at April 30, 1995 and 1994

(In thousands of SDRs)

	1995	1994
Allocations		
Net cumulative allocations of SDRs	21,433,330	21,433,330
Overdue charges	46,312	51,430
Total Allocations	21,479,642	21,484,760
Holdings		
Participants with holdings above allocations		
Allocations	9,974,856	7,446,183
Net receipts of SDRs	6,141,786	3,860,608
	16,116,642	11,306,791
Participants with holdings below allocations		
Allocations	11,458,474	13,987,147
Net uses of SDRs	8,101,888	10,074,316
	3,356,586	3,912,831
Total holdings of participants	19,473,228	15,219,622
General Resources Account	1,000,655	6,037,762
Holdings of SDRs by prescribed holders	1,005,759	227,376
Total Holdings	21,479,642	21,484,760

The accompanying note is an integral part of the financial statements.

/s/ Günter Wittich
Acting Treasurer

/s/ M. Camdessus
Managing Director

SDR Department
Statements of Receipt and Use
for the years ended April 30, 1995 and 1994

(In thousands of SDRs)

	Participants	General Resources Account	Prescribed Holders	Total 1995	Total 1994
Total holdings at beginning of the year	15,219,622	6,037,762	227,376	21,484,760	21,483,190
Receipt of SDRs					
Transfers among participants and prescribed holders					
Transactions by agreement	8,198,675		788,537	8,987,212	3,122,076
Operations					
Grants				—	23,672
Loans	6,853			6,853	146,870
Settlement of financial obligations	50,651		66,259	116,910	235,136
Fund-related operations					
Subsidy payments				—	177
SAF/ESAF loans	39,190			39,190	116,305
SAF repayments and interest			103,065	103,065	82,879
Trust Fund repayments and interest			27	27	42,780
Special charges on SAF, ESAF, and Trust Fund			4	4	5,288
ESAF contributions and payments	10,031		84,822	94,853	179,559
ESAF repayments and interest			63,747	63,747	9,323
Net interest on SDRs	167,167		7,100	174,267	120,565
Transfers from participants to General Resources Account					
Repurchases		1,181,073		1,181,073	642,264
Charges		1,385,749		1,385,749	1,424,523
Quota payments		23,678		23,678	70,728
Interest on SDRs		261,906		261,906	336,329
Assessment on SDR allocation		4,145		4,145	3,979
Transfers from General Resources Account to participants and prescribed holders					
Purchases	5,969,975			5,969,975	2,675,856
Repayments of Fund borrowings	861,904			861,904	300,000
Interest on Fund borrowings	97,352			97,352	161,961
In exchange for currencies of other members					
Acquisitions to pay charges	99,064			99,064	166,235
Remuneration	814,713			814,713	958,449
Other					
Refunds and adjustments	50,650			50,650	107,689
Total Receipts	16,366,225	2,856,551	1,113,561	20,336,337	10,932,643

SDR Department
Statements of Receipt and Use *(concluded)*
for the years ended April 30, 1995 and 1994

(In thousands of SDRs)

	Participants	General Resources Account	Prescribed Holders	Total 1995	Total 1994
Use of SDRs					
Transfers among participants and prescribed holders					
Transactions by agreement	8,745,054		242,158	8,987,212	3,122,076
Operations					
Grants				—	23,672
Loans	6,853			6,853	146,870
Settlement of financial obligations	73,111		43,799	116,910	235,136
Fund-related operations					
Subsidy payments				—	177
SAF/ESAF loans			39,190	39,190	116,305
SAF repayments and interest	103,065			103,065	82,879
Trust Fund repayments and interest	27			27	42,780
Special charges on SAF, ESAF, and Trust Fund	4			4	5,288
ESAF contributions and payments	84,822		10,031	94,853	179,559
ESAF repayments and interest	63,747			63,747	9,323
Transfers from participants to General Resources Account					
Repurchases	1,181,073			1,181,073	642,264
Charges	1,385,749			1,385,749	1,424,523
Quota payments	23,678			23,678	70,728
Assessment on SDR allocation	4,145			4,145	3,979
Transfers from General Resources Account to participants and prescribed holders					
Purchases		5,969,975		5,969,975	2,675,856
Repayments on Fund borrowings		861,904		861,904	300,000
Interest on Fund borrowings		97,352		97,352	161,961
In exchange for currencies of other members					
Acquisitions to pay charges		99,064		99,064	166,235
Remuneration		814,713		814,713	958,449
Other					
Refunds and adjustments		50,650		50,650	107,689
Charges paid in the SDR Department					
Net charges due	436,174			436,174	456,894
Charges not paid when due	(19,025)			(19,025)	(24,497)
Settlement of unpaid charges	24,142			24,142	22,927
Total Uses	12,112,619	7,893,658	335,178	20,341,455	10,931,073
Total holdings at end of the year	19,473,228	1,000,655	1,005,759	21,479,642	21,484,760

The accompanying note is an integral part of the financial statements.

SDR Department
Note to the Financial Statements
April 30, 1995 and 1994

SDR Department

All transactions and operations involving SDRs are conducted through the SDR Department. Each member of the Fund can become a participant in the SDR Department. At April 30, 1995, all members of the Fund were participants in 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, upon termination of participation or liquidation of the SDR Department, the Fund will provide to holders the currencies received from the participants in settlement of their obligations. The Fund is empowered to prescribe certain official entities as holders of SDRs: at April 30, 1995, 15 institutions have been prescribed as holders. These prescribed holders do not receive allocations and cannot use or receive SDRs in designation.

Uses of SDRs

The Fund ensures, by designating participants to provide freely usable currency in exchange for SDRs, that a participant can use its SDRs to obtain an equivalent amount of 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 obligated 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 this limit. Participants and prescribed holders can also use and receive SDRs in transactions and operations 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.

Interest, Charges, and Assessment

Interest is paid on 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 SDR Department is required to pay interest to each holder, whether or not sufficient SDRs are received to meet the payment of interest. If sufficient SDRs are not received, because charges are overdue, additional SDRs are temporarily created. At April 30, 1995, charges of SDR 46.3 million were overdue (SDR 51.4 million at April 30, 1994). At April 30, 1995, six members (seven members at April 30, 1994) were six months or more overdue in meeting financial obligations to the Fund, and three of these members were six months or more overdue to the SDR Department (five members at April 30, 1994).

In addition, the Republic of Bosnia and Herzegovina and the Federal Republic of Yugoslavia (Serbia/Montenegro) were also six months or more overdue in meeting their financial obligations. While these two states agreed to their share in the assets and liabilities of the former Socialist Federal Republic of Yugoslavia in the Fund, they had not succeeded to membership in the Fund as of April 30, 1995, and, consequently, they are not participants in the SDR Department.

