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INTERNATIONAL MONETARY FUND

ANNUAL REPORT

OF THE

EXECUTIVE BOARD FOR THE

FINANCIAL YEAR ENDED APRIL 30, 1983

WASHINGTON, D.C.

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The following symbols have been used throughout this Report:

(. . .) indicate that data are not available;

(—) indicates a figure too small to record in the table or that the item does not exist;

(–) is used between years or months (e.g., 1973–82 or January–June) to indicate the years or months covered, including the beginning and ending years or months;

(/) is used between years (e.g., 1982/83) to indicate a financial year.

"Billion" means a thousand million.

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

The classification of countries employed in the Report is indicated in Tables 1 and 2 on pages 6 and 13.

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* Alphabetical listing.

August 4, 1983

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LETTER OF TRANSMITTAL
TO THE BOARD OF GOVERNORS

August 4, 1983

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, 1983, 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 budget of the Fund approved by the Executive Board for the financial year ending April 30, 1984 is presented in Appendix VI and the audited financial statements of the General Department, the Special Drawing Rights Department, the Subsidy Account, the Supplementary Financing Facility Subsidy Account, the Trust Fund, and the Staff Retirement Plan for the year ended April 30, 1983, together with the reports of the External Audit Committee thereon, are presented in Appendix VIII.

Yours sincerely,

/s/

J. DE LAROSIÈRE

Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

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Chapter 1
Developments in the World Economy

Introduction

The recession in economic activity intensified in most parts of the world during 1982. At the same time, however, further progress in curbing inflation was recorded in several of the major industrial countries. This progress had favorable implications for the real incomes of consumers, and the accompanying decline in interest rates improved business incentives and reduced inventory carrying costs. By early 1983, the better outlook for inflation appeared to have improved confidence sufficiently to set the stage for an upswing in production and trade. Indeed, signs of such an upswing were already evident in a number of industrial countries, and especially in the United States. The task now confronting national authorities and the international community is to build a sustainable recovery on the foundation that is emerging.

Total output of the industrial countries declined in 1982 for the first time since 1975, and unemployment rose to the highest levels since before the Second World War. These developments, following two years of weak and uneven growth, created unfavorable conditions for the expansion of world trade, the volume of which declined by 2½ per cent in 1982. Falling prices of primary commodities further undermined the export earnings of most developing countries. The resultant difficulties faced by some of those countries in meeting debt service commitments led to a reappraisal of their creditworthiness by commercial lenders and an abrupt cutback in private financing flows. This posed the threat that cessation of financing would result in a disorderly contraction of world demand. This threat was averted only through concerted measures undertaken cooperatively by the authorities of countries most concerned, the international banking community, and international institutions, in particular the Fund.

The stagnation of world trade and the high rates of unemployment generated by the recession have also provoked an increase in protectionist pressures. These now present an additional obstacle to a renewal of growth in world trade and a hazard to the achievement of higher levels of output and productivity in the world economy.

The non-oil developing countries have been hit particularly hard by the international recession. With continuing weakness in their principal export markets and a further substantial deterioration in their terms of trade, they have had no alternative but to intensify their adjustment efforts. This has resulted in a further moderation of growth in gross national product (GNP) and an outright decline in per capita income levels for the non-oil developing countries taken as a group. Even countries which had previously been partially shielded from the consequences of declining export receipts by their access to international capital markets faced, in late 1982, the need for a particularly sharp measure of external adjustment. Confronted with much more cautious attitudes on the part of international lenders, these countries have had to adopt policies that give their creditors grounds for confidence in their capacity to bring their external obligations and resources into better alignment. The adoption of prudent fiscal and monetary policies, although entailing restraint on demand in the short term, offers the best prospect of sustainable expansion over the medium and longer term. Moreover, the timely adoption of such policies, particularly when they form part of programs that enable the country concerned to gain access to the resources of the Fund and other lenders, can, in fact, involve less restraint than would otherwise be necessary.

The oil exporting countries have also undertaken a major reassessment of their fiscal and development programs in line with the sharp reduction in their oil revenues.

Despite the numerous unsatisfactory aspects of the current situation, various developments of a distinctly encouraging character have also emerged. The most important of these is the progress that has been made in reducing inflation in the industrial countries. This

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progress, although partly due to the severity of the recession and to declines in oil and other commodity prices, must be attributed in considerable part to the effectiveness of official policies in several key countries. With growing recognition of the firmness of anti-inflationary policies, interest rates in major financial markets dropped substantially during 1982. The inventory liquidation that characterized the recession period seems to have run its course, and the real purchasing power of personal incomes has been enhanced by the decline in inflation. The recent reduction in oil prices, although having some negative effects, is another factor that should, on balance, contribute to world economic recovery.

For all developing countries, economic prospects now depend crucially on the progress of recovery in the industrial world. The need for an early upturn in the industrial countries is therefore very pressing; but there is also a vital need that renewed growth be non-inflationary and sustainable. The durability of the recovery will depend in no small part on the continuing credibility of anti-inflationary policies, which remains somewhat fragile even in several of the industrial countries where inflation rates have been brought down to the vicinity of 5 per cent or lower. Moreover, the still high inflation rates prevailing in a number of other industrial countries do not allow room for any more rapid expansion of nominal demand than is now foreseen. In most of these latter countries, there is a continuing need for firm fiscal and monetary policies. And in all of the industrial countries, avoidance of measures that might generate harmful expectations regarding inflation remains a cardinal requirement in dealing with the present situation.

From this perspective, it will be essential to keep monetary expansion at rates consistent with consolidating the recent trend toward lower inflation. It will also be vital to bring fiscal situations in the larger industrial countries, and particularly in the United States, into better balance. For the economic recovery to be well sustained, it will be essential that government demands for credit be prevented from competing unduly with rising private needs for credit and thus forcing up interest rates.

For growth in nominal demand to be reflected in higher output, rather than in renewed inflationary pressures, one of the most helpful developments would be a reduction of structural rigidities that handicap the efficiency of most industrial economies. Among the most important of these rigidities, apart from excessive fiscal deficits of a structural nature in some countries, are those involving inflexibilities in the wage formation process; the current distribution of income among factors of production, particularly the weakness of profits; inadequate incentives for saving and investment; and, in some cases, inappropriate regulation of economic activity. In addition, the existence of direct and indirect support for declining industries, and an education and training system in some countries that is not fully suited to their economic needs, has hampered the process of dynamic adjustment to technological and social change.

Concerning exchange rates, close international cooperation is needed to reduce volatility, and is especially important at the present time to take advantage of recent and prospective progress toward convergence of economic policies and conditions in the larger industrial countries. Other areas of vital need for international cooperation include the difficult international debt situation, the provision of adequate official development assistance to the low-income countries, and the avoidance of protectionist trade policies, both in industrial and in developing countries.

Restrictions by industrial countries on their imports from the developing world have particularly serious adverse implications for the economies of developing countries. In the near term, continued access to world markets by debtor countries is essential if they are to be in a position to service their external debt and maintain an adequate level of imports. In a longer-term perspective, restrictions against the exports of developing countries penalize most severely those countries that have adopted outward-looking growth strategies and the liberalization of their domestic economies advocated by the Fund. Many of these countries have borrowed abroad to finance export-oriented industrial development. Uncertainty about future continued access to export markets can have serious detrimental effects on this type of growth strategy.

The following sections of the chapter provide a review of developments in the world economy under three general headings. The first section deals with domestic activities and policies in major groups of countries; the second focuses on international trade and payments, both from a global point of view and from the standpoint of each major group of countries. Against this background, the third section of the chapter presents a discussion of current policy issues.

Domestic Activity and Policies

Industrial Countries

Stance of policies.—Confronted by the continuing recession and rising levels of unemployment, authorities in the industrial countries continued in 1982 to

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seek to establish the conditions necessary for a resumption of sustained economic growth. In general, there was agreement that a lasting solution to unemployment and other problems stemming from the prolonged recession could not be found in short-term stimulus, but rather required a determined effort to reduce inflation and eliminate structural rigidities. In this sense, policy can be said to have been focused on longer-term objectives, although the desire not to exacerbate short-term difficulties led to a certain flexibility in the manner in which financial policies were implemented in most countries.

The Interim Committee, in the communiqué issued following its meeting in Toronto in September 1982 (reproduced in Appendix III) "recognized that the goals of steady expansion of output and reduction of unemployment could only be achieved if there were a sustained reduction in inflation and inflationary expectations, in nominal and real interest rates, and in other impediments." Following its meeting in February 1983 in Washington, the Committee reaffirmed the belief "that successful handling of the inflation problem is a necessary—albeit not sufficient—condition for sustained growth over the medium term."

A number of industrial countries have now achieved considerable success in combating inflation and laying the foundation for a durable improvement in economic performance. Evidence of such improvement is already apparent in several of them, and is expected to spread to others in the course of 1983. However, progress toward greater financial stability has been uneven, and in some countries high inflation continues to hamper restoration of conditions conducive to the longer-term goals of growth and increased employment.

As noted in previous Annual Reports, monetary policy has borne the main burden of counterinflationary policy in most countries during the past few years, in large part because fiscal policies have tended to be less restrictive in their implementation than in their initial design. In the absence of adequate support from fiscal policy, monetary and credit conditions have had to be more restrictive than would otherwise be the case. The resulting pressure on financial markets has led to the record high interest rates of recent years. These high interest rates, in turn, have distorted the pattern of demand and increased the severity of the recession.

Although there has been an easing of monetary conditions since about mid-1982, there is no doubt that until that point they had been decidedly more restrictive than in the late 1970s. While developments have differed significantly from country to country, this tendency toward restraint can be seen from trends in both the growth rates of the principal monetary aggregates and the level of interest rates. A weighted composite of annual growth rates of the narrowly defined money supply (M1) in the seven major industrial countries, which averaged 10 per cent per annum during the period 1976–78, fell to 6½ per cent during 1979–81. A rise to 8½ per cent in 1982 was influenced to a significant extent by the jump in the growth rate of M1 in the United States, which in part may have reflected institutional changes in the U.S. financial system. A similarly calculated composite of growth rates of the broadly defined money supply (M2), which apparently was less affected by institutional changes, shows the annual pace of expansion declining from an average of 12 per cent in the period 1976–78 to 10 per cent in 1979–81, and to 9½ per cent during 1982.

As just noted, monetary conditions in many of the major industrial countries have tended to ease over the past year, in part because unexpectedly low rates of growth of nominal gross national product have caused the established objectives for the growth of monetary and credit aggregates to become less restrictive. An offsetting factor in some countries has been an apparent increase in the demand for money (even after allowance for the effect of falling interest rates), attributable partly to institutional innovations and partly to the effect of recession-induced uncertainties on liquidity preference. Where these factors seemed to be particularly important, for example, in the United States, the authorities have acted to accommodate such exogenously induced shifts in money demand by allowing the monetary aggregates most affected to exceed their target ranges, at least temporarily. In some other countries, responding to the severity of the recession, the authorities have permitted monetary expansion to proceed at rates corresponding to the upper end of the target range.

The implications of these various developments for the real money stock and velocity have been quite substantial. For the seven major industrial countries, the weighted average annual growth rate of real M1 (i.e., M1 deflated by the GNP deflator) fell from 2½ per cent during the period 1976–78 to a negative 2 per cent during 1979–81, before rising to 2½ per cent in 1982. A similar composite of deflated M2 growth rates indicates an average annual increase of 4½ per cent in the period 1976–78, declining to less than 1½ per cent in 1979–81, and then rising again to 3½ per cent during 1982. Since the most recent rise in the real money stock has occurred at a time when output was stagnant or falling, there has been a sizable decline in the velocity of circulation, the largest, in fact, for several years.

The changes in monetary conditions that have taken place over the past few years have had a parallel in shifts in the manner in which monetary policy has been

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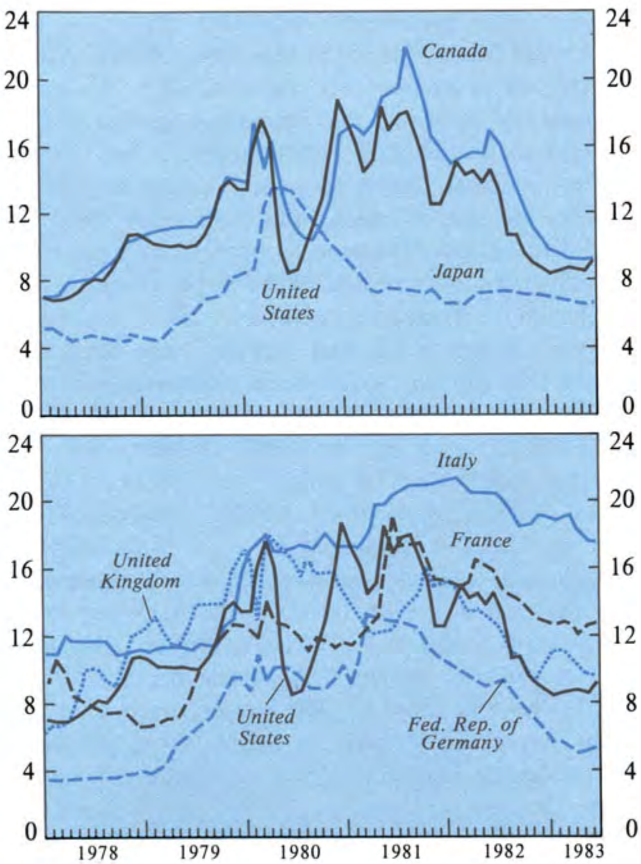
conducted. During the period 1979–81, increased emphasis was placed on adhering to quantitative targets for the main monetary aggregates as the central focus of monetary policy. More recently, however, while the importance of monetary aggregates continues to be recognized, difficulties in interpreting the significance of shifts in their growth rates, particularly when institutional circumstances and economic conditions are changing, have become apparent. For this reason, the monetary authorities in a number of industrial countries have broadened the range of indicators they use to monitor monetary conditions, and some have adjusted the target bands for the monetary aggregates used as indicators. They have emphasized, however, that such adaptations in the implementation of policy did not imply any shift in the basic counterinflationary objectives of policy.

Reflecting declining inflation, the weakness of economic activity, and the easing of monetary conditions in several major countries, nominal interest rates declined quite rapidly in the second half of 1982 (Chart 1). However, it would seem that fears concerning the evolution of financial market conditions (and especially the effect on them of continued large budget deficits in some countries) prevented this decline in rates going as far as might have been expected on the basis of developments in inflation rates and in real economic activity. Thus, as far as it is possible to judge, real interest rates remained high, particularly in comparison with similar stages of earlier business cycles.

Chart 1. Major Industrial Countries: Short-Term Interest Rates, 1978–June 1983 [1]

(In per cent per annum)



[1] Data are monthly averages of daily rates on money market instruments of about 90 days' maturity.

The average of nominal interest rates in the major industrial countries, for both short and long maturities, which had reached 14–15 per cent during 1981, had fallen to about 13 per cent by mid-1982. Thereafter, rates fell quite sharply in the second half of 1982, before stabilizing in the first several months of 1983. In real terms, however, the decline probably has been much less. The conversion of interest rates from nominal to real terms requires assumptions about expected inflation rates that are, by their nature, highly uncertain. Nevertheless, it is significant that while both short and long rates exceeded the current inflation rate by almost 5 per cent, on average, in 1981, the gap for short-term rates had fallen only to about 4 per cent in early 1983, and for long-term rates, had even increased slightly.

Moreover, since underlying circumstances and the stance of policy have varied considerably from country to country, changes in financial market conditions have been far from uniform. In 1980, for example, annual averages of real short-term interest rates among the seven major industrial countries differed by as much as almost 12 per cent. Such differentials, and the rapid changes that have occurred in them, have at times contributed to disruptive capital flows and pressures on exchange markets that have constrained the policy options of the authorities. During 1982, however, there was a significant convergence of real short-term interest rates in the industrial countries, with the differential between the highest and lowest average rates among the seven largest countries falling to less than 3½ per cent.

For 1983 the monetary targets being pursued in the main industrial countries, combined with the inflation outlook, imply a continuation of the financial market trends that have been in evidence since mid-1982. With the targeted growth rates of the nominal monetary aggregates in most countries set at approximately the same level as in 1982, and taking into account the success that has been achieved in containing inflation, the provision of real liquidity to the economy should continue to be somewhat greater than during the period 1979–81.

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Fiscal policy in the industrial countries in recent years has generally been framed with the objective of reducing structural budget deficits, and thus facilitating the task of monetary policy in bringing down inflation and inflationary expectations. In the event, however, structural rigidities, and difficulties in policy implementation, have considerably reduced the role that fiscal policy has actually played in this connection. At the same time, the weakening trend of economic activity has caused a cyclical deterioration in governments' financial positions.

In 1982, the net changes in underlying budgetary positions of the seven major industrial countries are estimated by the Fund staff to have been broadly neutral in their impact—with an expansionary impulse in Canada, the United States, and Italy having been largely offset by the withdrawal of stimulus elsewhere. However, reflecting the worsening of the recession, the actual deficit in the central government budget for the seven major countries as a group widened from some 3¾ per cent of GNP in 1981 to some 4¾ per cent in 1982. Over the four years since 1978, even though budgetary shifts amounting to a withdrawal of stimulus of about 1 per cent of GNP have occurred, cyclical developments have more than offset this, causing the actual budget deficit of these countries, taken as a group, to widen by about 1 per cent of GNP.

Changes in the overall budgetary position of the major industrial countries conceal quite wide divergences in fiscal performance among them. At one extreme, the United Kingdom achieved a reduction in its fiscal deficit, between 1978 and 1982, equivalent to some 2½ per cent of GNP, despite strong cyclical pressures tending to increase the deficit. Japan also improved its fiscal position between 1979 and 1982, but all the other major countries have experienced increases in their deficits.

Projections for 1983, based on proposed—and in some cases approved—budgets, point toward a divergence in fiscal policy stance between, on the one hand, Canada and the United States, and, on the other, most of the other major countries. In the United States, the implementation of a further income tax cut on July 1, 1983 is likely to have a significant expansionary impact. In the major European economies and Japan, in contrast, a further withdrawal of stimulus equivalent to about ½ per cent of GNP, on average, is expected.

Budget deficits are a source of concern, not only because of their absolute magnitude but because of their size in relation to available savings. According to staff estimates, the weighted-average share of gross private savings absorbed by central governments in the seven major industrial countries in 1982 was 23 per cent, more than half as large again as in 1979. Among individual countries, this percentage ranged from 12 per cent to as much as 56 per cent. As recovery proceeds, it is to be expected that governments' financial positions will tend to strengthen, while pools of available national savings may increase. However, in most of the major industrial countries, a significant portion of the present deficit is structural in nature.

The rather modest withdrawals of fiscal stimulus in recent years, at a time when monetary policies in most of the major industrial countries have been quite restrictive, are indicative of the difficulties that have been encountered in redirecting fiscal policy toward anti-inflationary objectives. In some countries, tax cuts have been regarded as essential to encourage work, saving, and investment, and these cuts have proved easier to implement than cuts in government expenditure. The growth in the relative importance of subsidy and entitlement (transfer) programs, the costs of which have a tendency to increase independently of direct action by the authorities, has complicated the task of reducing the growth of spending. The same can be said about interest payments on the national debt. It is these types of expenditure, rather than direct purchases of goods and services, that have accounted for most of the substantial increase in the ratio of total government expenditures to GNP in the industrial countries since the mid-1960s.

Output and demand.—After a prolonged period of slow or negative growth, the sharp declines in inflation and interest rates that have been experienced in the industrial world since mid-1982 appear to have significantly improved prospects for economic recovery. Output began to rise in the United States around the end of 1982, and indicators of real growth gathered strength in the second quarter of 1983; a better outlook is now evident in a number of other countries also.

Reflecting, inter alia, the restrictive financial policies that were adopted to restrain the renewed upsurge of inflationary pressures in 1979–80, aggregate real GNP in the industrial countries grew by only about 1¼ per cent per annum in 1980 and 1981 (Table 1). A recovery had been quite widely expected for 1982, but in the event, output actually declined by ¼ per cent in that year. Inventories were reduced at a more rapid pace than had been foreseen, and both business fixed investment and consumers' expenditure were weaker than expected. At the same time, economic conditions in the developing countries worsened, and they were forced to cut back sharply on their imports.

The long duration of the slowdown in economic activity that now appears to have come to an end has been due to several factors. Chief among them has been the inherent difficulty of restoring financial sta-

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Table 1. Industrial Countries: Changes in Output and Prices, 1963–82 [1]

(In per cent)

	Average 1963–72 [2]	Change from Preceding Year									
		1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Real GNP											
Canada	5.5	7.6	3.6	1.2	5.8	2.0	3.6	3.2	1.0	3.4	−4.4
United States	4.0	5.8	−0.6	−1.2	5.4	5.5	5.0	2.8	−0.4	1.9	−1.7
Japan	10.5	8.8	−1.2	2.4	5.3	5.3	5.1	5.2	4.8	3.8	3.0
France [3]	5.5	5.4	3.2	0.2	5.2	3.0	3.7	3.4	1.1	0.4	1.6
Germany, Fed. Rep. of	4.5	4.6	0.5	−1.6	5.6	2.8	3.5	4.0	1.8	−0.2	−1.1
Italy [3]	4.6	7.0	4.1	−3.6	5.9	1.9	2.7	4.9	3.9	0.1	−0.3
United Kingdom [3]	2.8	7.2	−1.8	−1.1	3.4	1.6	3.9	2.0	−2.1	−2.2	0.7
Other industrial countries [4]	5.0	5.5	3.4	−0.2	3.6	2.4	2.1	3.0	2.1	0.6	0.2
All industrial countries	4.7	6.1	0.5	−0.6	5.0	4.0	4.1	3.4	1.3	1.2	−0.3
Of which,											
Seven larger countries above	*4.7*	*6.2*	*0.1*	*−0.7*	*5.3*	*4.3*	*4.5*	*3.5*	*1.1*	*1.5*	*−0.4*
European countries	*4.4*	*5.8*	*2.0*	*−1.2*	*4.6*	*2.6*	*3.0*	*3.4*	*1.5*	*−0.2*	*0.2*
GNP deflator											
Canada	3.6	9.1	15.3	10.8	9.6	7.4	6.7	10.5	11.1	10.6	10.1
United States	3.5	5.7	8.8	9.3	5.2	5.8	7.4	8.6	9.3	9.4	6.0
Japan	4.7	11.7	20.6	8.1	6.4	5.7	4.6	2.6	2.8	2.6	2.0
France [3]	4.8	7.8	11.2	13.3	9.9	9.0	9.5	10.3	11.8	12.0	12.1
Germany, Fed. Rep. of	4.1	6.5	6.8	6.1	3.4	3.7	4.2	4.0	4.4	4.2	4.8
Italy [3]	5.2	11.6	18.5	17.5	18.0	19.1	13.9	15.9	20.7	18.4	17.5
United Kingdom [3]	5.2	7.0	14.9	26.9	14.6	14.1	10.9	15.0	19.2	12.2	8.0
Other industrial countries [4]	5.4	9.4	12.2	13.3	10.5	9.7	9.1	8.0	8.8	9.1	9.7
All industrial countries	4.2	7.5	11.5	11.1	7.6	7.5	7.6	8.0	9.0	8.6	7.2
Of which,											
Seven larger countries above	*4.0*	*7.2*	*11.5*	*10.8*	*7.1*	*7.1*	*7.3*	*8.0*	*9.1*	*8.5*	*6.7*
European countries	*5.0*	*8.2*	*11.7*	*13.8*	*9.8*	*9.6*	*8.8*	*9.0*	*10.7*	*9.9*	*9.5*

[1] Composites for the country groups are averages of percentage changes for individual countries weighted by the average U.S. dollar value of their respective GNPs over the previous three years.
[2] Compound annual rates of change.
[3] GDP at market prices.
[4] Comprise Australia, Austria, Belgium, Denmark, Finland, Iceland, Ireland, Luxembourg, the Netherlands, New Zealand, Norway, Spain, Sweden, and Switzerland.

bility after an extended period in which economic agents have come to expect a continuation of inflationary conditions. Following its upsurge in 1973–74, inflation remained high in many countries and was given further impetus by the second round of oil price rises in 1979–80. On the latter occasion, however, the authorities of most of the industrial countries recognized that restoration of sustainable economic growth required firm action to curtail the secondary price effects of the initial inflationary impulse. Against a background of entrenched inflationary expectations and associated structural rigidities, policies of demand restraint led to a significant increase in economic slack. In a more medium-term context, however, the disinflationary process, painful as it has been, is recognized to be a necessary precondition for sustainable economic growth.