Unpaid charges of the three members and the two successor states of the former Socialist Federal Republic of Yugoslavia that are six months or more overdue to the SDR Department were as follows:

	1995	1994
	In millions of SDRs	
Total overdue charges	46.3	49.8
Overdue for six months or more	41.1	43.7
Overdue for three years or more	17.4	10.5

The duration of arrears of these members and the two successor states of the former Socialist Federal Republic of Yugoslavia were as follows:

	Total	Longest Overdue Obligation
	In millions of SDRs	
Bosnia and Herzegovina, Republic of	2.5	November 1992
Iraq	21.0	November 1990
Liberia	12.0	August 1988
Somalia	3.8	February 1991
Yugoslavia, Federal Republic of (Serbia/Montenegro)	7.0	November 1992
Total	46.3	

The rate of interest on the SDR 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 by the SDR Department at the end of each financial year. For this purpose, the SDR Department levies an assessment on all participants in proportion to their net cumulative allocation.

Enhanced Structural Adjustment Facility Trust
Combined Balance Sheets
as at April 30, 1995 and 1994

(In thousands of SDRs)
(Note 1)

	Loan Account	Reserve Account	Subsidy Account	Combined 1995	Combined 1994
Assets					
Loans receivable	2,894,726	—	—	2,894,726	2,397,316
Investments (Notes 2 and 4)	16,132	1,035,095	1,574,850	2,626,077	2,138,401
Interest receivable	5,010	14,707	19,678	39,395	10,905
Currencies	—	7	6	13	58
Accrued account transfers	12,698	16,232	(28,930)	—	—
Total Assets	2,928,566	1,066,041	1,565,604	5,560,211	4,546,680
Resources and Liabilities					
Resources	—	1,066,041	1,328,280	2,394,321	1,984,976
Borrowing (Note 4)	2,894,653	—	234,815	3,129,468	2,539,348
Interest payable	33,843	—	2,509	36,352	22,305
Other liabilities	70	—	—	70	51
Total Resources and Liabilities	2,928,566	1,066,041	1,565,604	5,560,211	4,546,680

The accompanying notes and schedules are an integral part of the financial statements.

/s/ Günter Wittich
Acting Treasurer

/s/ M. Camdessus
Managing Director

Enhanced Structural Adjustment Facility Trust
Combined Income Statements
for the years ended April 30, 1995 and 1994

(In thousands of SDRs)
(Note 1)

	Loan Account	Reserve Account	Subsidy Account	Combined 1995	Combined 1994
Income					
Investment income	72	46,998	67,878	114,948	69,257
Interest on loans	13,163	—	—	13,163	9,938
	13,235	46,998	67,878	128,111	79,195
Expense					
Interest expense	98,110	—	3,730	101,840	69,827
Other expenses	70	—	—	70	57
Exchange valuation loss (gain)	17	18	5	40	(31)
	98,197	18	3,735	101,950	69,853
Net Income (Loss)	(84,962)	46,980	64,143	26,161	9,342

The accompanying notes and schedules are an integral part of the financial statements.

Enhanced Structural Adjustment Facility Trust
Combined Statements of Changes in Resources
for the years ended April 30, 1995 and 1994

(In thousands of SDRs)
(Note 1)

	Loan Account	Reserve Account	Subsidy Account	Combined 1995	Combined 1994
Balance, beginning of the year	—	823,160	1,161,816	1,984,976	1,268,900
Contributions (Note 3)	—	—	161,271	161,271	199,031
Transfers from Special Disbursement Account	—	201,620	20,293	221,913	507,703
Net transfers between					
Loan and Reserve Accounts	5,719	(5,719)	—	—	—
Loan and Subsidy Accounts	79,243	—	(79,243)	—	—
Net income (loss)	(84,962)	46,980	64,143	26,161	9,342
Balance, end of the year	—	1,066,041	1,328,280	2,394,321	1,984,976

The accompanying notes and schedules are an integral part of the financial statements.

Enhanced Structural Adjustment Facility Trust
Notes to the Financial Statements
April 30, 1995 and 1994

Purpose

The Enhanced Structural Adjustment Facility Trust ("the Trust"), for which the Fund is Trustee, was established in December 1987 and was extended and enlarged in February 1994 to provide loans on concessional terms to qualifying low-income developing members. The resources of the 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 of the 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 from borrowing and principal and interest payments on loans extended by the Trust. Resources of the Account are committed to qualifying members for a three-year period, upon approval by the Trustee, in support of the member's macroeconomic and structural adjustment programs. Interest on the outstanding loan balances is currently set at the rate of $^1/_2$ of 1 percent a year. At April 30, 1995, SDR 2,894.7 million in loans is outstanding (SDR 2,397.3 million at April 30, 1994).

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 Account or in the Loan Account; and receipts of overdue principal or interest payments under Loan Account loans when 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 pay loan principal and interest on borrowing of the Loan Account in the event that amounts payable from borrowers' principal repayments and interest, together with the authorized interest subsidy, are insufficient.

Subsidy Account

The resources held in the Subsidy Account consist of donations to the Trust, including transfers of net earnings from Administered Accounts and amounts transferred by the Fund from the Special Disbursement Account; the proceeds of loans made to the Trust for the Subsidy Account; and the net earnings from investment of Subsidy Account resources.

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 Trust and the interest due on resources borrowed for Loan Account loans.

1. Accounting Practices

The accounts of the Trust are expressed in terms of the SDR. SDRs are interest-earning assets allocated to participants in the Fund's SDR Department. 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 currencies. The Fund's procedures require that the SDR valuation basket be reviewed every five years and that it 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. The SDR valuation basket was last reviewed in financial year 1991. The currencies comprising the basket and their amounts in the basket are as follows:

Currency	Amount
U.S. dollar	0.572
Deutsche mark	0.453
Japanese yen	31.8
French franc	0.800
Pound sterling	0.0812

Members are not obligated to maintain the SDR value of their currencies held in the Accounts of the Trust.

The Accounts of the Trust are maintained on the accrual basis; accordingly, income is recognized as it is earned, and expenses are recorded as they are incurred. The expenses of conducting the business of the 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 are to be made to the Special Disbursement Account, when and to the extent needed.

2. Investments

The resources of the Trust are invested pending their use in operations. Investments are denominated in SDRs or in currency and are carried at cost, which approximates market value. 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 contributions of resources for the Subsidy Account on such terms and conditions as agreed between the Trust and the contributors. Cumulative contributions received as at April 30, 1995 amounted to SDR 1,384.3 million (SDR 1,202.7 million at April 30, 1994) and are listed in Schedule 1.

4. Borrowing

The Trust borrows resources for the Loan Account and for the Subsidy Account on such terms and conditions as agreed between the Trust and the lenders.

The following summarizes the borrowing agreements concluded as at April 30, 1995 (in thousands of SDRs):

	Amount Agreed	Amount Available
Loan Account	4,945,000	2,004,704
Subsidy Account	343,481	108,666

Scheduled repayments of outstanding borrowing are shown in Schedule 2.