The general pattern of a prolonged period of economic weakness, intensifying in 1982, holds for most of the major industrial countries. There have, however, been some important differences in timing and degree. Fluctuations in activity in the European economies have taken a rather different course from those in the United States and Canada, while Japan has succeeded in maintaining a relatively smooth, though by its own historical standards modest, growth in output.

In the United States, total output fell by 1¾ per cent in 1982, with the decline being particularly pronounced in the early part of the year. More recently, however, the performance of the U.S. economy has improved considerably, with a significant expansion of demand in the housing and automobile sectors, and a fairly substantial increase in industrial production in the early months of 1983. A similar pattern is evident in Canada, where output contracted even more sharply in 1982, but also seems to be recovering more rapidly during the current year. The major European economies, by contrast, realized a small increase in aggregate output

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in 1982, after a decline in 1981; better growth rates were recorded in France and the United Kingdom, offsetting decreases in real GNP in the Federal Republic of Germany and Italy. As the year proceeded, however, activity in continental Europe tended to slow down; and in the first part of 1983 signs of economic recovery have been less apparent than in the United States and Canada.

Among the smaller industrial countries, the decline in output growth from 1981 to 1982 was less marked than for the major seven. In both years, however, the growth rate for the group as a whole was under 1 per cent. Developments in the early months of 1983 do not yet reveal much of an improvement in this rate.

The direction of trends in overall economic activity in the seven major industrial countries in recent years is depicted in Chart 2, which also shows developments in industrial output alone. This chart highlights the generally greater impact of cyclical developments on the industrial sector, and indicates that, except in Japan, the past three years of poor economic performance have left industrial production far below its previous peaks. For the seven countries as a group, industrial output in 1982 was 4 per cent below its level in 1979.

The poor output performance of the industrial economies has reflected the difficulties of economic adjustment in circumstances where demand restraint is confronted by entrenched inflationary expectations. In the period that is needed for anti-inflation policy to acquire credibility and for expectations to be revised, a relatively greater proportion of the reduction in the growth of aggregate demand is felt in real demand than in prices. For the industrial countries as a group, the rate of expansion of real domestic demand dropped from 3¾ per cent per annum on average in 1977–79 to ¼ of 1 per cent per annum in 1980–82. Through 1981, the impact of declining domestic demand was moderated by increases in foreign demand, particularly in the oil exporting countries but also in the non-oil developing countries. In 1982, however, with the slump in the international oil market and the severe financial difficulties experienced by a number of the larger non-oil developing countries, this support to the growth of output in the industrial world was withdrawn.

The overriding influence on the slowdown in the expansion of aggregate domestic demand in the industrial countries in recent years has been the sharp deceleration in private consumption expenditure (see accompanying tabulation). This has resulted mainly from the impact of inflation and restrictive financial policies on the growth of household real disposable income. Earned income has been adversely affected by rising unemployment and by the more moderate real wage gains of employed workers. At the same time, the savings ratio has remained high in many countries, and fiscal support for the growth of household disposable income (through changes in taxes and transfers) has been quite moderate except in the United States.

Industrial Countries: Changes in Real GNP and Components of Aggregate Demand, 1977–82 [1]

(In per cent)

	1977–79 Average	1980	1981	1982
Private consumption expenditure	3.7	1.0	0.9	1.1
Government current expenditure	2.5	2.3	1.9	1.6
Gross fixed investment	5.3	−1.2	−0.1	−3.3
Final domestic demand	3.7	0.9	0.9	0.3
Stock building [2]	0.1	−0.5	−0.2	−0.4
Foreign balance [2]	0.1	0.8	0.7	−0.2
GNP	3.8	1.3	1.2	−0.3

[1] Averages of percentage changes for individual countries weighted by the average U.S. dollar value of their respective GNPs over the previous three years.
[2] Changes expressed as a percentage of GNP in the previous year.

The weakness of consumer spending in the past few years has tended to depress fixed capital formation, which has also been adversely affected by continued high levels of production costs and interest rates. In real terms, gross fixed investment in the industrial countries actually declined in each year from 1979 to 1982. Inventory investment has also been undermined by poor final sales prospects and high carrying costs. As a result, aggregate output in the industrial countries has lagged even the slow growth of final demand.

Inflation.—In 1982 and the first half of 1983 there has been further encouraging progress in reducing inflation. This has extended the gains that were already apparent in 1981. Not all countries have been equally successful, however, and in several, rates of price increase remain disturbingly high. Moreover, transitory influences, such as developments in the price of oil and basic foodstuffs, have been a factor helping to dampen consumer price inflation. Nevertheless, it is noteworthy that in many countries indicators of underlying inflationary pressures, such as rates of increase of wage costs or the GNP deflator, are at their lowest levels of the past decade.

As measured by a weighted average of increases in consumer price indices, inflation in the industrial countries as a group, which had reached a peak of some 13 per cent in the first quarter of 1980, declined steadily to an annual rate of 5 per cent in the first quarter of 1983 (Chart 3). This progress has been the result of several factors. In the first place, as indicated above, economic activity in the industrial countries in

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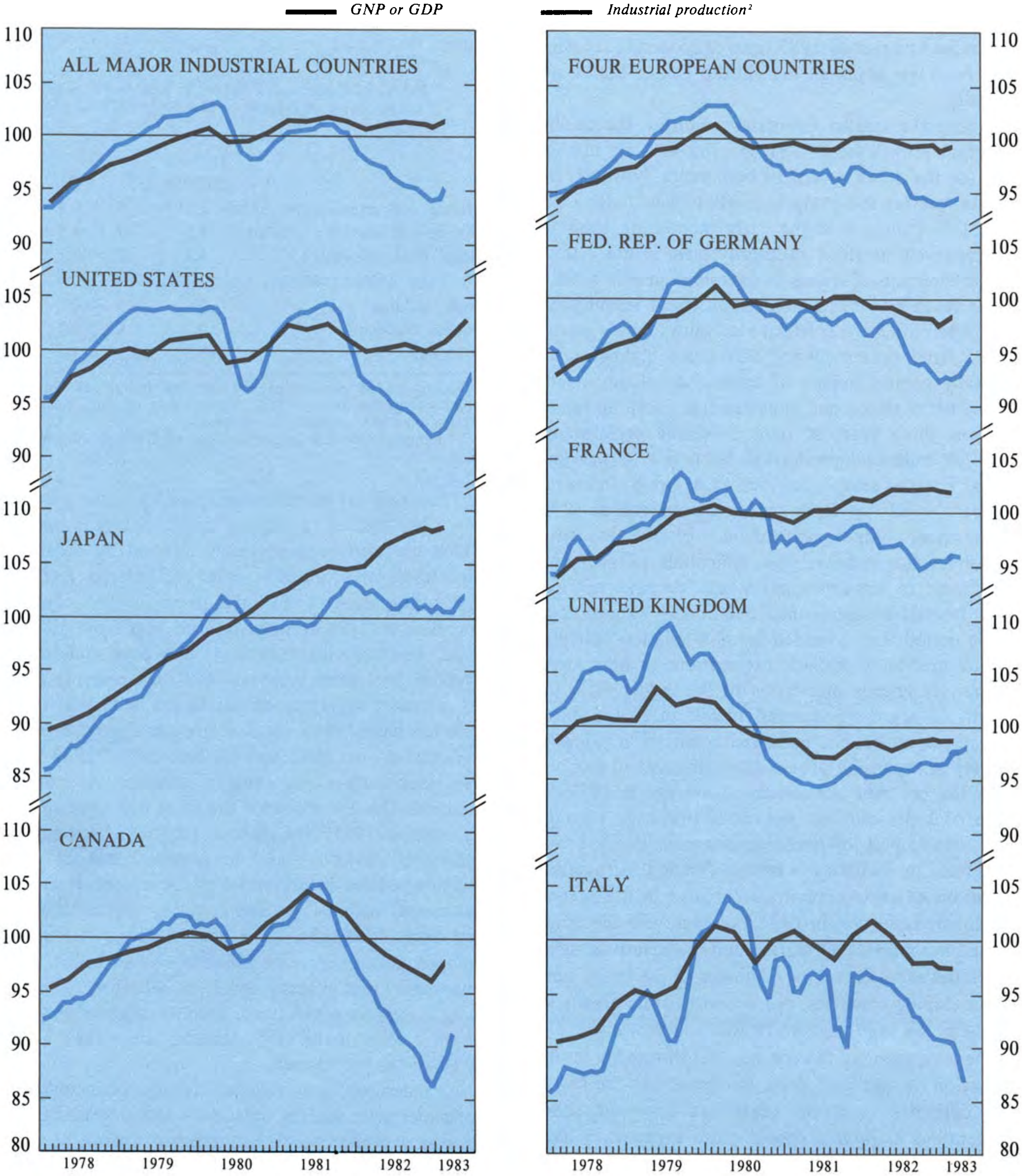
Chart 2. Major Industrial Countries: Real GNP and Industrial Production, 1978–June 1983
(Indices, 1980 = 100)[1]



[1] Seasonally adjusted.
[2] Three-month moving average.

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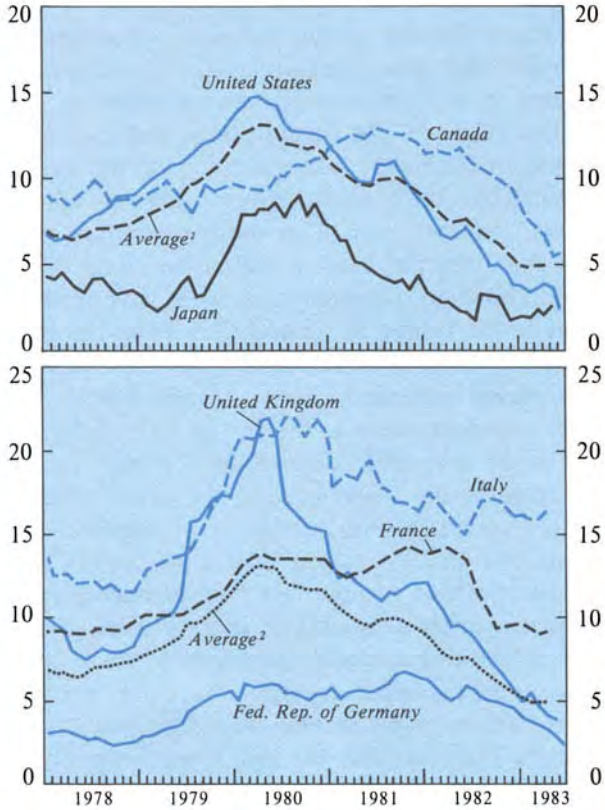
Chart 3. Major Industrial Countries: Consumer Prices, 1978–June 1983

(Percentage changes)[1]



[1] Over corresponding month of previous year.
[2] Average for the seven major industrial countries.

the last few years has been increasingly subdued. In such an environment, and with rising unemployment, workers have become more willing to make wage concessions. Moreover, energy and interest costs were falling rather than rising during much of 1982 and early 1983. By lowering cost of living adjustments and encouraging a downward revision of inflationary expectations, the deceleration in the rate of increase of the consumer price index associated with these developments exerted a moderating influence on the pattern of wage settlements. In addition, official commitments to anti-inflationary policy have become increasingly credible. Reduced wage settlements in the public sector have had a direct impact on the cost of public services, as well as demonstration effects for private wage negotiations, and tight monetary conditions have added to the pressure on businessmen to control labor and other costs.

Although often receiving less public attention than the consumer price index, changes in the GNP deflator are a more reliable indicator of the underlying rate of inflation. As a comprehensive measure of domestic unit costs of production (including profits), the GNP deflator is not directly affected by changes in the costs of imported commodities, or by fluctuations in exchange rates. For the industrial countries as a group, the weighted-average rate of increase in the GNP deflator rose only from 7½ per cent in 1978 to 9 per cent in 1980, reflecting the considerable success achieved in containing the secondary price effects of the 1979–80 round of oil price increases. By the same token, however, the subsidence of inflation as measured by the GNP deflator has been somewhat slower. The rate of increase fell to 8½ per cent in 1981 and 7¼ per cent in 1982.

The relationship between weighted changes in the consumer price index and corresponding changes in the GNP deflator in the seven major industrial countries in recent years is shown in Chart 4. The consumer price index was rising at about the same rate as the GNP deflator in 1978, but accelerated much more sharply in 1979 and 1980 under the impetus mainly of rising import prices. Subsequently, the rate of increase in the consumer price index fell back more sharply than did that of the GNP deflator, and since late 1981, the two indices have risen at broadly the same rate.

As regards individual country inflation experience, Japan and the Federal Republic of Germany have been the most successful among the major countries in containing domestic price increases throughout the past several years. In Japan the annual rise in the GNP deflator has remained between 2 and 3 per cent, whereas in Germany it has been between 4 and 5 per cent. As a result, inflationary expectations in these two countries are probably fairly stable at these relatively low rates.

The United States and the United Kingdom are alike in having achieved very substantial reductions in inflation over the past two years. The progress that has been made in the United Kingdom is especially noteworthy, with the rate of increase in the GNP deflator falling from almost 20 per cent in 1980 to about 5 per cent at the beginning of 1983. In the United States, inflation according to this measure has been reduced from over 9 per cent in 1980 to less than 5 per cent in the year ended in the first quarter of 1983. Canada has also achieved a significant moderation of inflation since the middle of 1982, though the impact of this success on expectations will probably not be fully felt until it has been sustained for a longer period.

The other two countries in the major industrial group—France and Italy—have experienced more difficulty in counteracting inflationary forces. By 1982 the GNP deflators in these countries were still increasing at rates close to their recent peaks. Incomes policies

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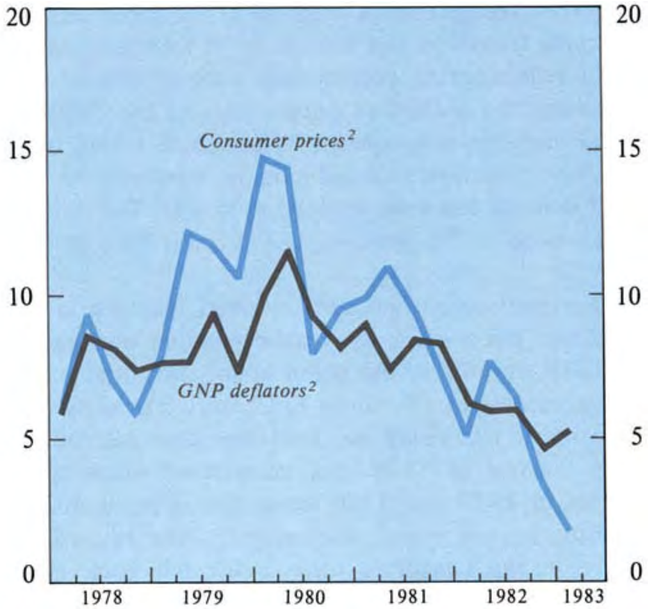
Chart 4. Major Industrial Countries: Consumer Prices and GNP Deflators, 1978–First Quarter 1983
(Percentage changes)[1]



[1] In seasonally adjusted quarterly data at annual rates.
[2] Averages of percentage changes for individual countries weighted by the average U.S. dollar value of their respective GNPs over the previous three years.

have been introduced in France in the past year, and wage indexing provisions have recently been modified in Italy. Nevertheless, inflationary pressures in both countries appear to have remained strong in the first half of 1983.

The smaller industrial countries, with some exceptions, have generally achieved less progress against inflation than the group of larger countries. On a year-over-year basis, the weighted-average increase in the GNP deflator for these countries actually accelerated by about ½ percentage point between 1981 and 1982. While the trend in the second half of 1982 and early 1983 appears to be more favorable, the gap in inflation rates between the larger and the smaller industrial countries has nevertheless been widening.

Unemployment.—Reflecting the poor growth performance of the industrial countries during the past several years, underutilization of economic resources has increased. Unemployment, with its serious social repercussions, has become an increasingly urgent problem. As a proportion of the combined labor force of the seven major industrial countries, unemployment has risen from 5 per cent in 1979 to about 9 per cent in mid-1983. In fact, unemployment rates in all of these countries except Japan have recently been close to or above 10 per cent. Only Japan, with its more satisfactory rate of output growth and traditional emphasis on continuity of employment, has avoided extensive shedding of labor, although even in that country the unemployment rate increased from 2 per cent in 1979 to 2¾ per cent in mid-1983.

The growth of unemployment was particularly rapid in 1982, mainly reflecting the actual decline in aggregate output in the major industrial countries that occurred in that year. Not surprisingly, the most serious increases in unemployment were recorded in those countries (Canada, the United States, and the Federal Republic of Germany) where activity was the weakest. By December 1982, unemployment rates in all three of these countries were 2 or more percentage points higher than they had been a year earlier. Since the end of 1982, however, unemployment rates have tended to decline in the United States and Canada and to rise at less rapid rates in the other major industrial countries.

The recent increase in unemployment has occurred despite a slowing down in the growth rate of the labor force in the industrial countries as a group. The rate of increase in the labor force in the seven major industrial countries decelerated continuously from 1¾ per cent in 1979 to less than 1 per cent in 1982. The causes of this decline were both demographic and economic, namely a tapering off in the growth of population of working age and the negative effects of the recession on participation rates. Since the net result has been fewer people seeking work than would otherwise have been the case, the high unemployment rates of recent years, if anything, understate the extent of the deterioration that has occurred in employment opportunities.

Employment in the major industrial countries actually declined in 1982 (by 1 per cent), after its growth rate had weakened in each of the preceding three years. In several countries (France, the Federal Republic of Germany, and the United Kingdom), declines in employment had also occurred in 1980 or 1981, so that the cumulative loss of jobs has been substantial (in the case of the United Kingdom, employment in 1982 was more than 8 per cent lower than in 1979). The only country which has succeeded in maintaining employment growth throughout this period has been Japan.

The severity of the recession has had its reflection in the character as well as the extent of unemployment. Youths and minorities have experienced record high rates of unemployment, although in proportionate terms some of the largest increases have been among categories such as male heads of household, which traditionally have had unemployment rates much lower and more stable than average. The range of occupations afflicted by high unemployment has also widened, as the recession has spread well beyond the more cyclical activities such as manufacturing. Furthermore,

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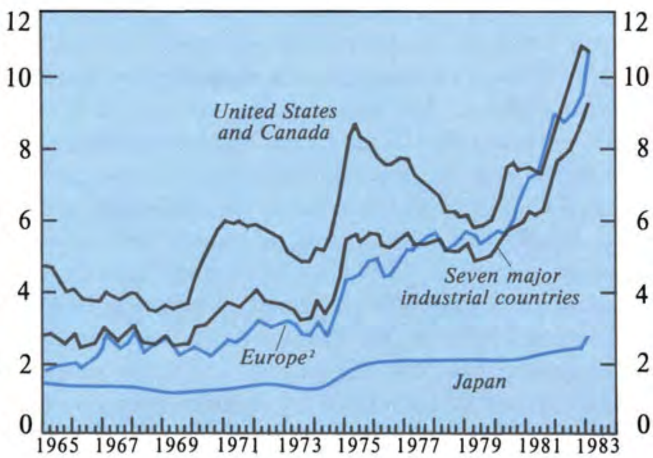
the average duration of unemployment has increased considerably.

While the current unemployment problem is to a considerable extent cyclical in nature, it has been superimposed on a secular rise in unemployment in the major industrial countries that has been occurring since the end of the 1960s (Chart 5). Unemployment rates have tended to increase in a step-like fashion over this period, with cyclical downturns bringing sharp jumps that have not been fully reversed in the ensuing upturn. This pattern has been most pronounced in the European economies, perhaps because of the steep rise in real wages that took place in the early 1970s. As a result, unemployment rates in these countries, which traditionally had been low relative to those in the United States and Canada, were by 1982 no longer very different from the latter, with the highest rate among the major industrial countries being that for the United Kingdom.

Chart 5. Major Industrial Countries: Unemployment, 1965–First Quarter 1983 [1]

(In per cent of labor force)



[1] National unemployment rates weighted by labor force in the respective countries.

[2] France, the Federal Republic of Germany, Italy, and the United Kingdom.

Developing Countries—Oil Exporting Group

The 12 countries included in the group of oil exporting developing countries exhibit considerable diversity. Differences in income levels, population, factor endowment, and level of development have conditioned the way in which their economies have responded to recent developments in the world economy. All of them, however, have been heavily influenced by declining receipts from oil. This decline began in 1981, and gathered pace in 1982. It was caused in the first instance by a significant cutback in global demand for oil, which resulted mainly from the prolonged recession and from the large change in the relative price of oil. This cutback had a disproportionate effect on the main group of oil exporting countries as production in other countries continued to increase. Adding to the downward pressure on export revenues, effective export prices also began to decline after the first quarter of 1981. In the first quarter of 1983, continued weakness in the oil market led to a more substantial downward adjustment in prices, including a 15 per cent reduction in the benchmark price of the Organization of Petroleum Exporting Countries.

These developments have resulted in a growing weakness in the fiscal and balance of payments positions of many oil exporting countries. Although the main share of the cutback in oil production was borne by countries in the strongest financial positions, virtually all members of the group shared in it to some extent. Even among those countries whose financial positions were strong, the size of the decline in revenues was such that firm adjustment policies became necessary. By 1982, two thirds of the gain in real oil export earnings that had taken place from 1978 to 1980 had been reversed. This compares with a decline in such earnings of only 14 per cent during the 1975–78 period. With the further decline in price and volume of oil exports that took place in the early part of 1983, the level of oil receipts in the oil exporting countries was in the first half of 1983 actually lower in real terms (i.e., when deflated by import prices of these countries) than five years earlier, before the second round of oil price increases.

Given the substantial growth in government expenditures and in imports that had taken place in the intervening period, it was inevitable that strong adjustment measures would be required to deal with the consequences of declining revenues. In all of the oil exporting countries there has been a significant shift toward budgetary restraint, in an effort to redress growing domestic and external financial imbalances. The growth in government spending, which had averaged more than 25 per cent in 1980, and had been scaled back to an estimated 20 per cent in 1981, was further curtailed, to only about 5 per cent in 1982. With restraint intensifying as the year proceeded, it seems likely that average expenditures in these countries in the second half of 1982 and the first half of 1983 were actually somewhat lower than a year earlier.

Shifts in monetary and credit expansion have generally been in the same direction as those in fiscal policy, though somewhat less marked. When government expenditure was rising most rapidly (in 1980), the rate of increase in broad money is estimated to

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have averaged 30 per cent in the oil exporting countries as a group. By 1982, the rate of increase of broad money had fallen to 15 per cent, and it receded somewhat further in the first half of 1983.

Economic activity in the non-oil sectors of these economies has, of course, been significantly influenced by the shifts in policy stance just described. These shifts, however, were somewhat less marked than those that occurred following the first round of oil price increases in 1973–74. This fact, together with the growing diversification in the economies of the oil exporting countries, has made the swings in the level of economic activity less pronounced in the past few years than in the mid-1970s. The average annual increase in non-oil GNP reached about 5 per cent in 1980 and 1981 and then fell back to about 3½ per cent in 1982. The initial rise, and subsequent fall, in the growth rate would have been greater were it not for the inclusion in the figures of the Islamic Republic of Iran. This country has a relatively large weight in the non-oil output of the oil exporting countries, and developments there have been affected by economic dislocations in 1980–81 and subsequent recovery.

If oil sector output is also taken into account, the oil exporting countries have suffered a decline in overall GNP in each of the three years 1980–82. The decline in the volume of oil output has averaged some 15 per cent per annum during these three years, and has actually gathered pace over the period. This decline, combined with the deceleration in growth rates in the non-oil sector, led to a contraction in total output of almost 5 per cent in 1982.

The weakness of economic activity in oil exporting countries has been accompanied by a reduction in the rate of consumer price inflation. This measure of inflation increased in 1979–81, fueled partly by a general move toward more expansionary economic policies and partly by factors specific to individual countries. By 1982, however, when the effects of more restrained economic policies were more widely felt, the average rate of increase in consumer prices for the 12 countries in the group fell to less than 10 per cent, compared with almost 13 per cent in the previous year. Another factor contributing to the moderation of price pressures was the greater stability of import prices. These are estimated to have declined slightly in U.S. dollar terms, while the currencies of most oil exporting countries depreciated little, if at all, against the U.S. dollar.

Developing Countries—Non-Oil Group

The non-oil developing countries, though differing in their economic structures, were virtually all severely affected by the intensification of the worldwide recession in 1982. The growing weakness in their principal export markets, and the continuing decline in commodity prices, led to a sharp cutback in the growth of their export receipts in SDR terms, and an outright decline in U.S. dollar terms. This reduction in foreign exchange earnings necessitated adjustment measures involving further restraints on the growth of domestic demand, in a situation already characterized by low levels of activity. For those countries which had previously relied heavily on borrowing in international capital markets, the problem of export weakness was compounded by growing difficulties in their access to such sources of finance. A reappraisal by lenders of the capacity of borrowing countries to service their debt resulted in a severe curtailment of capital flows, mainly to countries whose adjustment efforts were judged inadequate by banks, in the second half of 1982. Thus, nearly all of the developing countries had to intensify their adjustment efforts, and for many this acted as a constraint on their rates of economic growth.

The growth of real output in the non-oil developing countries slowed further in 1982, to some 1½ per cent for the group as a whole (Table 2). This outturn represented the fourth consecutive year of decelerating growth for these countries, from a rate of over 6 per cent in 1978, a reasonably normal year by past standards, to rates of 2½ and 1½ per cent in 1981 and 1982, respectively. In part, this marked deceleration was due to even more substantial declines in the growth rates of some of the larger countries—notably Argentina, Brazil, and Mexico—all of which had enjoyed vigorous growth in 1978, but have more recently had to adopt restrictive policies aimed at restoring internal and external balance. But the slowdown has been much more general than that, as can be seen when statistics on growth are disaggregated by analytic subgroup and geographic region. In 1982, the growth rate recorded in each of the principal regions, and for each of the analytic subgroups distinguished in Table 2, was substantially less than in 1978.

As noted above, an important factor in the widespread slowing of growth among the non-oil developing countries was the pronounced deceleration in the growth of their exports in real terms. For the group as a whole, the growth in the volume of merchandise exports slowed from 9 per cent per annum in the 1976–80 period to 6 per cent in 1981, and to less than 1 per cent in 1982. For the most part, this deceleration simply paralleled the deceleration in world trade generally. It is possible, however, that the slowing of developing country exports also reflected increasing resistance in the industrial countries—generally plagued by falling industrial output—to gains in market share

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by some of the more advanced developing countries, especially those in the group of major exporters of manufactures. For that group, the slowdown in export growth from 12 per cent per annum in 1976–80 (implying large and sustained share gains) to a negative 2½ per cent in 1982 (implying share losses), while mainly accounted for by the particular product and market characteristics of their trade, may have been partly due to some specific cases of increased protectionism.

Table 2. Developing Countries: Changes in Output, 1968–82 [1]

(In per cent)

	Average 1968–72 [2]	Change from Preceding Year									
		1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Oil exporting countries [3]	9.0	10.7	8.0	−0.3	12.3	6.1	2.0	3.1	−2.3	−4.3	−4.8
Oil sector	...	13.2	−1.0	−11.1	13.5	1.9	−4.2	3.3	−12.1	−15.2	−16.5
Other sectors	...	9.7	12.3	12.4	11.3	9.1	6.0	3.0	4.9	5.1	3.6
Non-oil developing countries											
Weighted average [4]	...	...	...	...	...	5.6	6.3	5.0	4.8	2.5	1.7
Excluding China	6.0	6.1	5.4	3.3	6.0	5.2	5.4	4.6	4.3	2.4	0.9
Median	4.9	4.6	5.7	3.8	5.5	5.0	5.6	4.5	3.5	3.0	2.2
By analytical group											
Weighted averages [4]											
Net oil exporters [5]	7.0	8.3	6.5	6.2	6.7	3.5	6.2	7.3	7.3	6.4	0.8
Net oil importers	...	...	...	...	...	5.9	6.4	4.6	4.5	1.9	1.9
Excluding China	5.8	5.7	5.2	2.7	5.9	5.5	5.2	4.2	3.8	1.7	0.9
Major exporters of manufactures [6]	8.0	9.5	6.5	1.3	6.7	5.7	4.9	6.4	4.5	−0.2	0.2
Low-income countries [7]	...	...	...	...	...	6.5	8.6	3.3	5.5	3.7	5.1
Excluding China	3.4	2.0	3.0	5.4	4.4	5.2	5.5	−0.1	3.2	4.4	3.0
Other net oil importers [8]	5.4	4.1	5.5	2.7	5.9	5.4	5.5	3.4	3.0	3.1	0.5
Medians											
Net oil exporters [5]	5.4	6.4	7.7	6.1	8.0	4.9	6.6	5.1	4.9	4.4	1.8
Net oil importers	4.7	4.1	5.5	3.3	5.2	5.0	5.3	4.4	3.0	2.7	2.4
Major exporters of manufactures [6]	8.6	11.2	6.2	2.2	6.9	6.4	6.7	6.8	4.9	4.2	0.3
Low-income countries [7]	3.9	1.6	5.1	3.1	5.0	3.9	4.7	4.0	2.2	3.0	3.0
Other net oil importers [8]	5.0	4.7	5.7	4.7	4.9	5.5	5.9	4.7	3.0	2.3	1.9
By area											
Weighted averages [4]											
Africa	4.8	3.0	6.6	2.6	4.2	1.8	2.2	2.3	4.4	2.9	1.1
Asia	...	...	...	...	...	7.1	9.5	4.7	5.1	4.7	5.0
Excluding China	4.5	5.0	3.8	4.9	7.5	6.6	7.9	3.3	3.4	5.8	3.7
Europe	6.0	5.8	4.2	0.8	6.8	5.4	5.4	3.9	1.5	2.2	2.0
Middle East	7.5	4.9	4.8	8.7	8.4	4.3	7.4	4.3	7.3	4.7	2.7
Western Hemisphere	7.6	8.4	6.9	3.1	5.5	5.0	4.5	6.7	6.0	−0.1	−1.5
Medians											
Africa	4.2	2.5	5.5	3.6	5.3	3.5	3.5	3.4	2.4	3.0	3.0
Asia	4.8	5.3	5.7	3.3	5.7	5.8	6.7	6.1	5.4	5.4	3.9
Europe	6.6	5.4	5.7	5.8	7.3	6.6	6.8	5.8	2.6	2.2	2.0
Middle East	6.4	4.9	6.3	7.4	9.6	5.6	8.2	4.5	5.3	4.8	2.0
Western Hemisphere	5.0	5.0	5.7	3.8	4.6	5.3	6.4	4.7	3.5	1.4	—

[1] Data in this table cover all Fund members except those listed in Table 1, together with a few territories for which output statistics are readily available. The main groups of "oil exporting countries" and "non-oil developing countries," as well as each of the regional subgroups of non-oil developing countries, conform to the classification used in the Fund's *International Financial Statistics*.

[2] Compound annual rates of change.

[3] This group comprises only countries meeting both of the following criteria (applied at present to 1977–79 averages): that oil exports (net of any imports of crude oil) account for at least two thirds of the country's total exports; and that such net exports are at least 100 million barrels a year (roughly equivalent to 1 per cent of annual world exports of oil).

[4] Arithmetic averages of country growth rates weighted by the average U.S. dollar value of GDPs over the previous three years.

[5] Comprise Bahrain, Bolivia, People's Republic of the Congo, Ecuador, Egypt, Gabon, Malaysia, Mexico, Peru, the Syrian Arab Republic, Trinidad and Tobago, and Tunisia. Although these countries export more oil than they import, none of them satisfies both of the criteria mentioned in footnote 3.

[6] Include Argentina, Brazil, Greece, Hong Kong, Israel, Korea, Portugal, Singapore, South Africa, and Yugoslavia.

[7] Comprise 43 countries whose per capita GDP, as estimated by the World Bank, did not exceed the equivalent of US$350 in 1978.

[8] Middle-income countries that, in general, export mainly primary commodities.

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Given that exports account for about one sixth of the non-oil developing countries' aggregate output, the slowdown in export volume growth directly accounts for a significant part of the decline in the rate of increase of overall output. However, the influence of international developments on these economies reaches well beyond their impact on the volume of exports. Indeed, movements in the terms of trade and in international interest rates have probably been a more important source of disturbance to growth in the non-oil developing countries even than the deceleration in the volume of their exports. Increases in import prices and interest rates had the effect of diverting spending power abroad, while the sharp decline in commodity prices drastically lowered the incomes generated by these commodities in the producing countries. As a result of these exogenously determined price changes, major leakages from the spending stream occurred. For those countries that are net importers of oil, these leakages are estimated to have increased by some $85 billion (or over 5 per cent of their combined gross domestic product—GDP) from 1978 to 1982 (see section on International Trade and Payments, below).

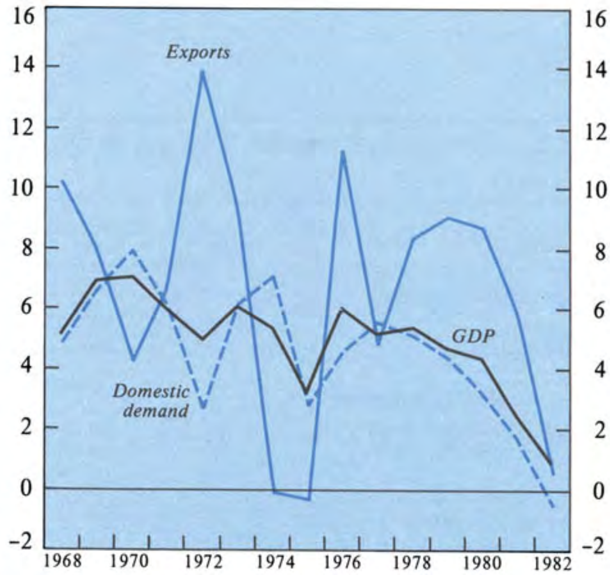
The strains on developing countries imposed by these adverse external developments were met by a combination of adjustment measures and sharply increased external borrowing. With the continued delay in recovery in the industrial world, however, the higher level of borrowing became widely perceived as unsustainable. As a result, capital inflows (inclusive of official transfers), which had gradually increased from about 4 per cent of GDP in 1978 to over 5 per cent in 1981, slowed sharply to less than 3 per cent in 1982. The payments difficulties which this cutback in lending precipitated in a number of countries necessitated further sharp measures of adjustment, thus exacerbating the decline of output growth that was already under way.

The slowing of the growth of demand in these countries has been even more marked than that of output. For the group as a whole, the rate of increase in domestic demand in real terms declined continuously from over 6 per cent in 1978 (i.e., in line with GDP), to 1½ per cent in 1981 (significantly less than the growth in GDP), and ceased altogether in 1982. These developments imply declines in real per capita expenditure in the non-oil developing countries in both 1981 and 1982—an unprecedented development in the postwar period.

A broader perspective on domestic absorption in these countries is provided by Chart 6, which plots, for the group as a whole, the growth of output, exports, and domestic demand. Besides the deceleration evident in each of these elements over the past four years, the chart highlights the extent to which countries have attempted, or, because of financing constraints, have been forced, to curb the growth of domestic demand to a rate well below that of output—an effort which, of course, has been an additional source of drag on the growth of output itself.

Chart 6. Non-Oil Developing Countries: GDP, Domestic Demand, and Exports, 1968–82 [1]

(Annual percentage changes in volume)



[1] Estimates for domestic demand were computed from data on GDP and on exports and imports of goods and services. Services were assumed to have the same evolution, in volume terms, as the corresponding merchandise transactions.

The more or less parallel development of domestic demand and exports beginning in 1980 is in marked contrast to the pattern that prevailed for most of the 1970s. During those earlier years, accelerations and decelerations in the growth of domestic demand were usually counteracted, insofar as their implications for GDP were concerned, by offsetting (or at least not compounding) variations in the pace of export growth. Only in 1976 did the rate of increase of exports and of domestic demand move in the same direction. By contrast, in each of the three years since 1979 the variations in the growth of domestic demand and exports have been in the same direction (downward) and hence have reinforced the deceleration of output growth.

This change in the relationship between domestic and foreign demand expansion is probably due largely to the protracted nature of the present slowdown in the world economy. In the earlier years, swings in foreign demand were of relatively short duration—roughly two years from peak to trough and vice versa; and domestic demand in the developing countries reacted to these

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swings only with a lag. As a result, overall output followed a smoother growth path than either domestic demand or exports. During the present recession, however, with the continuation and indeed intensification of economic weakness in the industrial world, developing countries have been led to introduce adjustment policies involving domestic demand restraint just at the time when external conditions were least favorable. This phenomenon is probably responsible for the much closer link, commented on in last year's Report, between industrial and developing country growth rates over the past several years.

Another factor contributing to the closeness of such a link is the sharp reduction in developing countries' imports to which the prolonged weakness in their external position has led. In many cases, this cutback has extended to imports required for the production process, with severe consequences for the level of current and potential future output.

While recent developments have adversely affected the growth prospects of all non-oil developing countries, the extent and timing of these effects have varied considerably across countries. An important distinction to be made in this respect is the one between those members of the non-oil group that are net importers and those that are net exporters of oil. Among the former, the pressures discussed above had already prompted a fairly marked deceleration in the growth of output in 1980 and 1981—to about 2 per cent in the latter year. The further deceleration of growth in 1982 was therefore relatively small—about ½ of a percentage point. Among the net oil exporters, on the other hand, the more comfortable external position enabled growth to be sustained at a rate of above 6 per cent through 1981. It was not until 1982 that continued weakness in the oil market, together with the near cessation of private international lending in the second half of the year, contributed to a slowdown of output growth to under 1 per cent.

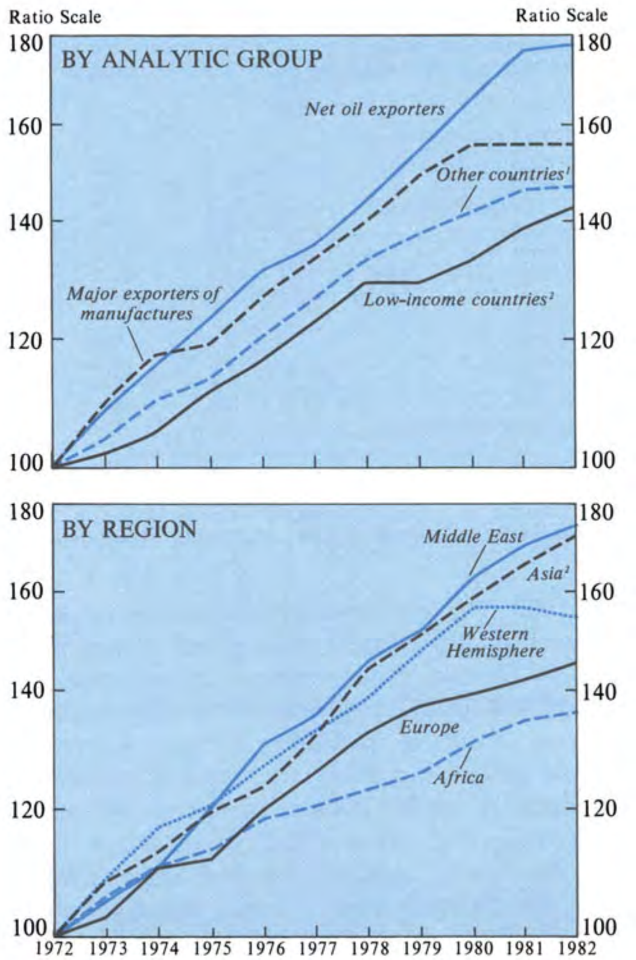
These differences across countries in the timing of the economic slowdown are illustrated in Chart 7, the top panel of which presents indices of real GDP for each of the analytic subgroups of countries. While this chart highlights the particularly marked impact which recent developments have had on the net oil exporters and the major exporters of manufactures, the chart also shows that growth in these countries has, in a longer time frame, been much stronger than in the low-income and middle-income primary exporters.

A somewhat different perspective on growth rates among the non-oil developing countries is provided by the regional real GDP data also shown in Chart 7. While each region has experienced some deceleration in output growth, a more than proportionate amount of the adjustment has been concentrated in the Western Hemisphere countries, where output actually fell in both 1981 and 1982. A disturbing aspect of the developments depicted in this chart is the sustained low rate of growth in Africa over virtually the whole of the past decade. African countries generally have lower absolute income levels and a higher rate of population increase, so that the welfare implications of a slow growth of output are particularly serious.

Notwithstanding the pronounced weakness of economic activity in the non-oil developing countries in 1982, consumer price inflation (on a weighted-average basis) remained above 30 per cent for the third successive year (Table 3). Moreover, there was a tendency for price increases to accelerate in late 1982 and

Chart 7. Non-Oil Developing Countries: Real GDP, 1972–82

(Indices, 1972 = 100)



[1] Middle-income countries that, in general, export mainly primary commodities.
[2] Excluding China.

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Table 3. Developing Countries: Changes in Consumer Prices, 1968–82 [1]

(In per cent)

	Average	Change from Preceding Year									
	1968–72 [2]	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Oil exporting countries											
Weighted average [3]	8.0	11.3	17.1	18.8	16.8	15.5	9.8	10.9	12.7	12.9	9.8
Non-oil developing countries											
Weighted average [3]	...	...	...	...	...	22.6	19.8	24.6	31.8	31.0	32.8
Excluding China	9.1	21.9	28.5	27.6	27.3	26.5	23.4	28.8	36.5	36.5	38.3
Median	4.2	10.4	18.4	14.6	9.7	11.2	9.4	12.2	15.0	13.5	11.4
By analytical group											
Weighted averages [3]											
Net oil exporters	4.1	11.1	20.6	14.6	14.9	22.8	17.7	17.7	24.2	24.3	44.0
Net oil importers	...	...	...	...	...	22.6	20.2	25.7	33.0	32.0	31.0
Excluding China	10.0	23.8	29.9	30.1	29.7	27.3	24.5	31.0	38.8	38.9	37.3
Major exporters of manufactures	14.1	21.3	24.9	40.1	55.7	40.6	37.4	44.9	54.1	62.1	62.9
Low-income countries	...	...	...	...	...	6.9	3.6	6.7	11.7	9.0	8.6
Excluding China	6.5	21.9	29.7	13.4	–0.2	10.7	6.8	11.3	15.9	18.2	13.6
Other net oil importers [4]	8.4	30.4	38.8	27.3	18.8	19.6	18.6	23.9	31.5	19.6	16.3
Medians											
Net oil exporters	3.8	11.2	18.7	15.5	10.5	12.3	10.6	9.0	15.1	14.6	15.5
Net oil importers	4.2	10.3	18.4	14.4	9.6	10.6	9.1	12.6	15.0	13.4	10.5
Major exporters of manufactures	7.6	18.2	24.3	15.2	13.3	12.2	14.4	19.0	24.9	22.6	21.0
Low-income countries	4.3	10.0	17.4	18.1	8.3	9.6	9.1	10.5	13.8	13.6	11.9
Other net oil importers [4]	3.9	10.6	18.4	13.2	9.3	11.2	8.3	12.9	14.4	12.4	9.7
By area											
Weighted averages [3]											
Africa	4.6	9.7	15.0	15.0	14.6	19.4	15.9	19.3	20.1	22.0	15.8
Asia	...	...	...	...	...	5.5	3.7	6.7	12.6	9.9	6.8
Excluding China	6.5	21.5	30.1	13.2	0.5	7.3	5.6	9.8	15.9	14.8	9.9
Europe	6.1	12.5	17.6	13.7	11.8	15.1	19.7	25.9	37.8	24.3	23.8
Middle East	4.3	12.7	23.3	21.7	18.6	20.1	21.7	26.0	43.4	35.3	37.6
Western Hemisphere	15.3	32.1	37.5	52.0	66.1	51.2	42.4	49.6	58.2	65.4	78.0
Medians											
Africa	4.2	9.3	15.5	15.5	10.6	12.0	10.1	12.2	13.8	13.0	13.5
Asia	3.8	14.0	23.1	8.8	5.9	5.0	6.0	7.7	13.4	13.4	7.9
Europe	3.8	12.9	17.3	11.1	8.3	11.1	9.9	14.3	16.2	15.7	19.4
Middle East	4.4	17.1	22.2	14.1	13.9	14.3	12.0	14.0	15.2	11.2	11.8
Western Hemisphere	4.3	12.9	23.3	17.0	9.7	11.5	10.2	15.6	18.1	14.8	9.4

[1] For classification of countries in groups shown here, see Table 2.
[2] Compound annual rates of change.
[3] Geometric averages of country indices, weighted by the average U.S. dollar value of GDPs over the previous three years.
[4] Middle-income countries that, in general, export mainly primary commodities.

early 1983. This poor price performance is due largely to trends in the Western Hemisphere region where, primarily because of developments in the larger countries, the weighted-average inflation rate has accelerated markedly in each of the past four years. A somewhat different picture of inflationary trends is revealed by movements in median inflation rates (i.e., the rate for which it can be said that half the countries in the group have more rapid inflation and half less rapid). There has recently been a steady reduction in the median inflation rate of developing countries, from about 15 per cent in 1980 to 11½ per cent in 1982. Interestingly, this reduction has been most pronounced in the Western Hemisphere, because the few large countries that have had accelerating inflation have been outnumbered by those whose inflation rates have been declining. There has also been a noteworthy reduction in median inflation rates in the Asian region over the past three years, although elsewhere progress has been less significant.