The Trustee has agreed to hold and invest, on behalf of a lender, principal repayments of Trust borrowing in a suspense account within the Loan Account. Amounts will be accumulated until the final maturity of the borrowing, when the full proceeds are to be transferred to the lender. Amounts deposited in this account are invested by the Trustee, and payments of interest to the lender are to be made exclusively from the earnings on the amounts invested. As at April 30, 1995, the balances held in this account consisted of investments (SDR 16.1 million), borrowings (SDR 16.1 million), accrued interest receivable (SDR 0.3 million), and accrued interest payable (SDR 0.3 million). These amounts are included in the corresponding captions in the balance sheet of the ESAF Trust Loan Account.

5. Commitments Under Loan Arrangements

At April 30, 1995, resources of the Loan Account were committed to members under 27 loan arrangements, and undrawn balances under those arrangements amounted to SDR 1,876.8 million (SDR 1,367.5 million under 22 loan arrangements at April 30, 1994). Loan arrangements are listed in Schedule 3. Scheduled repayments of outstanding loans receivable are shown in Schedule 4.

Schedule 1

Enhanced Structural Adjustment Facility Trust
Contributions to the Subsidy Account
as at April 30, 1995

(In thousands of SDRs)
(Note 1)

Contributor	Cumulative Contributions[1]
Special Disbursement Account	400,000
Argentina	2,267
Austria	22,638
Bangladesh	46
Belgium	41,318
Botswana	247
Canada	32,598
Chile	22
China	1,000
Czech Republic	1,000
Denmark	30,437
Egypt	1,000
Finland	22,684
Germany	65,554
Greece	13,956
Iceland	1,500
Indonesia	286
Iran, Islamic Republic of	30
Italy	122,574
Japan	261,525
Korea	27,700
Luxembourg	3,007
Morocco	708
Netherlands	39,349
Norway	18,937
Portugal	74
Sweden	80,563
United Kingdom	164,777
United States	28,454
Total contributions received	1,384,251

[1]The Subsidy Account also benefits from the net investment earnings of the proceeds of loans or investments, which amounted to SDR 234.8 million at April 30, 1995.

Schedule 2

Enhanced Structural Adjustment Facility Trust
Schedule of Repayments of Borrowing
as at April 30, 1995

(In thousands of SDRs)
(Note 1)

Financial Year Ending April 30[1]	Loan Account[2]	Subsidy Account
1996	130,771	—
1997	211,583	—
1998	302,221	—
1999	385,090	60,000
2000	457,696	20,000
2001	456,574	10,000
2002	375,762	10,000
2003	285,124	1,365
2004	206,352	40,000
2005	83,480	90,751
2008	—	1,365
2010	—	1,334
Total	2,894,653	234,815

[1]Dates of repayment are the dates provided in the borrowing agreements between the Trustee and lenders.

[2]Included in this column is SDR 16.1 million that is held in suspense and is payable to the lender at the final maturity of the individual loans. See Note 4.

Schedule 3

Enhanced Structural Adjustment Facility Trust
Status of Loan Arrangements[1]
as at April 30, 1995

(In thousands of SDRs)

Member	Date of Arrangement	Expiration	Amount Agreed: ESAF Loan Account	Amount Agreed: Structural adjustment facility	Amount Agreed: Total	Undrawn Balance: ESAF Loan Account	Undrawn Balance: Structural adjustment facility	Undrawn Balance: Total
Albania	July 14, 1993	July 13, 1996	42,360	—	42,360	18,360	—	18,360
Benin	Jan. 25, 1993	Jan. 24, 1996	44,890	7,000	51,890	18,120	—	18,120
Bolivia	Dec. 19, 1994	Dec. 18, 1997	100,960	—	100,960	84,140	—	84,140
Burkina Faso	Mar. 31, 1993	Mar. 30, 1996	32,820	15,800	48,620	18,940	3,160	22,100
Cambodia	May 6, 1994	May 5, 1997	84,000	—	84,000	56,000	—	56,000
Côte d'Ivoire	Mar. 11, 1994	Mar. 10, 1997	333,480	—	333,480	214,380	—	214,380
Equatorial Guinea	Feb. 3, 1993	Feb. 2, 1996	9,930	2,950	12,880	8,280	—	8,280
Guinea	Nov. 6, 1991	Nov. 5, 1996	57,900	—	57,900	31,845	—	31,845
Guinea-Bissau	Jan. 18, 1995	Jan. 17, 1998	9,450	—	9,450	7,875	—	7,875
Guyana	July 20, 1994	July 19, 1997	53,760	—	53,760	44,800	—	44,800
Honduras	July 24, 1992	July 24, 1997	47,460	—	47,460	23,730	—	23,730
Kyrgyz Republic	July 20, 1994	July 19, 1997	70,950	—	70,950	47,300	—	47,300
Lao People's Democratic Republic	June 4, 1993	June 3, 1996	35,190	—	35,190	17,595	—	17,595
Mali	Aug. 28, 1992	Mar. 31, 1996	69,075	10,160	79,235	14,729	—	14,729
Mauritania	Jan. 25, 1995	Jan. 24, 1998	42,750	—	42,750	35,625	—	35,625
Mongolia	June 25, 1993	June 24, 1996	40,810	—	40,810	16,695	—	16,695
Mozambique	June 1, 1990	June 14, 1995	130,050	—	130,050	14,700	—	14,700
Nepal	Oct. 5, 1992	Oct. 4, 1995	33,570	—	33,570	16,785	—	16,785
Nicaragua	June 24, 1994	June 23, 1997	120,120	—	120,120	100,100	—	100,100
Pakistan	Feb. 22, 1994	Feb. 21, 1997	606,600	—	606,600	404,400	—	404,400
Senegal	Aug. 29, 1994	Aug. 28, 1997	130,790	—	130,790	114,140	—	114,140
Sierra Leone	Mar. 28, 1994	Mar. 27, 1997	88,780	—	88,780	20,224	—	20,224
Sri Lanka	Sep. 13, 1991	July 31, 1995	336,000	—	336,000	56,000	—	56,000
Togo	Sep. 16, 1994	Sep. 15, 1997	65,160	—	65,160	54,300	—	54,300
Uganda	Sep. 6, 1994	Sep. 5, 1997	120,510	—	120,510	87,035	—	87,035
Viet Nam	Nov. 11, 1994	Nov. 10, 1997	362,400	—	362,400	302,000	—	302,000
Zimbabwe	Sep. 11, 1992	Sep. 10, 1995	200,600	—	200,600	48,700	—	48,700
Total			3,270,365	35,910	3,306,275	1,876,798	3,160	1,879,958

[1]Resources under enhanced structural adjustment facility (ESAF) arrangements may be provided from the structural adjustment facility (SAF) within the Special Disbursement Account and from the Enhanced Structural Adjustment Facility Trust. The Saudi Fund for Development may also provide resources to support arrangements under the ESAF through loans to qualifying members in association with loans under the ESAF. As at April 30, 1995, SDR 49.5 million in such associated loans had been disbursed.