A major factor accounting for the continuing high rates of inflation in the non-oil developing countries has been the accommodative financial policies of the past several years. For the group as a whole, the rate of expansion of the broadly defined money stock accelerated from 30 to 35 per cent per annum in the 1976–80 period to over 40 per cent in both 1981 and 1982. Rates of domestic credit expansion accelerated

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even more sharply and were in the range of 50–55 per cent in 1981 and 1982. The resulting pressures on domestic prices, coupled with the need to intensify external adjustment efforts, have required many developing countries to depreciate their currencies more substantially, or more promptly, than in the past. Such action should ultimately have beneficial effects in bringing the supply of and demand for traded goods into better balance, but its initial impact is to raise the price level and worsen the recorded inflation statistics. The importance of this factor for non-oil developing countries can be judged from the fact that the weighted-average rate of currency depreciation against the U.S. dollar, which was 8½ per cent from 1978 to 1979, was three times as great (26 per cent) from 1981 to 1982.

To a significant extent, the acceleration in the rate of money and credit growth in non-oil developing countries has reflected a weakening in fiscal performance. For the group as a whole, the average fiscal deficit widened from 3 per cent of GDP over the years 1976–80 to over 4 per cent in 1981–82. Especially troubling in this connection is the extent to which this deterioration has been due to an acceleration in the growth of expenditure, which will inevitably be hard to reverse.

There is, therefore, reason for concern in the evolution of financial policies in the non-oil developing countries. At the same time, it should also be recognized that steps toward restraint have been taken by a number of these countries, especially in the 12 to 18 months ended in mid-1983. This is perhaps most evident in the reduction in the median rate of monetary growth, from 19–20 per cent in each of the years 1977–81 to some 15 per cent in 1982. Plans for 1983 involve a further move toward restraint in the financial policies of the non-oil developing countries, taken as a group. While these announced intentions need to be interpreted cautiously, the magnitude of the shift that is envisaged and the fact that these plans are often necessitated by financing constraints, or are embedded in Fund programs, lend some credence to the view that a significant change in the stance of financial policies is under way in many countries.

Not surprisingly, policy developments among the large number of countries in the non-oil developing group have been sharply differentiated. In some countries these differences have reflected divergences in economic circumstances, while in others they have resulted from deliberate policy choices. Given the differences in policy stances found among the non-oil developing countries, the question naturally arises as to whether matching differences in economic performance can also be found. This is a very complex question and one not amenable to definitive answers. Nevertheless, it is noteworthy that a staff study[1] found that countries where financial developments over the past several years were consistent with a policy of domestic demand restraint and the preservation of external competitiveness typically registered significantly better current account outturns, without incurring disproportionate reductions in growth rates, than did "non-adjusting" countries. It appears, therefore, that countries that have followed sound policies from the start have been better able to cope with the adversities of the past four–five years than countries where a less disciplined approach to financial policies was allowed to hold sway.

International Trade and Payments

Overview

Changes in world trade flows and shifts in the pattern of international payments balances in 1982 stemmed primarily from the prolongation and deepening of the global recession, the further slackening of demand pressures in the world oil market, and the rather abrupt slowdown in the flow of private bank credit to developing countries. The influence of the recession was reflected in a declining volume of imports into the industrial countries and was especially evident in the marked drop in export prices and terms of trade of the developing countries. The easing of demand for oil stemmed not only from the general cyclical weakness of economic activity, but also from price-induced conservation and fuel substitution efforts. The slowdown in international bank lending contributed importantly to a sharp drop in real imports of the non-oil developing countries. That development, in combination with a small decline in the real imports of the industrial countries and a marked slowing of import growth in the oil exporting countries, brought the first year-to-year decline in the volume of world trade since 1975.

The external accounts most strongly and visibly affected by the foregoing major influences were those of the oil exporting countries. The current account surplus of that group, already roughly halved in 1981 after the upsurge of the preceding two years, was eliminated in 1982 (Table 4). The combined current account deficit of the non-oil developing countries was reduced significantly in 1982 despite the marked weak-

[1] *World Economic Outlook: A Survey by the Staff of the International Monetary Fund* (Washington, May 1983), pages 137–40. (Hereinafter referred to as *World Economic Outlook.*)

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Table 4. Summary of Payments Balances on Current Account, 1973–83 [1]

(In billions of U.S. dollars)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983[2]
Industrial countries	20.3	−10.8	19.8	0.5	−2.2	32.7	−5.5	−40.2	−0.3	−3.6	16.0
Seven larger countries	14.8	−2.7	24.9	10.1	10.4	36.2	6.9	−13.6	15.4	10.5	20.5
Other industrial countries	5.5	−8.1	−5.1	−9.6	−12.6	−3.5	−12.4	−26.6	−15.7	−14.1	−4.5
Developing countries											
Oil exporting countries	6.7	68.3	35.4	40.3	30.2	2.2	68.6	114.3	65.0	−2.2	−27.0
Non-oil developing countries [3]	−11.3	−37.0	−46.3	−32.6	−28.9	−41.3	−61.0	−89.0	−107.7	−86.8	−68.0
By area											
Africa [4]	−1.9	−3.2	−6.6	−6.1	−6.6	−9.4	−9.9	−12.9	−14.0	−13.2	−13.5
Asia [3]	−2.6	−9.9	−8.9	−2.7	−0.8	−7.2	−14.8	−24.3	−22.2	−15.6	−17.5
Europe	0.6	−4.4	−4.9	−4.7	−8.4	−6.7	−9.9	−12.5	−10.5	−7.1	−4.0
Middle East	−2.6	−4.5	−6.9	−5.4	−5.1	−6.2	−8.5	−9.4	−11.1	−12.9	−12.0
Western Hemisphere	−4.7	−13.5	−16.3	−11.8	−8.5	−13.3	−21.4	−33.4	−45.4	−34.9	−21.5
Total [5]	15.7	20.5	8.9	8.2	−0.9	−6.4	2.1	−14.9	−43.0	−92.6	−79.0

[1] On goods, services, and private transfers. For the industrial countries, alternative current account balances including official transfers are given for the years 1979–82 in Table 8. Projected 1983 balances including official transfers are —$7.5 billion for the industrial countries as a group, $1 billion for the larger countries, and —$8.5 billion for the other industrial countries. For classification of countries in groups shown here, see Tables 1 and 2.
[2] Fund staff projections. Figures are rounded to the nearest $0.5 billion.
[3] Excludes data for China prior to 1977.
[4] Excluding South Africa.
[5] Reflects errors, omissions, and asymmetries in reported balance of payments statistics on current account, plus balance of listed groups with other countries (mainly the Union of Soviet Socialist Republics and other nonmember countries of Eastern Europe and, for years prior to 1977, China). The large increase in this statistical asymmetry from 1979 to 1983—a matter of concern—is discussed in the Fund staff's 1983 *World Economic Outlook,* Appendix A-11, pages 161–67.

ness of their export earnings. However, the recorded current account balance of the industrial countries as a group showed little change, remaining near zero, exclusive of official transfers. For reasons explained in the May 1983 *World Economic Outlook* (pages 161–67), it seems likely that net receipts of both the industrial countries and the oil exporting countries may be appreciably understated in the statistics compiled by the respective national statistical authorities. Considerable caution in interpreting these combined balances for the various major groups of countries is therefore in order.

The shifts in current account balances since 1981 have been accompanied, of course, by commensurate shifts in financing flows, featuring a sharp change in the sources of funds supplied to international financial markets. Since mid-1982, another notable feature of shifts in financing patterns has been a reduction in the proportion of international capital flows moving through the private banking system.

The oil exporting countries, which had been the principal net suppliers of funds in 1979 and 1980, particularly through banking channels, had become net users of international banking funds by 1982 (mainly through drawdowns of earlier deposits rather than through borrowing—but also with a significant rise in net borrowing by some countries in the group). On the other hand, the industrial countries, whose borrowings from the international commercial banking system had exceeded their deposits in 1979 and almost equaled them in 1980, have resumed during the past two years their more traditional role as major suppliers of funds to banking markets. Their net placements in those markets exceeded $40 billion both in 1981 and in 1982. Taken as a group, the non-oil developing countries, in keeping with their need for capital imports, continued to borrow several times as much from the international commercial banking system as they deposited there. However, their borrowing from private banks was interrupted in the third quarter of 1982 and for the year as a whole was only about half as large as in 1981.

The sharp slowdown in net bank lending to non-oil developing countries reflected a growing realization in the international banking community that the unexpected prolongation of the recession had serious implications for the debt-servicing capabilities of major borrowers among the developing countries. Recognizing that export earnings of a number of these countries were falling far short of those to which their policies had been geared, and that outstanding loans and debt service obligations were becoming extremely large in relation to actual export earnings, the lenders became intensely concerned and reluctant to make new credit commitments to some of the largest borrowers. The virtual stoppage of credit expansion that ensued posed a broader threat that inability of some major borrowers to "roll over" or refinance maturing loans might gen-

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erate a major crisis of confidence and a cumulative contraction of credit-financed import demands, to the general detriment of world trade and global prospects for economic recovery.

In this setting, several of the major borrowing countries turned to the Fund for assistance, and large amounts of new credit were made available to them. These credits came not only from the Fund but also from private banks and other sources, under cooperative arrangements involving the authorities of the countries directly concerned, either as borrowers or as lenders, the private banking community, and other international institutions. These arrangements—described in more detail in Chapter 2—appear to have averted the threat of a crippling cessation of international credit flows and to have brought about a considerable easing of tensions in international financial markets. The borrowing countries engaged in these arrangements—most notably Mexico, Brazil, and Argentina—have all adopted comprehensive programs worked out in close consultation with the Fund and calculated to restore satisfactory payments positions over a period of time. These arrangements are intended to provide assurance—within the context of the agreed programs—of sufficient inflows of credit to permit orderly and gradual adjustment.

Although aggregate external borrowing by the non-oil developing countries subsided somewhat in 1982 and appears to be subsiding further in 1983, the debt situations of many countries in the group remain precarious. The drop in interest rates during 1982 was helpful, but its effects on current payments balances to date have been offset by the continuing rise in outstanding external debt. Moreover, the appreciation of the U.S. dollar since 1980 has for many countries effectively increased the burden of debt denominated

Table 5. World Trade Summary, 1963–82 [1]

(Percentage changes)

	Average 1963–72 [2]	Change from Preceding Year 1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
World trade [3]											
Volume	8.5	12.0	4.5	–3.5	11.0	5.0	5.5	6.5	2.0	0.5	–2.5
Unit value											
(in U.S. dollar terms)	3.0	23.5	40.0	9.5	1.5	8.5	10.0	18.5	20.0	–1.0	–4.0
(in SDR terms) [4]	2.0	12.5	39.0	8.5	7.0	7.5	2.5	14.5	19.0	9.0	2.5
Volume of trade											
Exports											
Industrial countries	9.0	13.2	7.0	–4.2	10.6	5.2	6.0	6.7	4.8	2.5	–2.5
Developing countries											
Oil exporting countries	9.1	14.2	–1.6	–11.7	14.3	0.4	–4.3	2.8	–12.3	–16.0	–19.1
Non-oil developing countries	6.7	9.3	–0.1	–0.3	11.3	4.9	8.7	9.6	9.0	6.3	0.8
Imports											
Industrial countries	9.0	11.5	1.4	–8.1	13.3	4.5	5.1	8.5	–1.5	–2.4	–0.5
Developing countries											
Oil exporting countries	8.3	20.6	38.5	41.4	20.6	16.0	4.8	–12.3	15.3	19.9	5.7
Non-oil developing countries	6.2	11.5	7.6	–4.1	4.5	7.2	8.5	10.3	4.7	2.6	–7.7
Unit value of trade (in SDR terms) [4]											
Exports											
Industrial countries	2.1	10.1	23.8	10.8	5.6	6.5	5.7	11.9	11.9	6.3	3.3
Developing countries											
Oil exporting countries	2.6	27.5	204.4	4.3	11.8	8.6	–6.0	42.6	57.3	20.8	1.8
Non-oil developing countries	1.2	20.0	37.0	–1.2	12.3	12.7	–1.6	14.0	15.1	9.3	1.5
Imports											
Industrial countries	1.8	12.0	39.6	8.1	6.6	7.7	2.6	14.9	21.4	7.2	0.9
Developing countries											
Oil exporting countries	2.1	12.5	26.9	9.9	5.7	7.7	4.9	10.5	11.2	8.7	3.1
Non-oil developing countries	1.1	14.0	45.6	8.0	6.0	6.5	2.2	14.3	22.7	13.7	4.3

[1] For classification of countries in groups shown here, see Tables 1 and 2. Excludes data for China prior to 1978.
[2] Compound annual rates of change.
[3] Averages based on data for the three groups of countries shown separately below and on partly estimated data for other countries (mainly the Union of Soviet Socialist Republics and other nonmember countries of Eastern Europe and, for years prior to 1978, China). Figures are rounded to the nearest 0.5 per cent.
[4] For years prior to 1970, an imputed value of US$1.00 has been assigned to the SDR.

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Table 6. Summary of Terms of Trade and World Prices, 1963–82 [1]

(Percentage changes)

	Average 1963–72 [2]	Change from Preceding Year 1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Terms of trade											
Industrial countries	0.3	−1.8	−10.6	2.5	−1.0	−1.1	2.7	−2.4	−7.4	−0.8	2.5
Developing countries											
Oil exporting countries	0.5	13.3	140.0	−5.1	5.8	0.8	−10.4	29.1	41.5	11.1	−1.3
Non-oil developing countries	0.3	5.3	−5.9	−8.5	5.9	5.9	−3.7	−0.3	−6.2	−3.9	−2.7
Net oil exporters	−0.2	15.4	15.7	−14.1	8.1	6.1	−3.0	16.8	6.6	−6.3	−8.2
Net oil importers	0.5	4.0	−8.7	−7.5	5.6	5.8	−3.8	−3.0	−8.4	−3.4	−1.6
Major exporters of manufactures	0.7	2.2	−9.4	−6.0	5.3	3.2	−1.7	−3.6	−7.7	−2.6	−0.8
Low-income countries [3]	−0.2	6.9	−5.6	−16.3	15.6	16.6	−9.1	−1.5	−12.7	−10.3	−3.2
Other net oil importers [4]	0.3	6.7	−7.3	−7.6	4.3	5.9	−4.7	−2.1	−9.8	−5.1	−4.0
World trade prices (in U.S. dollar terms) **for major commodity groups** [5]											
Manufactures	3.0	17.7	21.8	12.3	—	9.0	14.7	15.3	10.5	−5.1	−2.0
Oil	3.0	40.0	225.8	5.1	6.3	9.3	0.1	48.7	62.0	10.1	−4.6
Non-oil primary commodities (market prices)	2.5	53.2	28.0	−18.2	13.3	20.7	−4.7	16.5	9.7	−14.8	−12.1

[1] Based on foreign trade unit values except where indicated. For classification of countries in groups shown here, see Tables 1 and 2. Excludes data for China prior to 1978.
[2] Compound annual rates of change.
[3] Excluding China and India.
[4] Middle-income countries that, in general, export mainly primary commodities.
[5] As represented, respectively, by (a) the United Nations export unit value index for the manufactures of the developed countries; (b) the oil export unit values of the oil exporting countries; and (c) the Fund's *International Financial Statistics* index of market quotations for non-oil primary commodities.

in that currency. A number of countries met their external financing requirements in 1982 only by drawing down their reserves or making use of Fund credit. These sources of financing are by their nature limited. Since the capacity of developing countries to acquire and service additional debt is strictly circumscribed in present conditions, further adjustment of current account positions will be required. Such adjustments are bound to be difficult, especially until some buoyancy is restored to their export markets.

A few countries in the oil exporting group are now encountering balance of payments problems broadly similar to those already faced for some time by many of the non-oil developing countries. Although most of the oil exporting countries have not incurred external debts on a scale approaching that of the heavier borrowers in the non-oil developing group, a number of them have already borrowed substantial amounts and have financed recent current account deficits partly by drawing on stocks of external financial assets accumulated earlier. In only a few countries of the group are such stocks large enough to cover any prolonged reliance on this form of financing.

Within the group of industrial countries, individual current account balances showed more movement in 1982 than did the combined balance for the group as a whole. As noted in greater detail below, sharply negative swings in the U.S., French, and U.K. balances were largely matched by positive swings in the balances of the other four major industrial countries, and especially in those of the Federal Republic of Germany and Canada. (See Table 8.)

The dominant feature of exchange market developments over the period since the beginning of 1982 has been the strength of the U.S. dollar. The nominal effective exchange rate for that currency, which had already risen substantially during 1981, rose even more during most of 1982. Although it fell back around the end of the year, much of the dip was reversed during the early months of 1983, leaving the effective rate in May some 15 per cent above its end-1981 level. Over the whole period since end-1981, the principal counterparts of the dollar's effective appreciation have been the cumulative declines in the external (nominal) values of the major European currencies, and especially of the pound sterling, the French franc, and the Italian lira. The Japanese yen also depreciated substantially during the first ten months of 1982, but then rebounded sharply. Its effective rate during the first half of 1983 has remained at about the end-1981 level. The deutsche

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Table 7. Global Balance of Payments Summary, 1979–82 [1]

(In billions of U.S. dollars)

		Balance on: Trade	Balance on: Services and private transfers	Balance on: Current account excluding official transfers	Capital Account Balance [2]	Change in Liabilities to Foreign Official Agencies [3]	Balance Financed by Changes in Reserve Assets [4]
Industrial countries	1979	–36.3	30.8	–5.5	10.6[5]	6.3	11.4
	1980	–66.3	26.1	–40.2	50.1[5]	21.6	31.5
	1981	–19.1	18.8	–0.3	–20.4[5]	–1.4	–22.1
	1982	–14.6	11.0	–3.6	–5.9[5]	–4.3	–13.8
Oil exporting countries	1979	112.7	–44.1	68.6	–54.6	—	14.0
	1980	166.6	–52.3	114.3	–94.6	—	19.7
	1981	118.8	–53.8	65.0	–64.1	—	0.9
	1982	53.9	–56.1	–2.2	–7.6	—	–9.8
Non-oil developing countries	1979	–51.3	–9.7	–61.0	71.0	0.4	10.4
	1980	–74.3	–14.7	–89.0	88.5	1.8	1.3
	1981	–79.6	–28.1	–107.7	102.6	5.9	0.8
	1982	–52.2	–34.6	–86.8	70.7	10.7	–5.4
By analytical group							
Net oil exporters	1979	–2.9	–5.6	–8.5	11.5	—	3.0
	1980	–3.5	–9.0	–12.5	16.3	–0.4	3.4
	1981	–10.0	–13.5	–23.5	23.9	0.1	0.5
	1982	–0.8	–14.8	–15.6	9.2	3.0	–3.4
Net oil importers	1979	–48.4	–4.1	–52.5	59.5	0.4	7.4
	1980	–70.8	–5.7	–76.5	72.3	2.1	–2.1
	1981	–69.6	–14.6	–84.2	78.7	5.8	0.3
	1982	–51.3	–19.8	–71.1	61.4	7.7	–2.0
Major exporters of manufactures	1979	–20.3	–1.4	–21.7	25.0	–0.6	2.7
	1980	–26.3	–6.3	–32.5	27.8	0.5	–4.2
	1981	–26.4	–11.2	–37.6	39.0	1.0	2.4
	1982	–19.3	–15.0	–34.3	27.0	3.3	–4.0
Low-income countries	1979	–12.9	0.9	–12.0	13.2	0.4	1.7
	1980	–20.2	3.8	–16.4	14.9	1.0	–0.5
	1981	–15.7	2.1	–13.6	11.4	2.1	–0.1
	1982	–12.3	1.9	–10.4	13.5	2.8	5.9
Other net oil importers [6]	1979	–15.2	–3.6	–18.9	21.3	0.6	3.0
	1980	–24.3	–3.3	–27.6	29.5	0.7	2.6
	1981	–27.4	–5.6	–33.0	28.3	2.7	–2.0
	1982	–19.7	–6.7	–26.4	20.9	1.6	–3.9
Total, all countries [7]	1979	25.1	–23.0	2.1	27.0	6.7	35.8
	1980	26.0	–40.9	–14.9	44.0	23.4	52.5
	1981	20.1	–63.1	–43.0	18.1	4.5	–20.4
	1982	–12.9	–79.7	–92.6	57.2	6.4	–29.0

[1] For classification of countries in groups shown here, see Tables 1 and 2.

[2] This balance is computed as the difference between the balance financed by changes in reserve assets and the sum of the current account balance and the change in liabilities to foreign official agencies; it includes net errors and omissions, as well as reported capital movements, government transfers, SDR allocations, valuation adjustments, and gold monetization. (See also footnote 3.)

[3] The concept of "liabilities to foreign official agencies" used in this table encompasses use of Fund credit and short-term balance of payments financing transactions in which the liabilities of the borrowing country are presumably treated as reserve assets by the creditor country.

[4] The changes in reserve assets indicated here are calculated as the changes in U.S. dollar equivalents of period-end stocks of total reserves with gold valued at SDR 35 per ounce. It may be noted that official agencies of some countries hold external financial claims that are not classified as reserves. Changes in such claims are included in the column "Capital Account Balance" of this table. The dividing line between capital movements and reserve asset changes remains particularly uncertain for some oil exporting countries.

[5] See footnote 7.

[6] Middle-income countries that, in general, export mainly primary commodities.

[7] Global balance of payments aggregations inevitably contain many asymmetries arising from discrepancies of coverage or classification, timing, and valuation in the recording of individual transactions by the countries involved. A major area of asymmetrical classification during recent years concerns the recording of official claims placed in Eurocurrency markets. Some of these transactions, although treated as changes in reserve assets by the investing countries, are recorded as capital inflows by the recipient countries (mainly, the industrial countries). Had such transactions been recorded symmetrically, the global summations would show both a smaller net capital inflow and a larger aggregate change in liabilities to foreign official agencies. If identified Eurocurrency reserve placements (shown in terms of SDRs in Table 17 of this Report) were assumed to have been placed in industrial countries, then the adjusted net capital inflows to those countries would amount to \$2 billion, \$35 billion, –\$16 billion, and \$6 billion over the years 1979, 1980, 1981, and 1982, respectively. (See also Table 4, footnote 5.)

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Table 8. Industrial Countries: Balance of Payments Summaries, 1979–82
(In billions of U.S. dollars)

		Balance on			Capital Account Balance					
		Trade	Services and private transfers	Current account excluding official transfers	Total [1]	Long-term capital and official transfers	Other [2]	Changes in Liabilities to Foreign Official Agencies [3]	Balance Financed by Changes in Reserve Assets [4]	Memo: Current Account Including Official Transfers
Canada	1979	3.8	–8.0	–4.2	3.5	2.6	0.9	—	–0.7	–4.2
	1980	7.5	–8.7	–1.2	1.3	–0.1	1.4	—	0.1	–0.9
	1981	6.1	–11.2	–5.1	5.4	1.2	4.2	—	0.3	–4.8
	1982	14.9	–12.7	2.2	–2.7	6.7	–9.4	—	–0.5	2.4
United States	1979	–27.6	30.7	3.1	10.9	–19.5	30.4	–13.6	0.4	–0.5
	1980	–25.5	31.7	6.2	–13.7	–13.7	—	14.9	7.4	1.5
	1981	–28.1	37.1	9.0	–12.2	6.5	–18.7	5.5	2.3	4.5
	1982	–36.4	30.6	–5.8	6.4	–1.3	7.7	2.7	3.3	–11.2
Japan	1979	1.8	–9.7	–7.9	–5.0	–13.5	8.5	—	–12.9	–8.8
	1980	2.1	–11.6	–9.5	14.6	1.1	13.5	—	5.1	–10.8
	1981	20.0	–13.8	6.2	–2.7	–7.9	5.2	—	3.5	4.8
	1982	18.1	–10.0	8.1	–13.0	–17.5	4.5	—	–4.9	6.9
France	1979	–3.2	10.1	6.9	0.4	–6.9	7.3	0.1	7.4	5.2
	1980	–13.4	10.9	–2.5	11.6	–10.2	21.8	0.5	9.6	–4.2
	1981	–10.0	7.2	–2.8	–3.8	–10.8	7.0	1.2	–5.4	–4.8
	1982	–15.9	6.5	–9.4	3.7	–1.4	5.1	–0.2	–5.9	–12.0
Germany, Federal Republic of	1979	17.5	–17.5	—	3.4	–0.1	3.5	–0.3	3.1	–6.1
	1980	10.4	–18.7	–8.3	–1.8	–5.3	3.5	5.4	–4.7	–15.7
	1981	17.9	–17.8	0.1	–1.3	–3.4	2.1	–3.5	–4.7	–6.5
	1982	26.3	–16.4	9.9	–9.1	–13.9	4.8	—	0.8	3.3
Italy	1979	–1.0	7.4	6.4	1.1	–1.3	2.4	–1.1	6.4	5.5
	1980	–16.4	6.8	–9.5	14.3	3.4	10.9	—	4.8	–9.7
	1981	–10.7	3.2	–7.5	4.2	7.8	–3.6	—	–3.3	–8.2
	1982	–7.9	3.0	–4.9	–1.3	4.3	–5.6	—	–6.2	–5.5
United Kingdom	1979	–7.3	9.9	2.6	–18.6	–8.5	–10.1	19.5	3.5	–1.8
	1980	2.9	8.2	11.1	–11.8	–14.4	2.6	1.6	0.9	6.8
	1981	5.8	9.7	15.5	–16.7	–22.9	6.2	–4.3	–5.5	12.1
	1982	3.9	6.5	10.4	–7.0	–16.2	9.2	–6.3	–2.9	6.9
Other industrial countries [5]	1979	–20.4	8.0	–12.4	14.9	–4.6	19.5	1.7	4.2	–14.6
	1980	–33.9	7.4	–26.5	35.6	7.3	28.3	–0.8	8.3	–29.6
	1981	–20.3	4.6	–15.7	6.7	7.0	–0.3	–0.3	–9.3	–19.3
	1982 [6]	–17.5	3.3	–14.2	17.2	7.0	10.2	–0.5	2.5	–18.9
Total industrial countries	1979	–36.3	30.8	–5.5	10.6 [7]	–51.8	62.4	6.3	11.4	–25.3
	1980	–66.3	26.1	–40.2	50.1 [7]	–31.9	82.0	21.6	31.5	–62.6
	1981	–19.1	18.8	–0.3	–20.4	–22.5	2.1	–1.4	–22.1	–22.2
	1982 [6]	–14.6	11.0	–3.6	–5.9	–32.0	26.1	–4.3	–13.8	–28.2
Memorandum: Total industrial countries excluding United States	1979	–8.7	0.1	–8.6	–0.3	–32.3	32.0	19.9	11.0	–24.8
	1980	–40.8	–5.6	–46.4	63.8	–18.2	82.0	6.7	24.1	–64.1
	1981	9.0	–18.3	–9.3	–8.2	–29.0	20.8	–6.9	–24.4	–26.7
	1982 [6]	21.8	–19.6	2.2	–12.3	–31.0	18.7	–7.0	–17.1	–17.0

[1] See Table 7, footnote 2.
[2] Includes SDR allocations, recorded net movements of short-term capital, net errors and omissions, valuation adjustments, and gold monetization.
[3] See Table 7, footnote 3.
[4] See Table 7, footnote 4.
[5] Australia, Austria, Belgium-Luxembourg, Denmark, Finland, Iceland, Ireland, the Netherlands, New Zealand, Norway, Spain, Sweden, and Switzerland.
[6] Partly estimated.
[7] See Table 7, footnote 7.

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mark, while considerably lower against the U.S. dollar in the first half of 1983 than at the end of 1981, was nevertheless higher in effective terms.

Industrial Countries

Current account developments—The recorded current account balance for the industrial countries, which had moved from a sizable deficit in 1980 to near balance in 1981, remained little changed in 1982 (see Table 4). In view of the large and growing asymmetry in the global balance of payments accounts, however, it seems likely that these countries had substantial unrecorded net receipts, and were actually in significant surplus both in 1981 and 1982.

The most important factor contributing to improvement in the industrial countries' aggregate external position since 1980 has been the decline in both the volume and the price of their oil imports. Influenced by the recession and by the impact of price-induced reductions in the demand for oil, the volume of oil imports into industrial countries fell by 24½ per cent between 1980 and 1982. Oil prices, which had been 10 per cent higher, on average, in 1981 than in 1980, were on a downward trend after early 1981, and in 1982 averaged some 5 per cent less (in dollar terms) than in the previous year. As a result, 1982 saw a net reduction in the industrial country group's payments for imported oil of some $40 billion, following a $13 billion drop in 1981.

Import payments for other goods were also restrained by the weakness of economic activity, and by the associated further decline in international commodity prices in 1982. Offsetting the impact of these factors on balance of payments positions, however, demand weakened in the developing world, and this resulted in a significant decline in both the volume and dollar value of industrial country exports.

Within the industrial country group, several noteworthy shifts in current account positions took place in 1982. The United States, whose recorded current account position (including official transfers) had been in small surplus both in 1980 and 1981, moved to a deficit of $11 billion in 1982. By contrast, both the Federal Republic of Germany and Japan recorded a swing from heavy deficit in 1980 to moderate surplus in 1982—for both countries these swings were in the range of $15–20 billion over the two-year period. In the early part of 1983, the U.S. deficit was somewhat smaller than in late 1982, although the strength of the recovery that is under way in the United States, together with the erosion of its international competitive position over the past two years, suggests that the deficit may tend to rise again as the year proceeds. In Japan and the Federal Republic of Germany, the external position has strengthened further in the opening months of 1983. (See Chart 8.)

Another significant development in the current accounts of the major countries was the weakening of the French and U.K. positions. For the United Kingdom, this represented a partial erosion of the exceptionally large surplus recorded in 1981, and hence was not a source of concern. For France, however, the deterioration in its external position—to a current deficit approaching 2 per cent of GNP—was a troublesome development and led to a series of corrective measures having the aim of improving the current account. The other two countries in the major industrial group, Canada and Italy, both experienced moderate improvements in their current accounts in 1982—Canada moving into small surplus, and Italy succeeding in reducing further a deficit that had earlier reached worrisome proportions. Nevertheless, the Italian position remained fragile, and the Italian authorities, like the French, adopted measures designed to improve their external position in 1983.

The smaller industrial countries as a group showed a substantial improvement in their external balance during 1981 and 1982. In a number of instances this improvement reflected the implementation of structural adjustment programs, especially in energy conservation. Several of the smaller countries, however, continue to record very large public sector deficits and some of them have had little success in reducing price and wage inflation. Where such long-standing problems exist, they have made the elimination of current account deficits much more difficult.

An important factor affecting current account developments of individual countries is their cyclical position relative to that of their trading partners and competitors. The surplus recorded in the first half of 1982 for the United States, for example, was related to relatively weak import demand, which in turn was probably associated with the severity of the recession in that country. In contrast, most of the continental European economies maintained a rather higher level of activity in this period, which contributed to the weakness of their current account balances. Later in 1982, however, and in the early part of 1983, relative cyclical positions changed somewhat, with activity in the United States tending to pick up relative to that in Europe; the U.S. external position consequently was quite weak during this period in spite of a sharp decline in the value of oil imports.

Perhaps more important than these cyclical developments have been the shifts in the terms of trade and

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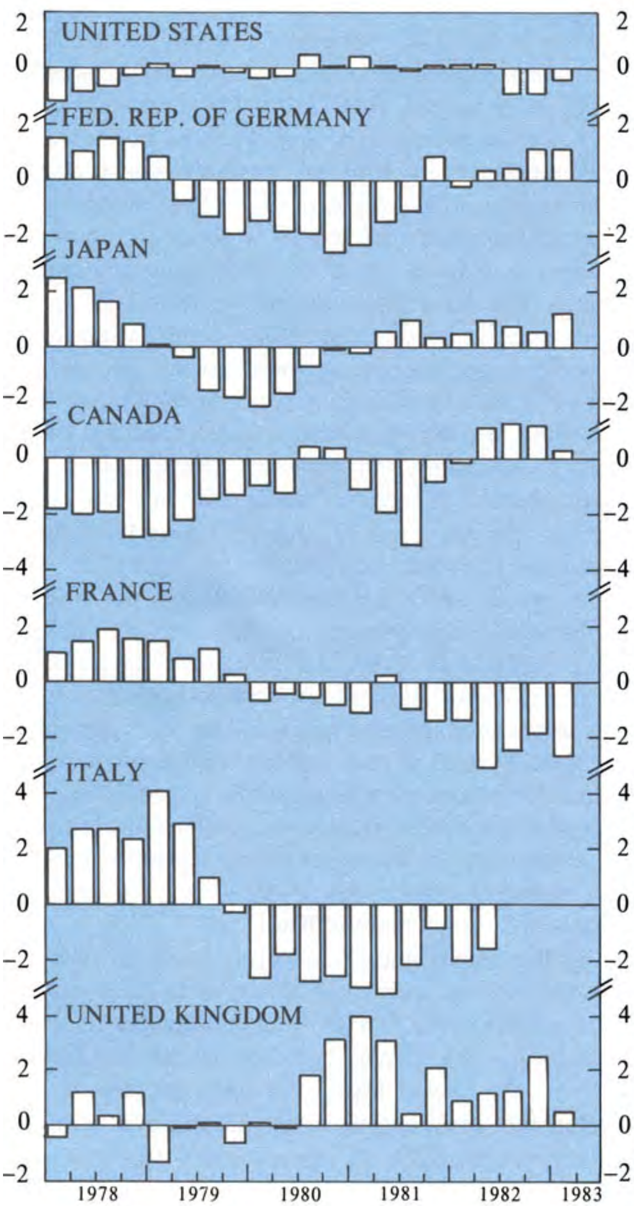
Chart 8. Major Industrial Countries: Payments Balances on Current Account, Including Official Transfers, 1978–First Quarter 1983 [1]

(In per cent of GNP)



[1] Based on seasonally adjusted figures.

competitiveness that have occurred during the past few years, especially among the largest industrial countries. Competitiveness factors, however, tend to affect balance of payments positions only with a considerable lag, so that it is not always appropriate to associate current account developments with immediately preceding changes in exchange rates and domestic costs. The real exchange rate of the U.S. dollar rose almost continuously from the latter part of 1980 to the end of 1982. Measured in terms of relative normalized unit labor costs in manufacturing, adjusted for exchange rate changes, the real appreciation of the U.S. dollar amounted to about 16 per cent in each of these two years (see Chart 9). Perhaps because of the lags with which such changes in competitiveness affect payments flows, the U.S. current account remained in surplus in 1981 and the first half of 1982. By late 1982 and early 1983, however, the cumulative loss of competitiveness was clearly reflected in the U.S. balance of payments position. For 1982 as a whole, the volume of exports declined by 12 per cent.

In contrast to the U.S. experience, Japan experienced a significant improvement in its competitive position during most of 1982, extending a trend that had continued since the early part of 1981. As may be seen from Chart 9, however, the extent of the shift in Japanese competitiveness was less than in the case of the United States. With output in Japan holding up better than in the other industrial countries, and with a growing proportion of Japanese exports being subject to restraints, the improvement in the Japanese current account position between 1981 and 1982 was relatively small and mainly accounted for by developments in the service accounts.

Another country experiencing a significant change in competitiveness during the past two years has been the United Kingdom. The U.K. manufacturing sector had suffered a very large decline in competitiveness from 1978 to 1980, reflecting the impact on the sterling exchange rate of tight monetary conditions and the development of North Sea oil fields in a period of rapidly rising oil prices. Since early 1981, however, the U.K. competitive position has strengthened markedly, and this may have contributed to the stabilization of U.K. export market shares in late 1982 and early 1983, after several years of decline.

Competitive factors were also an important influence on the current account balances of the countries participating in the common margins arrangements of the European Monetary System. The rapid rates of increase in domestic costs in France and Italy, compared with the more favorable inflation performance of the Federal Republic of Germany, have not always been fully offset by changes in their effective exchange rates. At least until fairly recently, this pattern resulted in a loss of competitiveness for these two countries, especially for Italy. However, the recent realignments of their central rates within the EMS have substantially improved their competitive positions and should thereby help to reduce their current account deficits.

The decline in the price of oil, which affected current account positions in 1982, and will have an even

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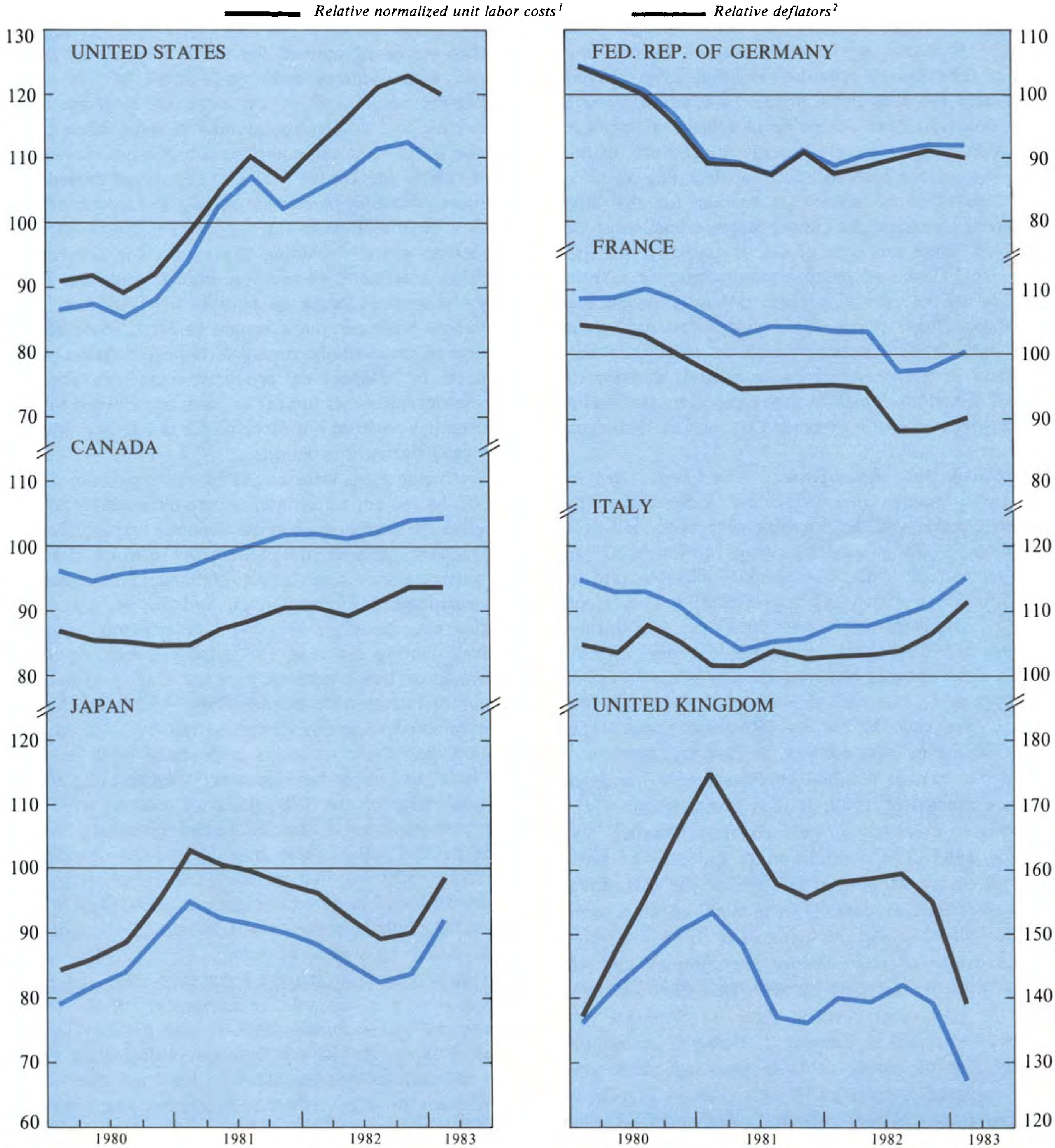
Chart 9. Major Industrial Countries: Relative Costs and Prices of Manufactures, Adjusted for Exchange Rate Changes, 1980–First Quarter 1983

(Indices, 1977 = 100)



[1] Index of hourly compensation divided by index of "potential output per man-hour."

[2] Annual deflators for gross domestic product originating in manufacturing with quarterly interpolations and extrapolations (beyond the latest available annual data) based on wholesale price data for raw materials and manufactures.

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larger impact in 1983, has sharply different effects from country to country. These differences reflect mainly variations in the degree of dependence on imported energy, but also to some extent the impact of expenditure cutbacks by oil exporting countries on their imports from the industrial world. Japan and most continental European countries import a very large part of their energy requirements, and have benefited most from the drop in oil prices. In addition, some of these countries have been able to achieve a significant reduction in the volume of energy use per unit of output. The current account effects of declining oil prices have tended to be somewhat smaller for the other industrial countries; the United States, which consumes relatively large amounts of oil, is partially insulated from the balance of payments consequences of price changes by its relatively large domestic production. The direct effects of oil price developments on the current balance of Canada, which is essentially self-sufficient in energy, are broadly neutral; and for the United Kingdom, which is a net exporter, the decline in oil prices has actually tended to weaken its balance of trade.

Exchange rate developments.—Exchange rates for the three major currencies (the U.S. dollar, the deutsche mark, and the Japanese yen) continued to be characterized by substantial swings during 1982 and the first half of 1983. The nominal effective rate for the U.S. dollar, which had appreciated by 11 per cent during 1981, increased by another 17 per cent through November 1982. It then declined by 5½ per cent over the next two months but subsequently began to appreciate again. By the end of June 1983 the dollar was just 2 per cent below its November peak. (See Chart 10.) The Japanese yen, in contrast, depreciated by 13 per cent in nominal effective terms during the first ten months of 1982. It then reversed course and appreciated by nearly 17 per cent from October 1982 to May 1983. The deutsche mark followed an intermediate course, tending to fall against the U.S. dollar but appreciating moderately in nominal effective terms for most of 1982 and the first half of 1983.

The causes of these swings are complex and are rooted in economic developments that have occurred over the past several years; these developments are reviewed in detail in Chapter 2. However, it is noteworthy that the major shifts in exchange rates were not associated systematically with changes in relative costs or prices. While costs and prices in the United States decelerated sharply during this period, the underlying rate of inflation remained above that in Japan, and was little different from that in Germany.

Exchange rate movements during this period appear to bear a closer association with developments in capital markets than with contemporaneous changes in current account balances. The capital accounts of these three countries were affected by a number of factors, including interest rate differentials and structural developments in the United States and Japan.

The improved outlook for the U.S. economy associated with declining inflation, a more favorable tax treatment of investment expenditures, and unsettled economic and political conditions in some other parts of the world no doubt contributed to the net movement of funds to the United States in the recent period. In contrast, domestic investment activity in Japan has been rather weak relative to the supply of domestic savings in recent years, providing the means for substantial foreign investment. In addition, official guidelines have been relaxed in order to permit such outflows, and Japanese firms may have sought to avoid some of the effects of protectionist measures imposed against their exports by establishing production facilities abroad. These developments appear to have contributed to the substantial pressure (in favor of the dollar and against the yen) during this period.

Exchange rates were no doubt also significantly affected by the impact of interest rate differentials on the relative attractiveness of assets denominated in different currencies. However, the precise way in which changes in interest differentials affect exchange rates depends on surrounding circumstances, and during any given period may be offset by other influences on currency values. During much of 1982, for example, developments in exchange markets were not easy to explain in terms of interest rate factors alone. Yields on dollar-denominated securities tended to fall by more in this period than those on assets in deutsche mark or yen. By itself, this might have been expected to bring about a weakening of the U.S. dollar. However, with the level of the interest rate differential remaining favorable to the dollar, there may have been continuing portfolio shifts into that currency, particularly since the relatively rapid decline in inflation in the United States must have enhanced the long-term attractiveness of the U.S. dollar as a store of value.

Official exchange market intervention did not play a major role in the relative movements of the three major currencies during 1982, except possibly in the case of Japan. As the yen depreciated during the year, the Japanese authorities acted to limit the downward movement through a reduction of international reserves. The U.S. authorities intervened on only a few occasions and in modest amounts; U.S. net official reserve assets did rise quite substantially in 1982, but for other reasons. The net reserve position of the Federal Republic of Germany recorded little change during the year.

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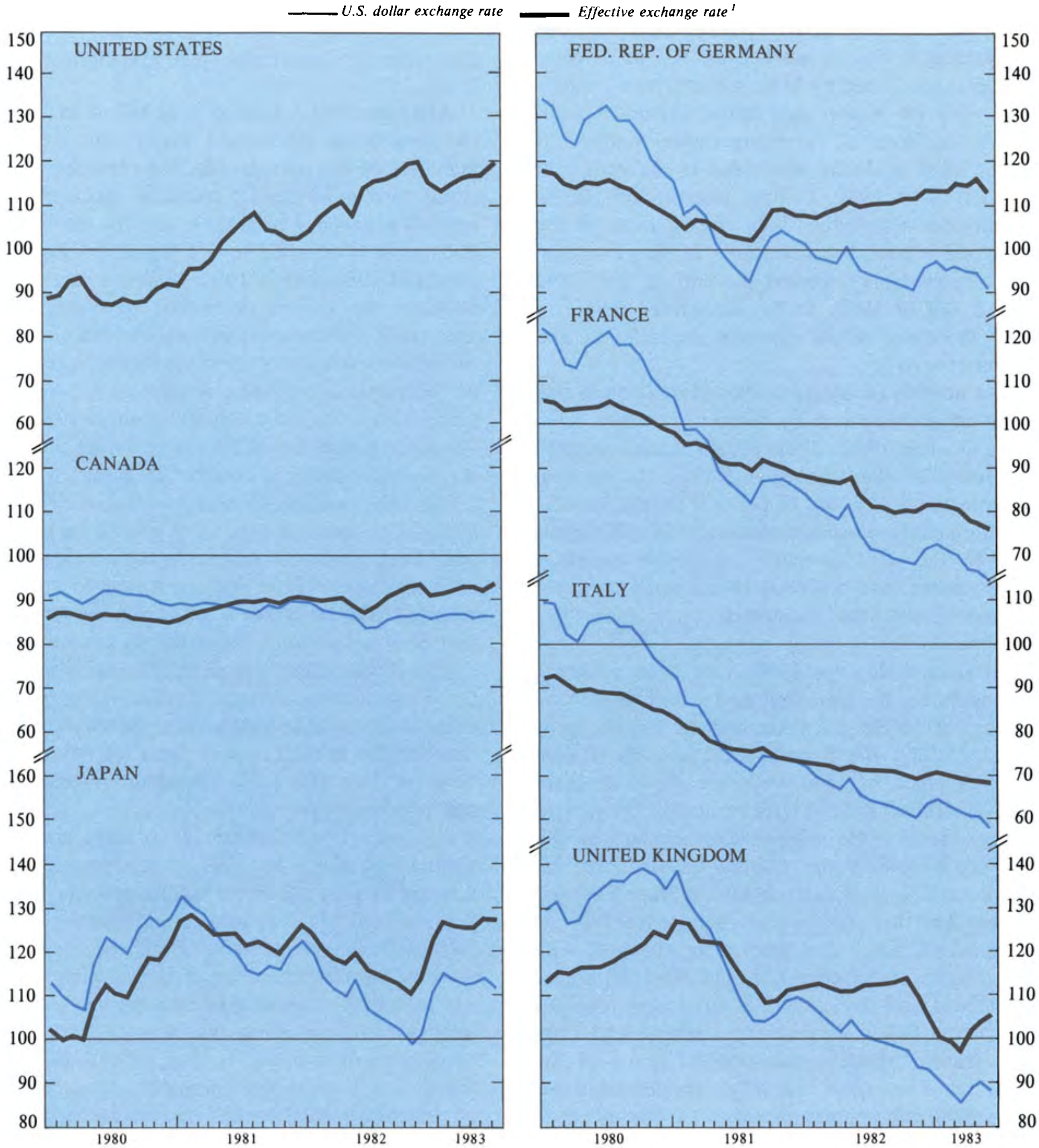
Chart 10. Major Industrial Countries: Exchange Rates, 1980–June 1983
(Indices, 1977 = 100)



[1] Based on the Fund's multilateral exchange rate model.