Schedule 4

Enhanced Structural Adjustment Facility Trust
Schedule of Repayments of Loans Receivable
as at April 30, 1995

(In thousands of SDRs)

Periods of Repayment, Financial Year Ending April 30	Loan Account
1996	103,691
1997	196,737
1998	293,550
1999	375,767
2000	463,331
2001	483,654
2002	390,608
2003	293,795
2004	210,113
2005	83,480
Total	2,894,726

Enhanced Structural Adjustment Facility
Administered Accounts
Balance Sheets
as at April 30, 1995 and 1994

(In thousands of SDRs)
(Note 1)

	1995								1994		
	Austria	Belgium	Botswana	Chile	Greece	Indonesia	Iran	Portugal	Austria	Belgium	Greece
Assets											
Investments (Note 2)	48,000	180,000	6,894	15,000	63,000	25,000	1,000	2,191	60,000	180,010	70,000
Interest receivable	394	162	17	420	1,228	732	12	22	398	40	211
Advance payments to ESAF Subsidy Account	—	—	98	—	—	—	—	—	—	105	—
Total Assets	48,394	180,162	7,009	15,420	64,228	25,732	1,012	2,213	60,398	180,155	70,211
Resources and Liabilities											
Resources	312	4	—	377	999	149	7	11	298	—	145
Deposits (Note 3)	48,000	180,000	6,894	15,000	63,000	25,000	1,000	2,191	60,000	180,000	70,000
Interest payable	82	158	115	43	229	583	5	11	100	155	66
Total Resources and Liabilities	48,394	180,162	7,009	15,420	64,228	25,732	1,012	2,213	60,398	180,155	70,211

The accompanying notes are an integral part of the financial statements.

/s/ Günter Wittich
Acting Treasurer

/s/ M. Camdessus
Managing Director

Enhanced Structural Adjustment Facility
Administered Accounts
Income Statements
for the years ended April 30, 1995 and 1994

(In thousands of SDRs)
(Note 1)

	1995								1994		
	Austria	Belgium	Botswana	Chile	Greece	Indonesia	Iran	Portugal	Austria	Belgium	Greece
Investment income	2,139	7,987	264	442	3,031	1,018	42	96	2,595	4,327	1,492
Interest expense on deposits	265	900	115	43	329	583	5	11	300	502	176
Net Income	1,874	7,087	149	399	2,702	435	37	85	2,295	3,825	1,316

The accompanying notes are an integral part of the financial statements.

Enhanced Structural Adjustment Facility
Administered Accounts
Statements of Changes in Resources
for the years ended April 30, 1995 and 1994

(In thousands of SDRs)
(Note 1)

	1995								1994		
	Austria	Belgium	Botswana	Chile	Greece	Indonesia	Iran	Portugal	Austria	Belgium	Greece
Balance, beginning of the year	298	—	—	—	145	—	—	—	—	—	2
Net income	1,874	7,087	149	399	2,702	435	37	85	2,295	3,825	1,316
Transfers to Enhanced Structural Adjustment Facility Trust Subsidy Account	(1,860)	(7,083)	(149)	(22)	(1,848)	(286)	(30)	(74)	(1,997)	(3,825)	(1,173)
Balance, end of the year	312	4	—	377	999	149	7	11	298	—	145

The accompanying notes are an integral part of the financial statements.

Enhanced Structural Adjustment Facility
Administered Account
Saudi Fund for Development Special Account
Statements of Receipts and Uses of Resources
as at April 30, 1995 and 1994

(In thousands of SDRs)
(Note 1)

	1995	1994
Receipt of Resources		
Cumulative transfers from Saudi Fund for Development	49,500	19,500
Cumulative receipts of interest on associated loans	348	211
Accrued interest on associated loans	81	32
	49,929	19,743
Use of Resources		
Associated loans (Note 4)	49,500	19,500
Cumulative payments of interest on loans	348	211
Accrued interest on transfers	81	32
	49,929	19,743

The accompanying notes are an integral part of the financial statements.

Enhanced Structural Adjustment Facility Administered Accounts Notes to the Financial Statements April 30, 1995 and 1994

Purpose

As requested, the Fund has established Administered Accounts for the benefit of the Subsidy Account of the Enhanced Structual Adjustment Facility Trust ("the ESAF Trust") for the administration of resources deposited therein. The difference between interest earned by the Administered Accounts and the interest payable on deposits is transferred to the Subsidy Account of the ESAF Trust.

The Saudi Fund for Development (SFD) Special Account was established at the request of the SFD for the disbursement of amounts under loans made by the SFD to recipient countries (associated loans) in association with loans under the enhanced structural adjustment facility (ESAF). Disbursements are made simultaneously with ESAF disbursements, and payments of interest and repayments of principal due to the SFD under associated loans are transferred to the SFD. The Fund acts as agent of the SFD in that respect.

The resources of each Administered Account 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

The Administered Accounts are expressed in terms of the SDR. SDRs are interest-earning assets allocated to participants in the Fund's SDR Department. 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 currencies. The Fund's procedures require that the SDR valuation basket be reviewed every five years and that it 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. The SDR valuation basket was last reviewed in financial year 1991. The currencies comprising the basket and their amounts in the basket are as follows:

Currency	Amount
U.S. dollar	0.572
Deutsche mark	0.453
Japanese yen	31.8
French franc	0.800
Pound sterling	0.0812

The Administered Accounts are maintained on the accrual basis; accordingly, income is recognized as it is earned, and expenses are recorded as they are incurred.

2. Investments

The resources of each Administered Account are invested in SDR-denominated deposits and are valued at cost, which approximates market value.

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. One deposit of SDR 60.0 million is to be repaid in ten equal semiannual installments beginning $5^1/_2$ 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 bears interest at a rate of $^1/_2$ of 1 percent a year.

The Administered Account Belgium was established on July 27, 1988 for the administration of resources deposited in the Account by the National Bank of Belgium. Three deposits totaling SDR 100.0 million were received in 1988 and 1989. An additional deposit of SDR 80.0 million was received on April 29, 1994. The deposits had an initial maturity of six months and are 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 individual deposits. The deposits bear interest at a rate of $^1/_2$ of 1 percent a year.

The Administered Account Botswana was established on July 1, 1994 for the administration of resources deposited in the Account by the Bank of Botswana. The deposit, totaling SDR 6.9 million, is to be repaid in one installment ten years after the date of deposit. The deposit bears interest at a rate of 2 percent a year.

The Administered Account Chile was established on October 4, 1994 for the administration of resources deposited in the Account by the Banco Central de Chile. The deposit, totaling SDR 15.0 million, is to be repaid in one installment ten years after the date of deposit. The deposit bears interest at a rate of $^1/_2$ of 1 percent a year.

The Administered Account Greece was established on November 30, 1988 for the administration of resources deposited in the Account by the Bank of Greece. Two deposits, of SDR 35.0 million each (December 15, 1988 and April 29, 1994), are to be repaid in ten equal semiannual installments beginning

$5^1/_2$ years after the date of deposit and will be completed at the end of the tenth year after the date of the deposits. The deposits bear interest at a rate of $^1/_2$ of 1 percent a year.