Another major currency that has recently experienced pronounced swings in real terms is the pound sterling. Following a 9 per cent depreciation in nominal effective terms during 1981, the pound was quite stable through most of 1982. Then, from October 1982 to March 1983, it depreciated by more than 14 per cent. It subsequently recovered part of this drop during April and May, and by mid-June the net depreciation since the peak reached in the first quarter of 1981 was 17–18 per cent. The depreciation that has occurred over the past two years has been accompanied by a deceleration in the rate of increase of normalized unit labor costs to about the

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average for other industrial countries, and has served to reverse about half of the massive real appreciation that the pound had undergone from 1978 to the first quarter of 1981. The downward movement of sterling over the past two years may be viewed as a response to a weakening in the oil market, as well as to competitive difficulties faced by U.K. manufacturing industries following the earlier real appreciation. In addition, there has been a continuing capital outflow as institutions have gradually responded to the ending of capital controls in 1979. Official intervention by the U.K. authorities was rather light during most of the past year and a half, but it became fairly substantial on occasion, especially toward the end of 1982 and in the first half of 1983, as the authorities sought to moderate the pace of the pound's depreciation and subsequent recovery.

Another notable exchange market development was the series of devaluations by Nordic countries from August to October 1982. These devaluations amounted to 6 per cent for the Norwegian krone, 10 per cent for the Finnish markka, and 16 per cent for the Swedish krona. Although these adjustments were broadly viewed as being in the right direction, given the exchange market pressures that preceded them, some concerns were raised about the magnitude of the Swedish devaluation.

Central rates within the EMS have been realigned three times during the past year and a half. Following devaluations of the Belgian franc and the Danish krone in February 1982, the French franc and the Italian lira were devalued in June while the deutsche mark and the Netherlands guilder were revalued. The revised central rates were again subjected to pressure in October 1982, following the Nordic devaluations described above. This pressure subsided without a further realignment but then reappeared in March 1983. At that time, all of the central rates were changed, with the French franc, the Italian lira, and the Irish pound being devalued and the other five currencies revalued in terms of the ECU. However, the Belgian and Luxembourg francs, whose revaluation in terms of the ECU was relatively small, actually experienced a depreciation in effective terms.

The strains that appeared within the EMS during this period were generally less severe than had been the case in 1981, except for the period immediately prior to the March 1983 realignment. The proximate source of the pressure on central rates at that time was the concurrence of elections in France and Germany, but the more fundamental reason was the continued lack of convergence of economic policies and conditions between the high-inflation and low-inflation countries participating in the system. It was thus seen as an important positive development that supporting policy changes were adopted in order to help achieve a greater measure of convergence in the years ahead.

Developing Countries—Oil Exporting Group

After reaching a peak of $114 billion in 1980, under the impetus of the second major round of oil price increases of the past decade, the recorded current account surplus of the 12 countries included in the oil exporting group has shrunk rapidly during the past two years. It dropped to $65 billion in 1981 and disappeared altogether in 1982, despite a marked deceleration in the growth of import payments. The very sharp drop in oil export volume—about one third over these two years—was the main factor in the shrinkage of the surplus; but some downward movement of oil prices also contributed to the decline in 1982. In 1983, given the sizable fall in oil prices during the first quarter, the price factor is expected to outweigh the volume factor in generating another substantial decline in the U.S. dollar value of exports of the oil exporting countries. Such a result would leave the oil export earnings of this group lower in real terms than in 1978, despite retention of most of the large gain in the terms of trade that resulted from the 1979–80 oil price increases.

The 1979–82 cycle of sharp expansion and contraction in the current account surplus of the oil exporting countries was the second such sequence during the past decade. The contractionary phase of this latest cycle, however, has differed in important respects from the one following the bulge in the surplus in 1974, when it reached a magnitude similar in real terms to that of 1980. The recent elimination of the group's current account surplus has occurred much more rapidly and has reflected quite a different combination of causal factors. During the years 1975–78, the main reason for the gradual disappearance of the surplus was a large and sustained expansion of imports and payments for international services by the oil exporters; the volume of oil exports declined by less than 4 per cent over that period, and the real international purchasing power of the group's total oil export earnings decreased only moderately. The elimination of the surplus since 1980, in contrast, has stemmed mainly from the steep fall in the volume of oil exports and only secondarily from the increase in imports of goods and services.

The large and sustained reduction of the group's oil export volume, which actually began in 1980, has been mainly a reflection of the continuous decline in world oil consumption since 1979. That decline, in turn, can be attributed to the responses of end users of energy to increased oil prices, to changes in relative prices

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among different energy sources, and to the recession in the world economy. In addition, the demand for oil exported by the 12 main oil exporting countries has been further curtailed because of continuing increases in oil supplies from other sources—partly in response to the increased real price of oil—and, after mid-1981, because of a substantial drawdown of world oil inventories.

In most oil exporting countries, the response of imports and other current account payments to the increase in export earnings after 1978 was less pronounced than that following the first upsurge of export earnings in 1974. Nevertheless, as financial policies of some countries in the group became more expansionary during the latter part of 1979 and in 1980, import demand rose. Imports increased in real terms by 15 per cent in 1980 and 20 per cent in 1981. This acceleration was reversed, however, by shifts back to more restrained financial policies as the slump in oil exports progressed. Import volume growth, also affected by tightened import restrictions in a few of the oil exporting countries, was reduced to about 5 per cent in 1982. In late 1982 or early 1983, imports were actually declining in several oil exporting countries.

These changes in import demand have been rather unevenly distributed among countries in the group, depending on the severity of their losses of export earnings and the degree of financial constraint faced. Relatively large reductions in imports have been recorded by some of the countries, but import demand has weakened less markedly in others, particularly among the smaller countries with strong reserve positions.

Meanwhile, the rise in net external payments by the oil exporting countries for services and private transfers, which had proceeded steadily and rapidly from 1974 through 1980, also tapered off during 1981 and 1982. In the latter year, payments to foreign contractors and consultants, as well as remittances by expatriate workers, were curbed by widespread slowdowns of development programs.

Within the oil exporting group, relative positions of individual countries have differed markedly in recent years during both the expansionary and the contractionary phases of developments with respect to their combined current account surplus. The bulk of the increase in the aggregate surplus from 1978 to 1980 accrued to those countries whose current account balances had been strongest up until then. These countries not only accounted for the greater part of the increase in oil export earnings over that period, but also received most of the increase in investment income. As the surplus has declined since 1980, the same countries have absorbed most of the impact of the contraction in world demand for oil.

Among other oil exporting countries, several experienced external financing problems during the course of 1982, and sizable adjustments of economic and financial policies, including strong measures to curtail imports and other foreign exchange payments, were undertaken by some of the countries to contain the growth of foreign borrowing. However, almost all of the oil exporting countries had been able to build up their official holdings of foreign assets during the 1979–81 period of large current account surpluses, and some of the individual current account deficits that emerged in 1982 were financed in major part by drawdowns of reserves, which limited recourse to external borrowing. In general, the additions to outstanding debt liabilities among countries of the oil exporting group (amounting cumulatively to some $70 billion over the entire period from 1974 through 1982) have not been large in comparison with the growth in external indebtedness of many non-oil developing countries. Another important consideration limiting the severity of recent financing problems among the oil exporters has been the fact, already noted, that the major share of the group's 1982 current account deterioration fell on countries with large reserves and strong current payments positions.

Developing Countries—Non-Oil Group

The period since the preparation of the 1982 Annual Report has witnessed continued weakness in the export receipts of most non-oil developing countries and a sharp reduction in net inflows of private credit to those of them that had previously borrowed heavily in international capital markets. This has curtailed access to real resources from abroad and hence the capacity to sustain progress in economic development. In large part, the origins of the external financial constraints now prevailing can be traced to the unexpected length and depth of the current global recession. The adverse effects of the recession on export earnings compounded the balance of payments impact of earlier increases in import prices and the extraordinarily high interest rates that have prevailed in international financial markets over the past several years. For some major borrowing countries, difficulties were further exacerbated by postponement of responses to the deterioration of their export earnings and debt-servicing capabilities.

The high interest rates of the 1981–82 period generated large and unexpected additions to debt service costs, not only for new borrowing but also—under the floating interest rate arrangements applicable to most international commercial bank loans in recent years—on a considerable proportion of the debt already out-

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standing. Since the escalation of the costs of servicing existing debt occurred with a relatively short lag and at a time of other major negative pressures on current account balances, it contributed to a vicious cycle of additional borrowing needs and further increases in debt service payments. Throughout the period 1979–81, moreover, a number of non-oil developing countries, and particularly the larger debtors among them, relied to an unusual extent on short-term financing, and the relatively high proportion of short-term liabilities in the total external debt thus became a cause of further concentration of debt service obligations falling due.

In nominal (U.S. dollar) terms, the total estimated outstanding external debt of the non-oil developing countries (including short-term liabilities) rose by 17–19 per cent in each year of the period 1979–81, reaching $555 billion at the end of 1981, compared with $336 billion three years earlier. In 1979 and 1980, the U.S. dollar value of earnings from exports of goods and services rose even faster, and the ratio of the debt to such earnings declined from 127 per cent at the end of 1978 to 109 per cent at the end of 1980. In 1981, however, the ratio rebounded to 120 per cent as the recession and the appreciation of the U.S. dollar slowed the growth in the dollar value of export earnings. In 1982, despite a sharp drop in the rate of increase in nominal debt (to about 10 per cent), the ratio of debt to export earnings rose again, to about 137 per cent.

Long-term debt to banks and other private creditors at the end of 1982 comprised approximately half of the total—the same as its share at the end of 1978. However, the proportion of short-term debt (nearly all owed to private creditors) had risen over this period from less than 15 per cent to 18½ per cent, while the share comprising long-term debt to official creditors had fallen from 35 per cent to 31½ per cent. The increase in the share of the short-term component would have been appreciably larger except for rescheduling agreements negotiated by some of the major borrowers toward the end of 1982.

The uneven geographic distribution of the debt is evident in sharp regional differences in the ratios of debt to export earnings, which are much higher than average in the Western Hemisphere and much lower in Asia. For non-oil developing countries of the Western Hemisphere, the end-1982 debt was equivalent to 246 per cent of export earnings (compared with 211 per cent at end-1978), while the corresponding average ratio for the Asian region was 81 per cent (compared with 78 per cent four years earlier). Average ratios for the other three regions differed much less widely from the overall average in 1982. However, the ratio for the African region, which had been considerably lower than the average for all non-oil developing countries in 1978, is now well above the average. This shift is primarily a reflection of declines in export earnings of African countries, rather than of growth in commercial borrowing, which has remained relatively low.

A number of the largest borrowers among the non-oil developing countries are in the Western Hemisphere, and this concentration accounts for some of the striking regional differences just noted. However, additional major borrowers are scattered among the other regions. The uneven distribution of external debt among non-oil developing countries is illustrated more broadly in Table 9, where the first column shows for specified categories of external debt the amounts owed by the 20 countries in the non-oil developing group with the largest external indebtedness to private creditors. Also shown are the percentage shares of the whole group's liabilities (in corresponding categories) that these amounts represent. At the end of 1982, the 20 major borrowers accounted for 73 per cent of the group's total debt and for some 88 per cent of its short-term debt. The same group of countries provided only half of the whole group's exports of goods and services in 1982 and produced only a little more than half of its estimated total GDP. The corollary of this

Table 9. Non-Oil Developing Countries: Distribution of Outstanding Debt Among Selected Groups of Countries, End-1982

(In billions of dollars and percentages, as indicated)

	Major Borrowers [1]	Low-Income Countries (except China and India)	Other Countries [2]
I. In billions of U.S. dollars			
Total debt	447.0	56.6	108.8
Short-term debt	99.7	3.0	10.0
Long-term debt	347.3	53.6	98.8
Guaranteed, to official creditors	93.7	44.8	54.7
Other	253.6	8.8	44.1
II. In per cent of corresponding totals for all non-oil developing countries			
Total debt	73.0	9.2	17.8
Short-term debt	88.4	2.7	8.9
Long-term debt	69.5	10.7	19.8
Guaranteed, to official creditors	48.5	23.2	28.3
Other	82.7	2.9	14.4

[1] The 20 countries (in the non-oil developing group) with the largest estimated external debts to private creditors: Mexico, Brazil, Argentina, Chile, Peru, Ecuador, Colombia, Korea, Philippines, Thailand, Malaysia, Greece, Morocco, Egypt, Yugoslavia, Israel, Turkey, Portugal, Romania, and Hungary.
[2] Residual group (including China and India).

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observation is that the debt problems of the majority of non-oil developing countries are considerably less severe than might be suggested by aggregate or average statistics dominated by the data for the major borrowers. Notwithstanding this aspect of the situation, the access of many developing countries to private credit has doubtless been adversely affected by the widely publicized instances of severe debt problems.

Table 9 also singles out another group of countries whose external debt profiles tend to differ rather strikingly from the overall average pattern. The low-income countries do not borrow very much from private market sources, but long-term borrowing by members of this group under official development assistance is generally quite large in relation to their exports. Although the low-income countries (excluding China and India) provide only 4 per cent of aggregate exports of goods and services by all non-oil developing countries, they account for about 10½ per cent of the whole group's long-term external debt, as indicated in the second column of the table. The numerous countries in the large residual group covered in the third column of the table account for 46 per cent of the export earnings of all non-oil developing countries and for some 38 per cent of their total GDP. However, the share of these countries in the group's total external debt at the end of 1982 was only 18 per cent, and their participation in short-term foreign borrowing was only half of that proportion.

The wide differences in debt/export relationships implicit in the foregoing comparisons, although altered in some respects by the developments of the past few years, are by no means new. On the contrary, they represent for the most part continuations of long-standing patterns, as depicted in Chart 11. This chart traces the history of debt/export ratios over the past decade for all non-oil developing countries as a group and separately for the 20 major borrowers, for the low-income members, except China and India, and for the remaining countries in the group, both in terms of total external debt and in terms of debt owed to private creditors. The degree to which transactions of the major borrowers have dominated the upswing since 1980 in the relative magnitude of external debt—and especially of liabilities to private creditors—is evident (with due allowance for the relative weights of the various groups) in this chart.

The sheer magnitude of the debt increases of recent years, in combination with the high proportion of funds obtained from private market sources during a period of exceptionally high interest rates, contributed to a very serious widening of current account deficits—and hence of overall external financing requirements—of the non-oil developing countries. Estimated interest payments (including those on short-term debt) rose from just under $20 billion in 1978 to nearly $60 billion in 1982, thus absorbing more than 13 per cent of the group's export earnings in the latter year, compared with less than 7½ per cent in 1978. Inclusive also of amortization payments on long-term debt, the total absorption of available flows of foreign exchange by debt service payments was equivalent to almost one fourth of export earnings in 1982. With outstanding short-term debt—all due for repayment within one year—generally close to one fifth of export earnings during the past several years, the scope for disruptive effects in the event of difficulties in refinancing maturing liabilities is obviously quite large.

Moreover, the foregoing ratios are all averages for the entire group of non-oil developing countries, and some have had much higher debt service obligations than this average. In the Western Hemisphere area, external debt has long been largest in relation to export earnings, as well as most heavily concentrated in liabilities to private financial institutions at market rates of interest. Also, the debt expansion of the past few years has been particularly pronounced in that region. The ratio of its interest payments to export earnings exceeded 30 per cent in 1982 (compared with 15 per cent in 1978), and the overall debt service ratio reached 54 per cent despite major rescheduling arrangements late in the year. Further exacerbating the cash-flow difficulties associated with these high ratios was the fact that the proportion of short-term debt in total external liabilities was also higher (22½ per cent at end-1982) in the Western Hemisphere than in any other region.

Primarily because of massive rescheduling of amortization payments due on long-term obligations of several large Latin American countries, a very steep decline in the ratio of total debt service payments to export earnings in the Western Hemisphere region is expected in 1983. Extensive rescheduling of short-term debt, although not reflected directly in the foregoing amortization ratios, will also help to ease strains on the major Latin American borrowers, as will the prevalence of somewhat lower interest rates. Their medium-term debt-servicing prospects, however, hinge crucially on the extent to which their debt service payments continue to be spread out, rather than concentrated in a short period of time.

The sharpest contrast to the high Western Hemisphere debt service ratios just discussed is to be found in the Asian region. Although Asian developing countries have been relying increasingly on private financial institutions for external credit during the past decade, a relatively large part of their combined debt still consists of long-term obligations to official creditors that are subject to relatively low annual amortization pay-

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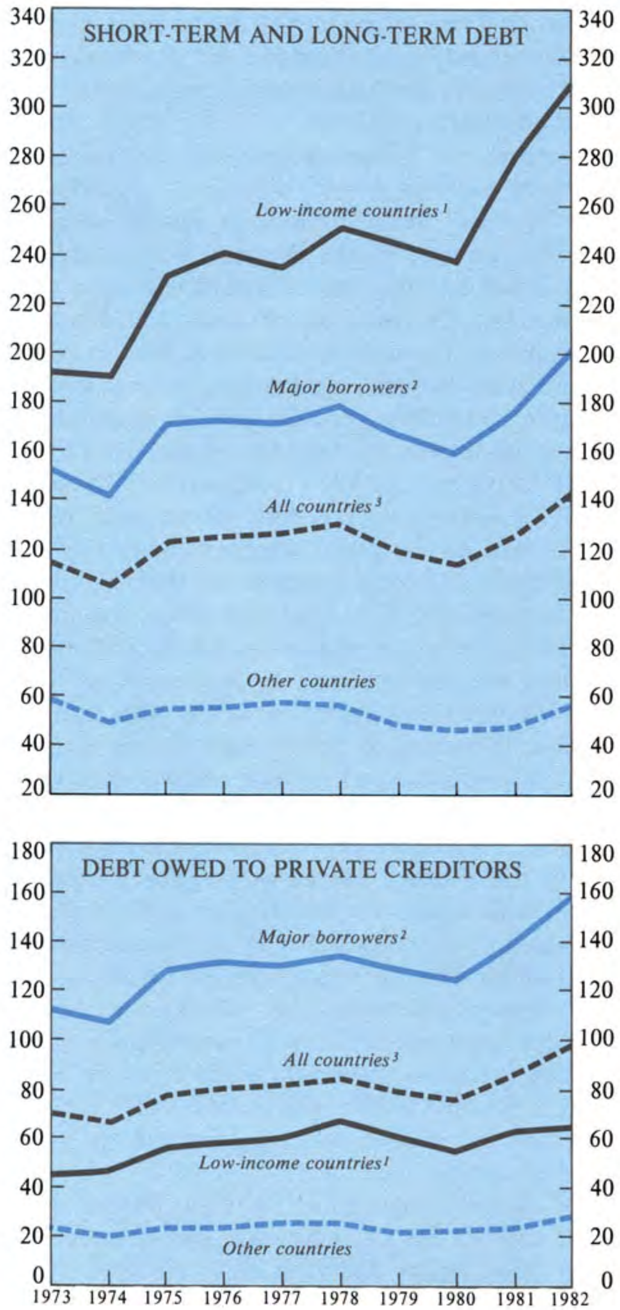
ments. Accordingly, the average ratio of interest and long-term amortization payments to exports of goods and services in the Asian region was only 10 per cent in 1982. That figure was almost the same as the corresponding ratio for 1978, despite a relatively sizable increase in the interest component.

Chart 11. Non-Oil Developing Countries: Debt Ratios, by Category of Borrower, 1973–82

(In per cent of exports of goods and services)



[1] Excluding China and India.
[2] The 20 non-oil developing countries with the largest external indebtedness to private creditors.
[3] Excluding China.

During 1982, part of the sharp cutback in external financing provided to non-oil developing countries by foreign commercial banks was absorbed in ways that cushioned the current account against an immediate necessity of drastic adjustments, but did so only at the cost of considerable impairment of international liquidity positions. Some countries in the group were able and willing to draw down their own reserves, and a considerable number of countries drew on the conditional liquidity available through the Fund. Net use of Fund credit by non-oil developing countries during the year amounted to about $6½ billion, and other official borrowing for balance of payments purposes—mainly through "bridging loans" associated with arrangements for drawings on the Fund soon after the beginning of 1983—brought the total net use of reserve-related credit facilities in 1982 to nearly $11 billion (Table 10). In the three years preceding the onset of the global recession (1977–79), such use had amounted to less than $½ billion annually. Use of Fund credit continued on an unusually large scale in the first half of 1983. Part of this credit, however, was offset by repayment of the bridging loans obtained during the latter part of 1982 from the Bank for International Settlements and major central banks in the industrial world.

It appears unlikely that the $7 billion reduction of reserve assets recorded for the non-oil developing countries as a group in 1982 can be repeated in 1983. On the contrary, some strengthening of reserve positions appears to be needed by many countries in the group, as the average ratio of reserves to imports of goods and services, amounting to about 17 per cent at the end of 1982, is abnormally low. It has remained throughout the current recession period in the 16–17 per cent range, compared with a previous low of 19 per cent in 1975 and with ratios in the 22–26 per cent range during the years between the two recessions.

Regional differences in such ratios are striking. Particularly noteworthy is the extremely low ratio of reserves to imports for African members of the non-oil developing group—just 6 per cent at the end of 1982. The virtual depletion of official liquid holdings of foreign exchange that is signified by this figure attests to the strains encountered by many African countries in their efforts to sustain imports under conditions of prolonged shrinkage of export earnings, limited access to private international financial markets, and stagnation in the level of official development assistance being made available. Receipts from official transfers and long-term loans from official sources, according to the balance of payments statistics of African countries

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Table 10. Non-Oil Developing Countries: Current Account Financing, 1973–82[1]

(In billions of U.S. dollars)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Current account deficit[2]	11.3	37.0	46.3	32.6	28.9	41.3	61.0	89.0	107.7	86.8
Use of reserves	−10.4	−2.7	1.6	−13.0	−12.5	−17.4	−12.6	−4.5	−2.1	7.1
Nondebt-creating flows, net	10.3	14.6	11.8	12.6	14.4	17.9	23.9	24.1	28.0	25.1
Official transfers	5.5	8.7[3]	7.1	7.5	8.2	8.2	11.6	12.5	13.8	13.2
SDR allocations, valuation adjustments, and gold monetization	0.6	0.6	−0.6	0.1	0.8	2.3	3.4	1.4	0.3	0.5
Direct investment flows, net	4.2	5.3	5.3	5.0	5.4	7.3	8.9	10.1	13.9	11.4
Net external borrowing[4]	11.4	25.1	32.9	33.0	27.0	40.8	49.7	69.3	81.8	54.6
Long-term borrowing, net[5]	11.9	18.1	27.1	28.0	24.6	37.2	36.5	47.2	62.7	41.0
From official sources	4.9	6.8[3]	11.7	10.5	11.4	13.8	13.3	17.6	23.0	19.5
From private sources	6.8	11.3	15.4	17.5	13.2	23.4	23.2	29.6	39.7	21.5
Financial institutions*	6.5	10.3	14.2	15.3	9.4	19.5	21.7	28.4	35.7	18.5
Other lenders	0.3	1.0	1.3	2.2	3.8	3.9	1.5	1.2	4.0	3.7
Use of reserve-related credit facilities[6]	0.2	1.6	2.4	4.6	0.4	0.3	0.4	1.8	5.9	10.7
Use of Fund credit	0.1	1.5	2.1	3.2	—	—	0.2	1.2	5.6	6.3
Other short-term borrowing, net, including errors and omissions	−0.5	5.4	3.3	−0.4	2.0	3.3	12.8	20.4	13.2	−2.9
Exceptional financing*	—	—	0.1	0.4	2.6	1.2	−0.4	4.1	6.7	14.4
Payment arrears	—	—	—	—	1.5	0.4	0.8	1.1	2.4	7.1
Other short-term borrowing, net*	3.3	8.3	8.9	5.8	2.7	4.9	14.6	20.8	10.1	−11.5
Residual errors and omissions[7]	−3.8	−2.9	−5.6	−5.9	−3.3	−2.8	−1.4	−4.5	−3.7	

* The sum of the three items with asterisks represents a rough estimate, broadly consistent with national balance of payments statistics, of total net borrowing (short term and long term) from private banks.

[1] Excludes data for China prior to 1977. For country classification, see Table 2.

[2] Net total of balances on goods, services, and private transfers, as defined in the Fund's *Balance of Payments Statistics* (with sign reversed).

[3] Excludes the effect of a revision of the terms of the disposition of economic assistance loans made by the United States to India and repayable in rupees and of rupees already acquired by the U.S. Government in repayment of such loans. The revision has the effect of increasing government transfers by about $2 billion, with an offset in net official loans.

[4] Includes any net use of nonreserve claims on nonresidents, errors and omissions in reported balance of payments statements for individual countries, and minor deficiencies in coverage.

[5] On a balance of payments basis.

[6] Comprises use of Fund credit and short-term borrowing by monetary authorities from other monetary authorities.

[7] Errors and omissions in reported balance of payments statements for individual countries, and minor omissions in coverage.

(except South Africa), were about the same—some $8 billion—in 1982 as in 1979, despite the intervening rise in import prices. It is in the African region that the need for a more adequate flow of official assistance is most pressing.

Reserve/import ratios have also dropped sharply in the European and Western Hemisphere regions, where the end-1982 figures averaged 10 per cent and 13½ per cent, respectively. Most countries in these areas, however, are better positioned than the African countries to withstand the pressure implicit in such a situation and to make satisfactory adaptations to shortages of liquid reserves.

Just as the drawing down of reserves and use of reserve-related credit helped the non-oil developing countries to adapt to a decline of some $35 billion from 1981 to 1982 in the net inflow of capital, so the need for replenishment of reserves will tend to add to the degree of adjustment required in 1983. The further compression of the group's current account deficit will thus have to be larger than would be suggested by the decline in capital inflows that is now expected. From a peak of $108 billion in 1981, the current account deficit of the non-oil developing group dropped by about $20 billion in 1982, to $87 billion. For 1983, the projections shown in Table 4 indicate another decrease of roughly $20 billion, to $68 billion. Scaled against the group's exports of goods and services, such a deficit would amount to about 14 per cent, compared with a peak of 23 per cent in 1981, and would thus drop back into the range prevailing between the two latest global recessions.

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Judgment regarding the significance of such a drop in the relative size of the current account deficit requires qualifications of at least two types. One of these relates to the distribution of imbalances among individual countries in the group and the other to the composition of changes in current account transactions and the implications of a disaggregated view of particular components of the current account.

One feature of the estimated $40 billion reduction in the combined current account deficit of the non-oil developing countries from 1981 to 1983 is the degree to which it is concentrated in the individual accounts of a relatively few large developing countries where major programs of domestic and external stabilization have been launched. This circumstance is reflected in comparisons between the weighted-average ratios of current account deficits to exports of goods and services and the corresponding median ratios (Chart 12). The weighted averages tend to be dominated by the experience of the larger countries in any group, while the medians may better reflect the typical experience of the majority of countries in a group. The relative size of the median current account deficit in the non-oil developing group has risen more over the past half dozen years, and has remained larger since 1981, than the weighted average deficit. As the chart shows, this divergence is especially pronounced in the African and Asian regions. The implication is that many smaller countries, particularly in those two areas, have been less successful to date than the larger countries in containing the growth of their current account deficits in relation to exports (perhaps partly because of a more unfavorable evolution of exports).

Whatever the adjustments still needed to restore sustainable current account balances, an examination of disaggregated components of the current account makes it clear that the degree of adjustment already accomplished by the non-oil developing countries is quite substantial. Although not yet sufficient in many cases to match the reduced availability of financing, it is nevertheless considerably greater than might be suggested superficially by the size of the reduction in the group's combined deficit since the peak of 1981. The key consideration here is the generally unfavorable nature of the external economic and financial environment faced by these countries in recent years and the importance of certain major adverse influences almost wholly beyond their own control. The global recession, of course, has undermined the buoyancy of export markets in volume terms and has brought severe weakness in export prices for primary commodities. Meanwhile, continued increases in the import prices faced by non-oil developing countries had already contributed to the prolonged deterioration of their terms of trade (1982 having been the fifth consecutive year of such deterioration). Finally, the upsurge of interest rates that followed the general shift toward monetary restraint in the major industrial countries in 1979 imposed an unexpectedly heavy and lasting burden on this group of countries, whose balance of payments structures already featured quite sizable debt service charges. As noted above, the impact of the rise in interest rates was heightened by the progressive concentration of borrowing during the past decade in obligations on which interest payments are adjusted at frequent intervals to rates prevailing in international money markets. This particular factor may have become less adverse in 1983 than in 1982, but remains unfavorable by comparison with pre-1979 experience.

For the oil importing developing countries, the entire deterioration of their combined current account balance from 1978 to 1981 can be ascribed to essentially the three adverse factors just enumerated. Indeed, the deterioration of their oil trade balance and of their non-oil terms of trade, together with the large excess of the rise in their external payments of interest over the increase in interest earnings on their reserves and other financial assets abroad, amounted to nearly $80 billion over these three years, against a cumulative increase of only $53 billion in their total current account deficit. The difference between these two figures, reflecting changes in other elements of the group's current account, can be viewed as roughly indicative of the adjustments already made by 1981 to compensate in part for the adverse impact of the external factors identified here. With the oil trade deficit subsiding somewhat in both 1982 and the first half of 1983, interest rates tending to decline, and the deterioration in the terms of trade tapering off, the three factors singled out above, while remaining adverse in comparison with earlier years, have not on balance become significantly more unfavorable from 1981 to 1983. Hence, the actual current account change for that period stems from factors more directly susceptible to the influence of policies and developments within the group of non-oil developing countries.

The capacity of the non-oil developing countries to make necessary adjustments to external changes that strongly affect their current account balances can be further illustrated by a longer-range look at disaggregations of those balances along the lines just discussed. In Chart 13, a similar breakdown (involving separate estimates of the oil trade balance, net interest payments, and cyclical swings in the non-oil terms of trade) is carried back through the 1973–75 period of oil price increases and recession. The changes of that period, in particular, had a profound and lasting impact on the current accounts of non-oil developing countries—one

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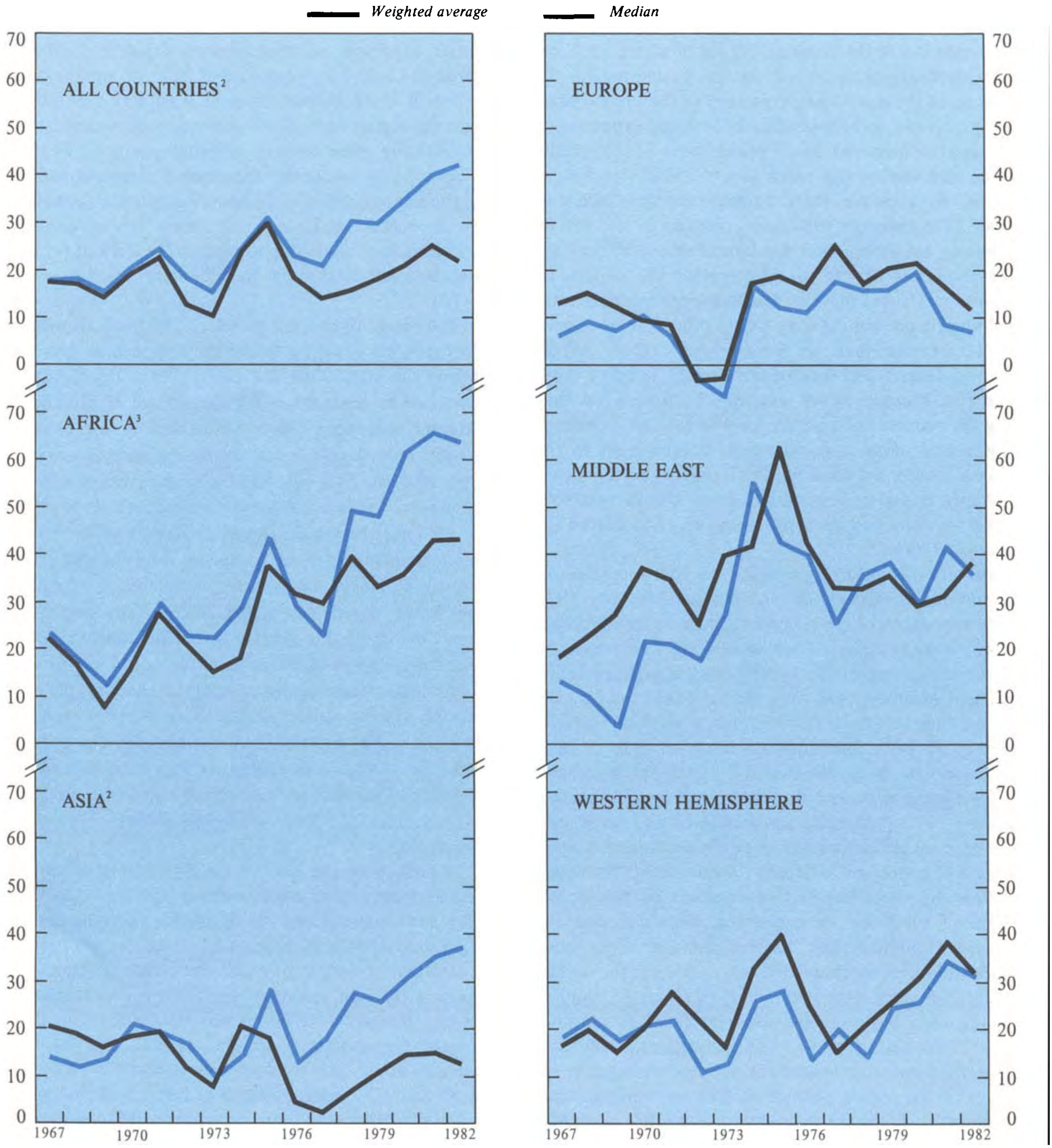
Chart 12. Non-Oil Developing Countries: Payments Deficits on Current Account, by Region, 1967–82 [1]
(In per cent of exports of goods and services)



[1] Net of surpluses of countries whose current accounts were in surplus.
[2] Excluding China.
[3] Excluding South Africa.

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to which the majority of such countries had already made important adaptations by the late 1970s. Such adaptations to adverse external influences, however, have differed considerably among various subgroups of countries, both during the 1970s and more recently, as is brought out in the separate panels of Chart 13, dealing individually with several analytical subgroups.

Some of the developing countries in the broad "non-oil" group are in fact producers and net exporters of oil; and the increases in oil prices, both in the middle 1970s and during the more recent round, tended, of course, to improve their current account balances. From 1976 through 1981, the countries in the net oil exporting subgroup used the improvement in their oil trade balances mainly to expand their net imports of non-oil goods and services and to maintain higher rates of domestic investment than would otherwise have been feasible, rather than to lower their overall current account deficits and foreign borrowing. Some of these countries became heavy external borrowers as they used the prospect of a higher level of future oil earnings to promote more rapid domestic development in the non-oil sector. Subsequent developments in the world economy, however, have caused them to undertake substantial revisions in such programs so as to curtail the associated imports.

The net oil importers, despite the cost incentives to economize on imports of oil, were unable after 1975 to reverse much of the preceding increase in their combined oil trade deficit. They were obliged, however, to reduce the unsustainable overall current account deficit that had emerged; and they did so—as shown by the dashed line in Chart 13—through a sizable improvement in the balance of transactions other than those in the three categories dominated by external influences. The net gains in this residual balance leveled off during the late 1970s, reflecting restoration of an overall current account deficit not too large (in relation to current exports of goods and services) for sustainable financing.

With the alteration of that situation by the second round of oil price increases, the recession, and the upsurge of interest rates, another round of adjustments and adaptations was launched, as reflected in the dashed line in the upper right-hand panel of Chart 13 (and as already discussed in connection with 1979–83 developments). Such adaptations have included major shifts in domestic demand management policies, changes in exchange rates, export promotion policies, various kinds of import or exchange restrictions, and other measures, depending on the particular circumstances of individual countries. Although many countries in the group have delayed taking action and others still face a need for further action, the extent of the cumulative change in the structure of their current account transactions during the past decade (depicted in the chart in terms of percentages of export earnings) offers considerable reassurance regarding the capacity of these countries, over time, to carry out requisite adjustments.

The record is most impressive in the case of the major exporters of manufactures (middle right-hand panel of Chart 13), whose rapid gains of market shares in world trade helped them at least until recently to bear the higher costs of oil and interest payments, while maintaining their overall external position. For this subgroup, in particular, the gravest threat appears to be the intensification of protectionist pressures spawned by the recession. Unless that threat is averted, these countries may be unable to resume the kind of progress that characterized their development throughout the 1970s.

The lower right-hand panel of Chart 13 depicts the very difficult situation facing the low-income countries during the late 1970s and early 1980s. In effect, they have had to compensate for the impact of the adverse external influences roughly identified in the chart by greatly reducing their net absorption of real resources from abroad. This substitution in the current accounts of the low-income countries has been extremely large in relation to their own export earnings and has become very damaging to their prospects for renewed growth and development, or even for maintenance of existing low levels of real per capita income. The current account deficit of this subgroup remains much higher in relation to export earnings than that of any of the other subgroups of developing countries, reflecting the large role of concessional official assistance in the financing of imports. For the low-income countries, the principal hope for an easing of current strains must be tied to a recovery of primary product prices and to the possibility of increasing the real value of official development assistance.

A feature of the non-oil developing countries' current account adjustments to date is the degree to which they have reduced imports. While such a reduction has been unavoidable in most cases, given the external circumstances faced, it has had the effect, of course, of limiting the real resources available for development. (It has impinged adversely on export markets of the industrial countries, as noted earlier, and has thus contributed to the weakness of economic activity in those countries.) Real growth of imports of the non-oil developing countries, after averaging 8½ per cent per annum from 1977 through 1979, was cut back rapidly and progressively to 2½ per cent in 1981 and gave way to a decline of nearly 8 per cent in 1982. For many countries, and particularly for the low-income subgroup as a whole, the degree of recovery expected in

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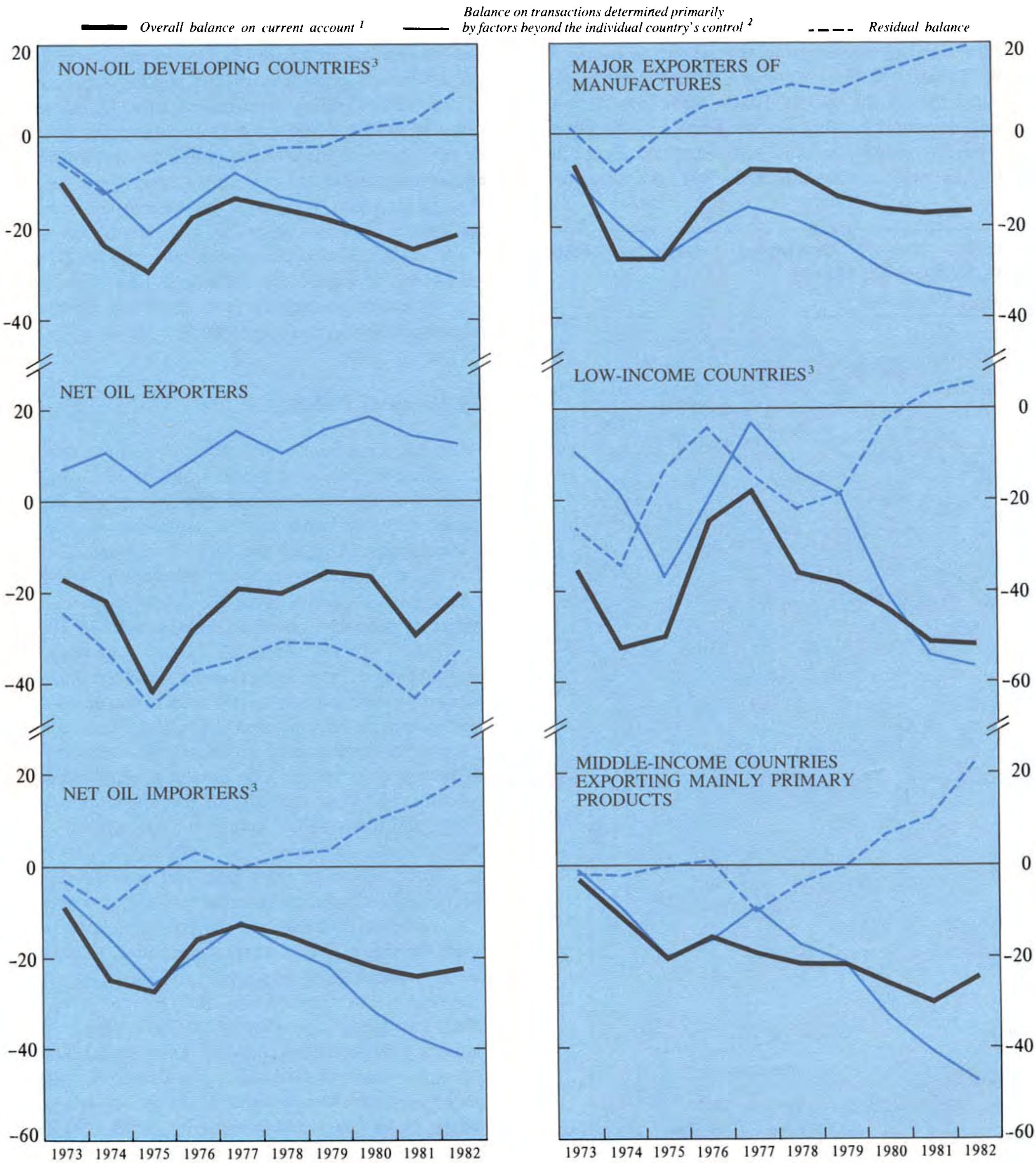
Chart 13. Non-Oil Developing Countries: Payments Balances on Current Account, 1973–82
(In per cent of exports of goods and services)



[1] Balance on goods, services, and private transfers.
[2] Sum of (1) balance on trade in oil (on a customs basis) and on interest payments and (2) the product of (a) deviations of the terms of trade on merchandise transactions other than oil from their 1973–82 average and (b) the level of exports of goods and services in the preceding year.
[3] Excluding China.

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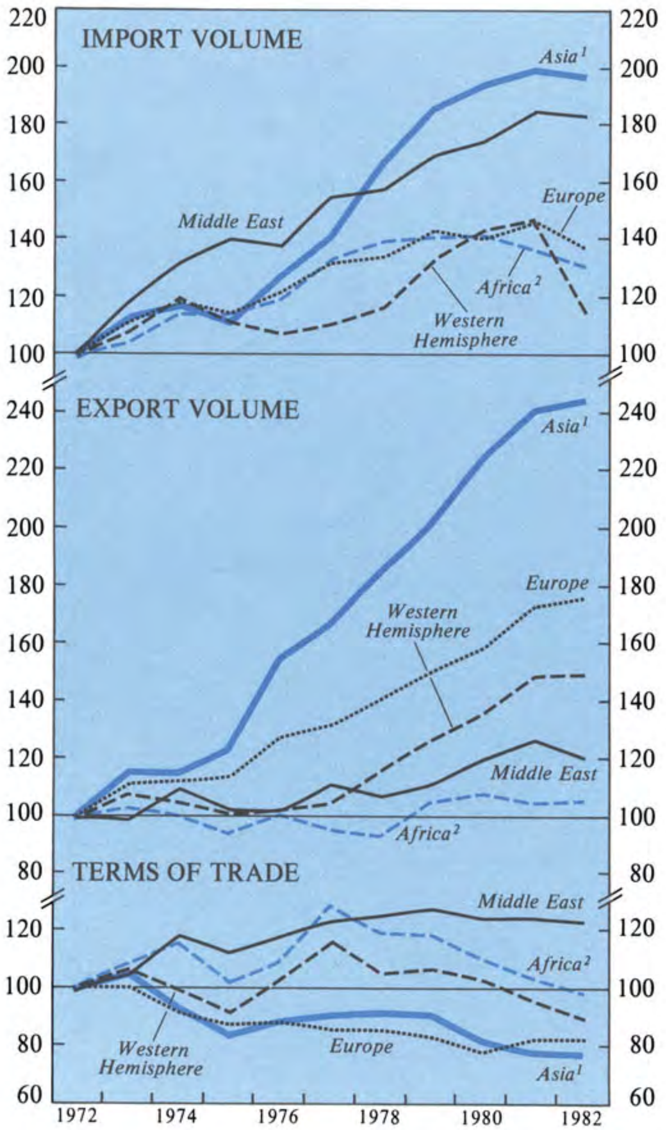
1983 will not be sufficient for the volume of imports to regain its 1979 level.

Regionally, by far the most drastic cutback in import volume in 1982 was that in the Western Hemisphere, reflecting the particularly serious difficulties faced by some of the largest countries in that area. For the Western Hemisphere subgroup as a whole, as shown in Chart 14, the 1982 level of imports in real terms barely exceeded that of the middle 1970s. Real imports into non-oil developing countries of Europe and Africa declined less steeply in 1982 and remained higher in relation to levels of the mid-1970s, but also compared unfavorably with their 1979 levels. Import volume gains were interrupted in 1982 even in the Asian and Middle Eastern regions, where the trends had been most buoyant throughout most of the past decade.