The Administered Account Indonesia was established on June 30, 1994 for the administration of resources deposited in the Account by the Bank Indonesia. The deposit, totaling SDR 25.0 million, is to be repaid in one installment ten years after the date the deposit was made. The interest payable on the deposit is equivalent to that obtained for the investment of the deposit, less 2 percent a year, not to be less than 0 percent a year.

The Administered Account Iran was established on June 6, 1994 for the administration of resources deposited in the Account by the Central Bank of the Islamic Republic of Iran (CBIRI). The CBIRI has agreed to make five annual deposits each of SDR 1.0 million. All of the deposits will be repaid at the end of ten years after the date of the first deposit. Each deposit bears interest at a rate of $^1/_2$ of 1 percent a year.

The Administered Account Portugal was established on May 16, 1994 for the administration of resources deposited in the Account by the Banco de Portugal (BdP). The BdP has agreed to make six annual deposits, each of SDR 2.2 million. Each deposit is to be repaid in five equal annual installments beginning six years after the date of the deposit and will be completed at the end of the tenth year after the date of the deposit. Each deposit bears interest at a rate of $^1/_2$ of 1 percent a year.

4. Associated Loans

The SFD has agreed to provide resources up to the equivalent of SDR 200.0 million to support arrangements under the ESAF through loans to qualifying members in association with loans under the ESAF. Funds become available under an associated loan after a bilateral agreement between the SFD and the recipient country has been effected and when the recipient country satisfies the requisites and procedures for all or part of the loan amount. Amounts denominated in SDRs, for disbursement to a recipient country under an associated loan, are placed by the SFD in the Special Account for disbursement by the Fund simultaneously with disbursements under an ESAF arrangement. These loans are repayable in ten equal 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 on the outstanding balance is currently set at the rate of $^1/_2$ of 1 percent a year.

Administered Accounts
Established at the Request of a Member
Balance Sheets
as at April 30, 1995 and 1994

(In thousands of U.S. dollars)
(Note 1)

	Administered Account Japan		Administered Technical Assistance Account Japan	
	1995	1994	1995	1994
Assets				
Investments (Note 2)	46,800	58,300	9,023	6,778
Currency deposit	59	59	—	—
Interest receivable	15	6	—	—
Total Assets	46,874	58,365	9,023	6,778
Resources				
Total Resources	46,874	58,365	9,023	6,778

The accompanying notes are an integral part of the financial statements.

/s/ Günter Wittich
Acting Treasurer

/s/ M. Camdessus
Managing Director

Administered Accounts
Established at the Request of a Member
Income Statements and Changes in Resources
for the years ended April 30, 1995 and 1994

(In thousands of U.S. dollars)
(Note 1)

	Administered Account Japan		Administered Technical Assistance Account Japan	
	1995	1994	1995	1994
Balance, beginning of the year	58,365	100,292	6,778	4,794
Contributions received	—	—	16,105	11,206
Income earned on investments	2,709	2,364	471	202
	61,074	102,656	23,354	16,202
Payments to beneficiaries	14,200	44,291	14,331	9,424
Balance, end of the year	46,874	58,365	9,023	6,778

The accompanying notes are an integral part of the financial statements.

Administered Accounts
Established at the Request of a Member
Notes to the Financial Statements
April 30, 1995 and 1994

Purpose

At the request of a member, the Fund has established special purpose accounts to administer contributed resources, and to perform financial and technical services consistent with the purposes of the Fund. The assets of each 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.

Administered Account Japan

At the request of Japan, the Fund established an Account on March 3, 1989 to administer resources, made available by Japan or other countries with Japan's concurrence, that are to be used to assist certain members with overdue obligations to the Fund. The resources of the Account are to be disbursed in amounts specified by Japan and to members designated by Japan. At April 30, 1995 and 1994, cumulative resources received amounted to $97.4 million, of which $72.5 million had been disbursed ($58.3 million at April 30, 1994).

Administered Technical Assistance Account Japan

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 are to be used with the approval of Japan to assist members in resolving debt-related difficulties. Disbursements can also be made from the Account to the General Resources Account to reimburse the Fund for qualifying technical assistance projects. At April 30, 1995 cumulative contributions received by the Account amounted to $40.9 million ($24.8 million at April 30, 1994), of which $32.8 million had been disbursed ($18.4 million at April 30, 1994). Cumulative contributions included $1.14 million earmarked for scholarships, of which $1.08 million had been disbursed at April 30, 1995 ($0.44 million and $0.38 million, respectively, at April 30, 1994).

1. Accounting Practices

The Accounts are expressed in U.S. dollars. All transactions and operations of the Accounts, including the transfers to and from the Accounts, are denominated in U.S. dollars. Contributions denominated in other currencies are converted into U.S. dollars upon receipt of the funds.

The Accounts are maintained on the accrual basis; accordingly, income is recognized as it is earned, and expenses are recorded as they are incurred.

2. Investments

The assets of the Accounts are invested pending their disbursement and are valued at cost, which approximates market value. Interest received on these assets varies and is market related.

3. Accounts Termination

Administered Account Japan

The Account can be terminated by the Fund or by Japan. Any remaining resources in the Account at termination are to be returned promptly to Japan.

Administered Technical Assistance Account Japan

The Account can be terminated by the Fund or by Japan. Any resources that may remain in the Account at termination, net of accrued liabilities under technical assistance projects, are to be returned promptly to Japan.

Trust Fund
Balance Sheets
as at April 30, 1995 and 1994

(In thousands of SDRs)
(Note 1)

	1995	1994
Assets		
Loans receivable (Note 2)	101,784	105,464
Interest and charges receivable and accrued (Note 3)	25,595	25,115
Total Assets	127,379	130,579
Resources and Deferred Income		
Trust resources	101,784	105,474
Deferred income (Note 3)	25,595	25,105
Total Resources and Deferred Income	127,379	130,579

The accompanying notes are an integral part of the financial statements.

/s/ Günter Wittich
Acting Treasurer

/s/ M. Camdessus
Managing Director

Trust Fund
Income Statements
for the years ended April 30, 1995 and 1994

(In thousands of SDRs)
(Note 1)

	1995	1994
Income		
Interest and charges on loans (Note 2)	524	7,866
Less income deferred (Note 3)	490	510
Net Income	34	7,356

The accompanying notes are an integral part of the financial statements.

Trust Fund
Statements of Changes in Resources for the years ended April 30, 1995 and 1994

(In thousands of SDRs)
(Note 1)

	1995	1994
Balance, beginning of the year	105,474	157,723
Net income	34	7,356
Balance before transfers to the Special Disbursement Account	105,508	165,079
Transfers to the Special Disbursement Account (Note 4)	3,724	59,605
Balance, end of the year	101,784	105,474

The accompanying notes are an integral part of the financial statements.

Trust Fund
Notes to the Financial Statements April 30, 1995 and 1994

Purpose

The Trust Fund, for which the Fund is 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 would be terminated as of April 30, 1981. After that date, the activities of the Trust Fund have been confined to the completion of the 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 Fund accounts.

1. Accounting Practices

The accounts of the Trust Fund are expressed in terms of the SDR. SDRs are interest-earning assets allocated to participants in the Fund's SDR Department. 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 currencies. The Fund's procedures require that the SDR valuation basket be reviewed every five years and that it 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. The SDR valuation basket was last reviewed in financial year 1991. The currencies comprising the basket and their amounts in the basket are as follows:

Currency	Amount
U.S. dollar	0.572
Deutsche mark	0.453
Japanese yen	31.8
French franc	0.800
Pound sterling	0.0812

The accounts are maintained on the accrual basis; accordingly, income is recognized as it is earned, and expenses are recorded as they are incurred, except that interest income from members that are overdue in settling their obligations to the Trust 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). Following the termination of the Trust Fund as of April 30, 1981, residual administrative costs have been absorbed by the General Resources Account of the Fund.

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 Trust Fund loan installment was due on March 31, 1991. Interest on the outstanding loan balances is charged at the rate of $^1/_2$ of 1 percent a year, although special charges have been levied on late payments of interest and principal since February 1986. Beginning May 1, 1993, special charges on overdue obligations to the Trust Fund have been suspended for members that are more than six months overdue.

3. *Overdue Obligations*

At April 30, 1995 and 1994, four members with obligations to the Trust Fund were six months or more late in discharging their obligations to the Trust Fund. The recognition of interest income on the loans outstanding to these members and special charges due from them is being deferred. At April 30, 1995, total deferred income amounted to SDR 25.6 million (SDR 25.1 million at April 30, 1994). Overdue loan repayments and interest and special charges due from these members were as follows:

	Loans		Interest and Special Charges	
	1995	1994	1995	1994
	In millions of SDRs			
Total overdue	101.8	105.5	25.4	24.9
Overdue six months or more	101.8	105.5	25.2	24.7
Overdue three years or more	101.8	105.5	20.4	16.2

The type and duration of the arrears of these members at April 30, 1995 were as follows:

Member	Loans	Interest and Special Charges	Total	Longest Overdue Obligation
		In millions of SDRs		
Liberia	24.3	6.2	30.5	January 1985
Somalia	6.5	1.2	7.7	July 1987
Sudan	64.4	17.1	81.5	December 1984
Zambia	6.6	0.9	7.5	April 1989
Total	101.8	25.4	127.2	

4. *Transfer of Resources*

The resources of the Trust Fund held on April 30, 1981 or received thereafter have been used to pay interest and principal when due on loan obligations and to make transfers to the Special Disbursement Account.

Supplementary Financing Facility
Subsidy Account
Balance Sheets
as at April 30, 1995 and 1994

(In thousands of SDRs)

	1995	1994
Assets		
Deposits	2,268	2,781
Interest receivable	27	29
Total Assets	2,295	2,810
Resources		
Total Resources	2,295	2,810

The accompanying note is an integral part of the financial statements.

/s/ Günter Wittich
Acting Treasurer

/s/ M. Camdessus
Managing Director

Supplementary Financing Facility
Subsidy Account
Income Statements and Changes in Resources
for the years ended April 30, 1995 and 1994

(In thousands of SDRs)

	1995	1994
Balance, beginning of the year	2,810	2,864
Investment income	117	123
Balance before subsidy payments	2,927	2,987
Subsidy payments	—	177
Transfers to the Special Disbursement Account	632	—
Balance, end of the year	2,295	2,810

The accompanying note is an integral part of the financial statements.

Supplementary Financing Facility Subsidy Account Note to the Financial Statements April 30, 1995 and 1994

The Supplementary Financing Facility Subsidy Account ("the 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 accounts of the Subsidy Account are expressed in terms of the SDR. The accounts are maintained on the accrual basis; accordingly, income is recognized as it is earned. The resources of the Subsidy Account 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 Fund accounts.

All repurchases due under these policies were scheduled for completion by January 31, 1991, and the final subsidy payments were approved in July 1991. However, two members (Liberia and Sudan), overdue in the payment of charges, remain ineligible to receive previously approved subsidy payments until their overdue charges are settled. Accordingly, the Account remains in operation and has retained amounts for payment to these members after the overdue charges are paid. Resources in excess of the remaining subsidy payments are transferred to the Special Disbursement Account. At April 30, 1995 and 1994, subsidy payments totaling SDR 2.2 million had not been made to the two members.

Retired Staff Benefits Investment Account
Balance Sheet
as at April 30, 1995

(In thousands of U.S. dollars)
(Note 1)

	1995
Assets	
Investments (Note 2)	105,289
Interest receivable	35
Total Assets	105,324
Resources	
Total Resources	105,324

The accompanying notes are an integral part of the financial statements.

/s/ Günter Wittich
Acting Treasurer

/s/ M. Camdessus
Managing Director

Retired Staff Benefits Investment Account
Income Statement and Changes in Resources
for the period April 3, 1995 to April 30, 1995

(In thousands of U.S. dollars)
(Note 1)

	1995
Contribution received	104,903
Income earned on investments (Note 2)	421
Balance, end of the period	105,324

The accompanying notes are an integral part of the financial statements.

Retired Staff Benefits Investment Account
Notes to the Financial Statements
April 30, 1995

Purpose

The International Monetary Fund established the Retired Staff Benefits Investment Account ("the Account") on April 3, 1995 to hold, administer, and invest resources contributed by the Fund for meeting post-retirement medical and life insurance benefits to eligible retirees of the Fund and other beneficiaries. The Account shall also accumulate resources to cover benefits to current staff after their retirement.

The assets of the Account consist of the Fund's contributions and the income earned thereon and are within the sole ownership of the Fund. Contributions are made periodically to the Account, taking into consideration the actuarial valuation of the Fund's cumulative cost of these benefits.

Resources are accumulated to meet the Fund's share of the cost of life insurance and medical benefits to retirees and other beneficiaries. The portion of the cumulative past-service cost that has been charged to income in the General Resources Account is fully funded.

The assets of the Account shall be kept 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.

1. Accounting Practices

Unit of Account

The Account is expressed in U.S. dollars. All transactions and operations of the Account, including the transfers to and by the Account, are denominated in U.S. dollars. The cost of transactions in other currencies—for example, the payment of future benefits—will be paid by the Account.

The Account is maintained on the accrual basis; accordingly, income is recognized as it is earned, and expenses are recorded as they are incurred.

2. Investments

Resources placed to the Account have been invested by the Fund in income-earning deposits. Investments are recorded at historical cost, which approximates market value.

An initial contribution of $104.9 million was received by the Account on April 6, 1995 and has been invested since that date.

3. Actuarial Valuation

Eligible retirees can elect to continue their life insurance coverage and medical coverage. The cost of these benefits is actuarially determined, based on the data in effect at the beginning of the preceding year. The estimated cost of these benefits consists of the amortization of the past-service cost incurred before May 1, 1993 and a current-year cost resulting from the increase of the cumulative cost over time. The cumulative cost is calculated using a discount rate of 8.5 percent. The Fund's actuarially determined cumulative cost at April 30, 1995 amounts to $128.5 million, reflecting an actuarial gain of $57.7 million over the previous year.

4. Account Termination

The Account can be terminated by the Fund at any time. After meeting any existing obligations, the resources remaining in the Account are to be transferred to the General Resources Account of the Fund.

Report of the External Audit Committee
Staff Retirement Plan

Washington, D.C.
June 30, 1995

Authority and Scope of 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, 1995.

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 outside accounting firm as well as that of the Office of Internal Audit and Review of the International Monetary Fund 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, 1995, and of the changes in financial status for the year then ended.

EXTERNAL AUDIT COMMITTEE:

/s/ Gerwald Kern, Chairman *(Germany)*
/s/ Iqbal Batty *(Botswana)*
/s/ Ioane Naiveli *(Fiji)*

Staff Retirement Plan
Statements of Accumulated Plan Benefits and Net Assets Available for Benefits as at April 30, 1995 and 1994

(In thousands of U.S. dollars)
(Note 1)

	1995	1994
Accumulated Plan Benefits		
Actuarial present value of accumulated Plan benefits		
Vested benefits		
Retired participants	496,200	434,300
Active participants	453,200	429,700
Nonvested benefits	574,600	547,600
Total actuarial present value of accumulated Plan benefits	1,524,000	1,411,600
Assets Available for Benefits		
Investments, at current value (Note 3)		
Portfolio denominated in U.S. dollars	1,173,648	1,075,312
Portfolio denominated in other currencies	910,750	886,447
	2,084,398	1,961,759
Receivables		
Accrued interest and dividends	11,783	8,774
Contributions	1,485	1,542
Other	24	44
	13,292	10,360
Total assets	2,097,690	1,972,119
Liabilities		
Accounts payable	4,611	2,478
Net assets available for benefits	2,093,079	1,969,641
Excess of net assets available for benefits over actuarial present value of accumulated Plan benefits (Note 2)	569,079	558,041

The accompanying notes are an integral part of the financial statements.

/s/ Günter Wittich
Acting Treasurer

/s/ M. Camdessus
Managing Director

Staff Retirement Plan
Statements of Changes
in Accumulated Plan Benefits
for the years ended April 30, 1995 and 1994

(In thousands of U.S. dollars)
(Note 1)

	1995	1994
Actuarial present value of accumulated Plan benefits at beginning of the year	1,411,600	1,271,000
Increase (decrease) during the year attributable to		
Benefits accumulated (Note 1)	38,306	70,763
Increase for interest due to decrease in discount period	118,100	106,500
Benefits paid	(44,006)	(36,663)
Net increase	112,400	140,600
Actuarial present value of accumulated Plan benefits at end of the year	1,524,000	1,411,600

The accompanying notes are an integral part of the financial statements.

Staff Retirement Plan
Statements of Changes in Net Assets Available for Benefits for the years ended April 30, 1995 and 1994

(In thousands of U.S. dollars)
(Note 1)

	1995	1994
Investment Income		
Interest and dividends	75,608	61,626
Net gain in current value of investments (Note 3)	43,050	165,586
	118,658	227,212
Contributions (Note 2)		
International Monetary Fund	37,102	39,480
Participants	18,058	17,625
Net transfers from (to) retirement plans of other international organizations	1,557	(774)
Participants restored to service	169	112
	56,886	56,443
Total additions	175,544	283,655
Benefits		
Pension	33,705	30,872
Commutation	6,058	2,790
Withdrawal	3,676	2,488
Death	567	513
	44,006	36,663
Investment Fees		
Manager	6,742	6,198
Custodian	1,358	1,255
	8,100	7,453
Total payments	52,106	44,116
Net additions	123,438	239,539
Net Assets Available for Benefits		
Beginning of the year	1,969,641	1,730,102
End of the year	2,093,079	1,969,641

The accompanying notes are an integral part of the financial statements.

Staff Retirement Plan
Notes to the Financial Statements
April 30, 1995 and 1994

Description of the Plan

General

The Staff Retirement Plan ("the Plan") is a defined-benefit pension plan covering nearly all staff members of the International Monetary Fund ("the 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

Annual Pension

Participants are entitled to an unreduced pension beginning at normal retirement age of 62. The amount of the pension is based on the number of years of service, age at retirement, and highest average gross remuneration. The provisions for determining gross remuneration are different for benefits earned before and after May 1, 1990. 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 accrual rate of benefits earned before May 1, 1990 was 2 percent of gross remuneration for each year of service, while the accrual rate of benefits earned after May 1, 1990 is 2.2 percent for the first 25 years of service and 1.8 percent for the next 10 years of service. The pensions of participants hired before May 1, 1990 are based on a prorated combination of the old and new accrual rates, using the time period of service before and after May 1, 1990.

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 aged 55 and older may retire with an unreduced pension if the sum of their age and years of service equals 85 or more.

Cost-of-Living Adjustment

Whenever the cost of living increases during a financial year, pensions shall be augmented by a pension supplement that, expressed 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.

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 55 or age 50 if age and years of service add to at least 75. The withdrawal benefit is a percentage of the participant's highest average gross remuneration.

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.

Currency of Pension Payments

A participant may elect to have his or her pension paid in the currency of the country in which he or she has established permanent residence or 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 Employer, 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 currently 7 percent of the participant's gross remuneration. Certain other categories of staff members may elect to participate in the Plan.

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 1995, the administrative costs met by the Employer were approximately \$0.13 million (\$0.13 million in 1994).

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 that had been accumulated by April 30, 1995. 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, is 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 that the Employer will be required to fund in the future.

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 appraised 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.

Income Recognition

The Plan maintains its accounts on an accrual basis; accordingly, income is recognized as it is earned, and expenses are recorded as they are incurred.

2. Actuarial Valuation and Funding Policy

Under the actuarial valuation used for funding purposes, 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 on a valuation method, known as the "aggregate method," that expresses liabilities and contribution requirements as single consolidated figures that 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 on the valuation completed 12 months previously. For the financial year that began on May 1, 1993, this rate was 16.05 percent and was 14.43 percent for the year that began on May 1, 1994. The proposed rate for the year beginning May 1, 1995 is 14.25 percent of the new gross remuneration.

The actuarial assumptions used in the valuation to determine the Employer contribution include (1) life expectancy based on the 1984 and 1982 United Nations mortality tables for men and women, respectively; (2) withdrawal or retirement of a certain percentage of staff at each age, differentiated by sex; (3) an average rate of return on investments of 8.5 percent a year; (4) an average inflation rate of 5 percent a year; (5) salary increase percentages that vary with age; and (6) valuation of assets using a five-year moving-average method.

The results of the April 30, 1994 and 1993 valuations are:

	1994	1993
	In millions of U.S. dollars	
Present value of benefits payable	2,249	2,034
Less: Assets for valuation purposes	1,689	1,521
Required future funding	560	513
Less: Present value of prospective contributions from participants (7 percent of gross remuneration)	194	175
Present value of future funding required from the Employer	366	338

3. *Investments*

A summary of investments at market values is as follows:

	1995	1994
	In millions of U.S. dollars	
Portfolio denominated in U.S. dollars		
Common and preferred stock	571	558
Short-term investments	216	266
U.S. government securities	169	154
Real estate	139	51
Corporate bonds and debentures	76	46
Venture capital	2	1
	1,173	1,076
Portfolio denominated in other currencies	911	886
	2,084	1,962

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 the U.S. dollar, valuation differences arising from exchange rate changes of other currencies against the dollar.

The Plan enters into forward foreign currency exchange contracts to reduce the impact of foreign currency fluctuations relative to investments in its international portfolio and also invests in financial futures contracts. Although the face amount of these contracts is not included in net assets available for Plan benefits, the changes in value of such contracts are recognized currently in the financial statements. The Plan, at April 30, 1995, had $410 million in open positions in equity, fixed-income, and currency futures contracts ($391 million in 1994) and $1,700 million in open positions in forward foreign exchange contracts and swaps ($1,408 million in 1994).

Report of the External Audit Committee
Supplemental Retirement Benefit Plan

Washington, D.C.
June 30, 1995

Authority and Scope of 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, 1995.

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 outside accounting firm as well as that of the Office of Internal Audit and Review of the International Monetary Fund 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, 1995, and of the changes in financial status for the year then ended.

EXTERNAL AUDIT COMMITTEE:

/s/ Gerwald Kern, Chairman *(Germany)*
/s/ Iqbal Batty *(Botswana)*
/s/ Ioane Naiveli *(Fiji)*

Supplemental Retirement Benefit Plan
Statements of Accumulated Plan Benefits
and Assets Available for Benefits
as at April 30, 1995 and 1994

(In thousands of U.S. dollars)
(Note 1)

	1995	1994
Accumulated Plan Benefits		
Actuarial present value of accumulated Plan benefits		
Vested benefits	8,900	6,700
Nonvested benefits	100	100
Total actuarial present value of accumulated Plan benefits	9,000	6,800
Assets Available for Benefits		
Cash at bank (Note 3)	1	1
Assets available for benefits	1	1
Excess of actuarial present value of accumulated Plan benefits over assets available for benefits	8,999	6,799

The accompanying notes are an integral part of the financial statements.

/s/ Günter Wittich
Acting Treasurer

/s/ M. Camdessus
Managing Director

Supplemental Retirement Benefit Plan
Statements of Changes
in Accumulated Plan Benefits
for the years ended April 30, 1995 and 1994

(In thousands of U.S. dollars)
(Note 1)

	1995	1994
Actuarial present value of accumulated Plan benefits at beginning of the year	6,800	6,500
Increase (decrease) during the year attributable to		
Benefits accumulated	2,169	231
Increase for interest due to decrease in discount period	600	500
Benefits paid	(569)	(431)
Net increase	2,200	300
Actuarial present value of accumulated Plan benefits at end of the year	9,000	6,800

The accompanying notes are an integral part of the financial statements.

Supplemental Retirement Benefit Plan Statements of Changes in Assets Available for Benefits for the years ended April 30, 1995 and 1994

(In thousands of U.S. dollars)
(Note 1)

	1995	1994
Interest Income	—	8
Contributions		
International Monetary Fund	569	218
Participants	—	92
Transfer of Contributions (Note 4)	—	(291)
	569	19
Total additions	569	27
Benefits		
Pension	569	431
Total payments	569	431
Net change	—	(404)
Assets Available for Benefits		
Beginning of the year	1	405
End of the year	1	1

The accompanying notes are an integral part of the financial statements.

Supplemental Retirement Benefit Plan
Notes to the Financial Statements
April 30, 1995 and 1994

Description of Supplemental Retirement Benefit Plan

General

The Supplemental Retirement Benefit Plan ("the SRBP") is a defined-benefit pension plan covering all participants of the Staff Retirement Plan of the International Monetary Fund ("the 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 that would otherwise have been payable if these limits had not been adopted.

In financial year 1995, 36 pensioners received benefits from the SRBP (29 in financial year 1994).

Contributions

Before retirement, the Employer partially prefunds the SRBP for non-U.S. citizens who plan to 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 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.

SRBP 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 SRBP Benefits

The actuarial present value of accumulated SRBP benefits is stated as at the date of the most recent actuarial valuation, which was April 30, 1995. 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, of 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.

Income Recognition

The SRBP maintains its accounts on an accrual basis; accordingly, income is recognized as it is earned, and expenses are recorded as they are incurred.

2. Actuarial Valuation

The actuarial assumptions used in the valuation to determine the Employer contribution in recent years include (1) life expectancy based on the 1984 and 1982 United Nations mortality tables for men and women, respectively; (2) withdrawal or retirement of a certain percentage of staff at each age, differentiated by sex; (3) an average rate of return on investments of 8.5 percent a year; (4) an average inflation rate of 5 percent a year; (5) salary increase percentages, which vary with age; and (6) valuation of assets using a five-year moving-average method.

3. Assets

Cash balances are maintained in a money market deposit account.

4. Return of Contributions

Because of a retroactive change in U.S. tax regulations, contributions to the Staff Retirement Plan on behalf of current staff, which were limited before the change, are no longer limited. Consequently, employee contributions to the SRBP for financial years 1990–94, with respect to current participants ($291 thousand), were transferred from the SRBP to the Staff Retirement Plan in financial year 1994.

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Glossary of Abbreviations

BEAC	Bank of Central African States
BCEAO	Central Bank of West African States
BIS	Bank for International Settlements
CAEMC	Central African Economic and Monetary Community
CCFF	Compensatory and contingency financing facility
CEC	Commission of the European Communities
CMEA	Council for Mutual Economic Assistance
DAC	Development Assistance Committee (of the OECD)
EBRD	European Bank for Reconstruction and Development
ECOSOC	Economic and Social Council (of the United Nations)
ECU	European currency unit
EMCF	European Monetary Cooperation Fund
EMI	European Monetary Institute
EMU	Economic and Monetary Union
EMS	European Monetary System
ERM	Exchange rate mechanism (of the EMS)
ESAF	Enhanced structural adjustment facility
GAB	General Arrangements to Borrow
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GNP	Gross national product
GRA	General Resources Account
IBRD	International Bank for Reconstruction and Development (World Bank)
IDA	International Development Association
IFC	International Finance Corporation
ILO	International Labor Organization
LIBOR	London interbank offered rate
MERCOSUR	Southern Common Market
MIGA	Multilateral Investment Guarantee Agency
NGO	Nongovernmental organization
OECD	Organization for Economic Cooperation and Development
SAF	Structural adjustment facility
SCA	Special Contingent Account
SDA	Special Disbursement Account
SDR	Special drawing right
SFD	Saudi Development Fund
STF	Systemic transformation facility
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
VAT	Value-added tax
WTO	World Trade Organization