Chart 14. Non-Oil Developing Countries: Foreign Trade, by Region, 1972–82
(Indices, 1972 = 100)



[1] Excluding China.
[2] Excluding South Africa.

Other marked regional differences in external trade developments during the 1970s and early 1980s are also brought out in Chart 14. The exceptionally rapid and continuous growth in export volume achieved by the non-oil developing countries of Asia, for example, is clearly illustrated, along with the disappointing record of exports of the African countries as a group. In the bottom panel of the chart, the extent of the deterioration in the terms of trade of the African and Western Hemisphere countries since 1977 is noteworthy. Also of interest is the relative stability since the mid-1970s in the terms of trade of the Asian and European developing countries, presumably reflecting the more diversified composition of their exports.

Key Issues of Policy

With the abatement of inflationary pressures that has taken place in 1982 and the first half of 1983, policymakers are now able to concern themselves with a broader range of issues than was possible at times in the recent past. One of the most important of these issues is the nature of the policy adaptations necessary to sustain the economic recovery that is emerging in a number of industrial countries, particularly the United States, and to foster its spread. At the same time, the debt problems of developing countries and the obstacles created by protectionism to the improvement of their export prospects have pointed up further issues requiring the urgent attention of policymakers. Attention has also turned once more to the longer-run impediments to growth, including rigidities in the goods and labor markets and low rates of saving and investment.

Nevertheless, concern about inflation is far from over. There are still many industrial and developing countries where inflation remains virulent, and even in those countries where inflationary pressures have abated, the risk of their resurgence remains. In particular, even though they may partly reflect the existence of fiscal problems, the high long-term interest rates that prevail throughout the industrial world suggest that inflationary expectations persist. Thus, consolidating the progress made toward better price stability remains a major consideration influencing the policy approach to economic recovery and longer-run growth. The need to achieve and maintain low inflation, while turning to the challenge of ensuring that the economic recovery materializes and endures, was recognized in the Williamsburg declaration on economic recovery issued in

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May 1983 by the leaders of the seven largest industrial countries.

This section focuses mainly on domestic policy issues; issues related to exchange rates and the working of the international monetary system are for the most part considered in Chapter 2.

Fostering a Sustainable Recovery

There is now no doubt that the most pressing task is to ensure that the recovery that is emerging in a number of industrial countries will be noninflationary and sustainable and will spread to the rest of the world. In addressing this task, allowance must be made for the differences in economic conditions among countries, both in the industrial and in the developing world. Focusing first on the industrial world, a large number of countries, including France and Italy and many of the smaller industrial countries, still have high inflation rates and sizable external deficits. National authorities in these countries are currently implementing adjustment policies aimed at lowering inflation and restoring external balance through reductions in the fiscal deficit and in the rate of growth of money and credit. These adjustment policies should in time re-establish conditions for sustainable growth, but, over the short run, they are likely to limit the scope for economic recovery. On the other hand, the other five major industrial countries, Canada, Japan, the United States, the Federal Republic of Germany, and the United Kingdom, have gone further in re-establishing conditions for sustainable growth and have consequently provided their economies with greater scope for expansion, albeit not all to the same extent. Even the countries in relatively strong positions, however, still face difficult demand management problems that will have to be solved if the recovery is to develop and be sustained.

When sizable budget deficits are expected to continue even after recovery is well advanced, they can contribute to the persistence of relatively high levels of interest rates, in spite of declining inflation. These high interest rates, in turn, weaken the process of recovery in the private sector and undermine its sustainability, in particular because they hinder capital formation and contribute to an unbalanced composition of domestic demand. Because of these dangers, a number of national authorities have continued to direct their efforts toward a reduction in their budget deficits.

In the Federal Republic of Germany, Japan, and the United Kingdom, the structural component of the deficit had already been reduced in 1981 and 1982, and further reductions are expected to take place in 1983 and 1984. Fiscal consolidation will continue to be pursued through curtailment of expenditure growth and legislative reforms leading to a gradual reduction of the role of the public sector, as well as limiting the growth of transfer payments. By following this cautious fiscal policy, the authorities intend to foster a decline in long-term interest rates that would favor a recovery of private sector investment. The challenge that they face is to reconcile the longer-run need for fiscal consolidation with the shorter-run danger that cutting government expenditure too quickly may reduce aggregate demand and temporarily stifle the emerging recovery.

The U.S. authorities are also firmly committed to a reduction of the structural part of their budget deficit, but so far they have not been able to move toward that goal. Since assuming office in early 1981, the U.S. Administration has implemented a program of cuts in individual income tax rates, liberalization of depreciation schedules for business, and other tax benefits designed to stimulate saving and investment. The growth of federal spending has been curbed, but not by as much as would have been necessary to offset the reductions in tax receipts caused by the new fiscal measures. The result has been the emergence of a large structural deficit. This deficit, already described in last year's Annual Report as the main issue concerning policies of the United States, has grown considerably in fiscal year 1983. Thus, it remains the case that a change in the policy mix of the United States that would result from adoption of measures aimed at avoiding a persistent deficit over the medium term, while the targets for monetary growth remained unchanged, would tend to reduce nominal and real interest rates and bring about a fundamental improvement in the conditions for sustained economic growth. Given the stance of fiscal policy in the other relatively strong countries, a reduction of the U.S. fiscal deficit would also constitute a major step toward the much sought after convergence of underlying economic and financial conditions among major industrial countries.

As far as monetary policy is concerned, the major financial innovations that have been introduced in recent years in several industrial countries have temporarily increased the difficulty of gauging the appropriate longer-run rate of growth of specific monetary aggregates. By increasing the mobility of funds among accounts with various degrees of liquidity, these innovations have also increased the short-run instability of the monetary aggregates. These difficulties have been compounded by the magnitude of the various disturbances that have affected the demand for money in recent years, including the major rise and then decline in inflation rates and the severe recession. In such

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conditions, it is not surprising that changes in the velocity of the monetary aggregates have tended to be large and atypical.

In these circumstances, most monetary authorities, while continuing to regard their aggregates as target variables, are following a flexible and pragmatic approach to the conduct of monetary policy. In the first half of 1983, this approach led to a fairly accommodative supply of reserves to the banking sector in most of the countries considered here. While perhaps justified by the circumstances, the situation is not without risks. The fact that the relatively high rates of monetary growth have not brought about any significant further decline in interest rates might indicate that the point may be approaching at which persistence with such high growth rates could rekindle inflationary expectations.

This brief review has highlighted both the complexity and the diversity of the challenges that are currently faced by the five relatively strong major industrial countries. There is no doubt that all five countries would like to foster a sustained expansion in domestic economic activity, and that each of them views a sustainable lower level of interest rates as an important component of such a process. To achieve a sustained recovery, however, will require the maintenance of a cautious policy stance. Monetary growth rates have already increased considerably, even after making reasonable allowance for the effects of financial innovations. Too rapid a monetary expansion would now be likely to bring about a rise in interest rates, rather than a decline.

Ultimately, the reduction of interest rates has to be sought by convincing economic agents that existing fiscal deficits will decline markedly over the next few years so that there will be no conflict between the growth in the demand for private credit and the desire of the monetary authorities to limit monetary growth. This consideration lies behind the policy prescriptions set forth in the annex to the recent Williamsburg declaration on economic recovery that national authorities should aim, preferably through discipline over government expenditures, to reduce structural budget deficits and bear in mind the consequences of fiscal policy for interest rates and growth. Such a policy could contribute considerably to both the early development and the sustainability of the recovery.

Developing countries would benefit from a recovery in industrial countries, and would at a later stage accelerate this recovery by facilitating the expansion of industrial countries' exports. As noted in Chapter 2, the scope for such effect is quite sizable, in particular because cyclical variations in economic activity in industrial countries have powerful effects on exports of developing countries.

Much of the transmission of the expansion from industrial countries to developing countries, and back to industrial countries, will, however, take place with a considerable lag. Even more important, the magnitude of the effects will largely depend on the policies followed, both by industrial countries and developing countries. In particular, such a transmission will be more effective if current protectionist tendencies are checked and reversed. The need for industrial countries to maintain a liberal policy toward imports from developing countries, including imports of manufactures and agricultural products, is particularly crucial in this context. The transmission of expansion will also be more effective if interest rates decline in industrial countries. As long as interest rates remain at their current level, the scope for expansion will remain limited in many developing countries because a large part of their foreign exchange resources will have to be used to pay the interest on their foreign debts.

In addition, in many developing countries, the scope for economic recovery will depend largely on the firmness with which the authorities implement the comprehensive adjustment programs that they have recently adopted in order to reduce the severe internal and external imbalances that afflict their economies. Unless the fundamental adjustment envisaged in these programs takes place, it is unlikely that an economic recovery in the industrial world will restore either the external balance or the creditworthiness of these countries. For them, as for many industrial countries, further internal and external adjustment is a prerequisite for full participation in the world economic recovery.

Demand management has a central role to play in the adjustment sought by developing countries. Domestic absorption will remain constrained in many countries by the need to maintain and extend the progress already made in reducing external deficits. However, consumption, rather than productive investment, should bear a major part of the adjustment in order to avoid a reduction of the longer-run growth rate of the economy. In this regard, fiscal policy is quite important because the level and distribution of public expenditures exert a considerable influence on both the overall level and the allocation of domestic demand. Furthermore, the existence of a large fiscal deficit that cannot be financed without excessive monetary growth gives rise to an inflationary process that hinders the entire adjustment process. For these reasons, fiscal trends in a number of developing countries must be viewed with concern. Not only is the fiscal deficit still too large in many of them, but the reduction in public expenditures that has

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taken place has fallen disproportionately on productive investment. In these countries, there is an urgent need to review the appropriateness of public expenditure programs.

It is also important that the exchange rate, as well as domestic prices and interest rates, be allowed to adjust in order to reflect changes in economic circumstances. This is important not only for the longer-run growth prospects of developing countries, as discussed below, but also because these variables have a crucial role to play over the short run, as a complement to demand management policies. In this context, the substantial increase in exchange rate flexibility demonstrated by a number of developing countries over the past year is a favorable sign. Nevertheless, exchange rate flexibility by itself is not enough. The price changes implied by exchange rate adjustments have to be passed through to individual economic agents in order to promote the necessary changes in the production and consumption structure. In many cases, this condition remains unfulfilled because a complex system of internal and external trade restrictions reduces and distorts the link from world market prices to domestic prices. Allowing interest rates to adjust to reflect the rate of inflation and the demand for credit is important because this may stimulate saving, in particular financial saving, and help to ensure the growth and efficiency of investment.

Longer-Run Growth Considerations

In addition to the demand management problems discussed above, both industrial and developing countries are presently faced with structural problems calling urgently for sustained adjustment efforts. Attention needs to be focused on these structural problems, as it is becoming increasingly evident that many of them will not disappear with the economic recovery and may in some cases become more intractable as it develops.

Industrial Countries

A major characteristic of the policy strategy followed by many industrial countries in recent years has been its longer-run orientation. In particular, the need to stimulate saving and investment, reduce rigidities in goods and labor markets, and encourage technological innovations has motivated many of the policy changes that have been introduced. The principal aim has been to increase productivity and economic growth and to reduce structural unemployment.

The fact that these objectives have not been achieved can be explained to a large extent by the fact that the fight against inflation had to be given priority. In the face of deeply embedded inflationary expectations, monetary restraint contributed to a severe recession that, as is well known, had a dominant and adverse effect on many of the economic variables that the longer-run growth policies were trying to influence. But, now that inflation has abated in many industrial countries, it is an opportune time for national authorities to review their longer-run policies and assess whether they are sufficiently comprehensive to achieve their aims. In this context, it may be useful to make a number of observations concerning the two related problems of low saving and investment and high structural unemployment.

There has been a serious effort to stimulate saving and investment in recent years. In many countries, various fiscal measures have been taken to increase personal saving and to enhance work incentives. Important examples are the significant cuts in marginal income tax rates in Sweden, the United Kingdom, and the United States, especially for high income tax brackets. Financial measures have also been important in this context. The deregulation of the financial system, in particular in the United States, has allowed small savers to benefit fully from the sharp rise in real interest rates in the money markets. Other measures aimed more directly at the corporate sector have included the liberalization of depreciation schedules.

Nevertheless, this effort to stimulate saving and investment has been limited in its results, not only because of the short-run effects of policies of monetary restrictiveness, but also because of the failure to reduce budget deficits. No doubt, the high fiscal deficits were partly the result of the recession. However, there were clearly other factors at work. Even after adjustment for the abnormally low level of economic activity, budget deficits remain quite large in many industrial countries. In a number of them, including Belgium, Denmark, Ireland, Italy, Sweden, and the United States, these structural deficits are roughly as large as the normal flow of net private saving. Once the recovery process is under way, structural deficits of such a magnitude could crowd out private investment as their effects dwarfed whatever additional saving resulted from the recently adopted saving incentives. Therefore, countries with large structural budget deficits should intensify their efforts to reduce them. The measures used to reduce the deficits will have to reflect the social preferences of the countries concerned, but they should also take into account the need for more saving and investment.

The effort to stimulate saving and investment has also suffered because profits have remained depressed. Here again, the recession accounts for part of the

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problem, but not all of it. The other important factor is the change in income distribution that has taken place in favor of labor over the past 15 years, in particular in European countries and in Japan. For example, in France, the Federal Republic of Germany, and Italy, the share of capital incomes in total incomes (value added) originating in the manufacturing sector declined from about 40 per cent at the time of the 1968–69 cyclical peak in economic activity to less than 35 per cent by the time of the 1979 peak. By 1982, the share of capital incomes had been reduced even further in these three countries, although probably mainly because of the recession. The distribution of incomes clearly involves complex social and ethical considerations. But the major shift in income distribution that has taken place over the past 15 years has tended to reduce the overall saving rate because the marginal propensity to save is normally lower for labor incomes than for capital incomes. This in turn has reduced the financial ability of firms to invest, as well as their incentive to expand production capacities.

The problem of structural unemployment has also been the object of many policy measures in recent years, including training programs and hiring incentives, but the problem has nevertheless continued to grow. In part, the increase in structural unemployment can be traced to significant changes in the size and composition of the labor force, including the increase in female participation, and to changes in international comparative advantage leading to a rapid decline of some traditional industries. Probably as important, however, has been the change in income distribution noted above, at least in European countries. Over time, the marked increase in the relative cost of labor has led to a decline in the demand for labor. Other factors that may have been important in some circumstances include the lack of adequate training, the existence of too high minimum wage rates, and the relatively high level of unemployment benefits. While it is extremely difficult to deal with these factors, the social and economic costs of not doing so could be very high.

Developing Countries

The severity of the debt problems encountered by many developing countries during 1982 and the first half of 1983 is leading to a major reappraisal not only of their demand management policies but also of their longer-run growth strategy. This reappraisal has been hastened by the realization that, even after the economic recovery develops, economic growth rates in industrial countries are unlikely, at least for some time, to go back to the high levels of the 1960s and early 1970s. This prospect has implications both for the rate of growth of export earnings and for levels of official development assistance and commercial bank flows.

In addition, donor agencies are becoming increasingly concerned with the efficiency with which aid is being used, both with regard to the allocation of new investment among sectors and the type of projects or capital formation being financed. The World Bank and other agencies have sought during recent years to increase the share of aid that finds its way into the agricultural sector and into the type of projects that have a direct impact on the poorest segments of the community. The energy sector remains another major target. The manner in which development projects are conceived, initiated, and managed has received increasing scrutiny: for example, a significant body of opinion now favors placing relatively more emphasis on small-scale projects in which the beneficiaries themselves play a substantial role in organization and implementation, even though it is recognized that large-scale projects are at times necessary because of economies of scale and other considerations.

Even more important, however, there is a growing awareness in developing countries that the growth of a country's output that can be achieved with its available labor force and natural resources does not depend solely on its capital stock. It depends also on the efficiency with which all factors of production are used in different lines of production, as well as on some less tangible aspects of resource use, such as the intensity of effort and the quality of management. In considering ways to increase output in developing countries, especially during a period when external resources are scarce, emphasis needs to be placed on the efficient allocation and management of scarce resources. Of course, some of the less tangible elements in determining productivity —such as the health and education of the work force— are themselves the outcome of a long-term development process. But other elements can be strongly influenced in the shorter run by government policies encouraging a better allocation of resources through suitable price incentives and, whenever appropriate, through decentralization or in some cases privatization of activities previously managed by the central government. In this connection, technical assistance from abroad can often be as important as external financing of capital investments.

There is also a growing awareness in developing countries that there is much that they can do on their own to benefit more fully than in the past from foreign trade. While protectionism in industrial countries has slowed the growth of exports of developing countries,

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in particular exports of foodstuffs and manufactures, high rates of effective protection in the latter countries have hurt their export sectors by favoring import-substituting activities and also by discouraging trade among the developing countries themselves.

Just as structural adjustment to changes in comparative advantage involves some difficult strategic decisions in industrial countries, there are also complicated options faced by the authorities of developing countries. Even in settings where the development of key activities is left in private hands, the public sector plays an often crucial supportive role. In this connection, judgments as to the areas of a developing country's potential comparative advantage and the correct time to begin exploitation of that potential advantage are particularly hazardous. There is sometimes the temptation to bypass intermediate stages of development in order to specialize in more sophisticated forms of manufacturing. Scarce resources may be wasted by prematurely initiating, and subsequently protecting, activities that are capital intensive or use advanced technology, which cannot be efficiently operated at the level of labor and management skills available within the foreseeable future. It may be preferable, especially for low-income countries, to define potential comparative advantage only for the foreseeable medium term. This horizon would give proper weight to opportunities in the agricultural sector, in particular in the production of foodstuffs, and in simpler forms of manufacturing that do not make unrealistic demands on the presently available labor and management skills.

Policies of developing countries promoting economic development must also be designed so as to be responsive to the problem of massive structural unemployment. High rates of population growth and large shifts of population from the countryside to the city have made chronic unemployment a typical problem of developing countries. However, as in industrial countries, this problem has grown worse in recent years. Structural unemployment has been significantly alleviated in those countries that have been able to foster rapid growth of manufacturing (to cut down urban unemployment), family planning campaigns (to reduce growth of the labor force), and agricultural development programs (to slow down internal migration). In most developing countries, however, success along these lines has been limited, and the social strains caused by unemployment are reflected in such negative developments as the wasteful use of budgetary resources to swell employment in the public sector, regardless of the productiveness of such employment. The world recession has added to these problems by reducing economic activity in these countries, especially in the export and manufacturing sectors.

Finally, with the growth of international bank lending likely to be at best moderate over the next several years and that of official development aid likely to be quite modest in real terms, the adoption of policies that attract foreign direct investment may have an important role to play in the development strategy of many developing countries. Not only is direct investment not debt creating, it has the advantage of being directly tied to productive capital formation and part of a package that includes the transfer of technology and skills. Care must be taken to avoid unfavorable social effects, as well as to ensure that the technology that is transferred is appropriate. On the whole, however, more rapid growth of direct investment, especially in the non-oil developing countries, could contribute to the structural adjustments that these countries (and indeed the world economy) require.

* * * * *

The economic situation in mid-1983 is a difficult one for developed and developing countries alike. Developed countries are confronted by the demanding task of conducting policies that foster a recovery that is noninflationary and therefore sustainable. Developing countries continue to face adverse external factors, including weak economic activity in industrial countries and extremely high interest rates on their foreign debts, that hamper their adjustment efforts.

Those among the developing countries that have greatly increased their foreign debts over the past few years have now to deal with both the need to service these debts and to adjust to the recent sharp decline in the flow of new bank loans. These problems will not be amenable to reasonable solutions without strong international cooperation. Cooperation is needed in the first instance to stem the rise of protectionism that would endanger the world economic recovery and make it impossible for the developing countries to improve their external positions. Cooperation is also needed to underpin the flow of concessional assistance, both bilateral and multilateral, to developing countries, in particular to the low-income countries that have limited access to world financial markets and have been very severely affected by the effects of the world recession on their exports. Finally, the cooperative efforts of all member countries are needed to enable the Fund to continue to assist the many countries that are now engaged in comprehensive adjustment programs aimed at gradually restoring the basis for sustained growth.

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Chapter 2
Developments in the International Monetary System

The economic and financial difficulties faced by many governments and the banking community over the past year have focused attention on the role that might be played by the international monetary system in fostering a more orderly world economic environment. This chapter deals with developments in two principal features of that system. First, the exchange rate arrangements and exchange rate policies of members are reviewed, and this examination is followed by an account of the Fund's surveillance over these policies. The second topic, international liquidity, records the circumstances leading to changes in official reserve holdings and in the availability of private credit extended across national borders, and discusses the role of the Fund in providing conditional and unconditional liquidity to its members.

Exchange Rates and Surveillance

The exchange rate system remained subject to considerable stress during 1982 and the first half of 1983. In the industrial world, the exchange rates of the major currencies continued to be subject to pronounced swings; the most significant movements were the renewed appreciation of the U.S. dollar and the further depreciation of the Japanese yen through October 1982, both of which were only partly reversed by subsequent developments. There were also recurring periods of tension within the European Monetary System (EMS), leading to two realignments of central rates in 1982 and one in the first quarter of 1983. Finally, the currencies of a number of smaller industrial countries underwent sizable devaluations, some of which were viewed by trading partners as being possibly too large.

In the developing world, the stress was related mainly to the worsening external positions of many countries and the emerging risk of a serious financial crisis. As discussed in Chapter 1, the prolongation of the world recession, high interest rates, and the insufficient adaptation of domestic policies in a number of developing countries induced commercial banks to reassess the creditworthiness of developing countries in general, and of the heaviest borrowers among them in particular. The result was a marked reduction of new loan commitments in the second half of 1982, and, in some cases, a reluctance on the part of the banks to "roll over" or refinance maturing loans. In the event, the development of a crisis of confidence, which would have had major consequences for the whole network of international trade and payments, was checked, thanks to prompt action by the international community. However, as a result of a severe shortage of foreign exchange reflecting a sudden reduction in the growth of bank lending, most of the heaviest borrowers experienced both dislocations in production and abrupt exchange rate depreciations. These countries have now initiated substantial longer-term adjustments, but the return to more normal economic conditions will require considerable effort and may be slow.

In these difficult circumstances, the Fund has continued to stress its surveillance activities. In the major industrial countries, it has encouraged the implementation of policies that would help restore and maintain stable domestic economic and financial conditions. This in turn would facilitate the convergence of economic conditions across countries, and a smoother evolution of the pattern of exchange rates. It is also important that every major industrial country, in the process of selecting a specific policy mix for achieving adjustment, have concern for its effects on the rest of the world. In the many smaller industrial countries and developing countries that have large external imbalances, the Fund has encouraged the implementation of

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strong domestic and external policies of adjustment. At the same time, it has stressed that orderly adjustment required a reversal of recent protectionist tendencies, in both industrial and developing countries, and also a further increase in the exposure of banks in a number of developing countries, albeit on a moderate scale.

The following two sections discuss the working of the exchange rate system, first in the industrial countries and then in the developing countries. The third section reviews the Fund's recent experience with surveillance over the exchange rate policies of its members.

Industrial Countries

The substantial variability that continued to characterize the exchange rates of the major industrial countries during 1982 and the first half of 1983, as well as the levels reached by some of these exchange rates, is a source of considerable concern. As discussed in previous Annual Reports (mainly in the Report for 1982, pages 42 and 45), economic agents can protect themselves from the month-to-month or quarter-to-quarter variability at moderate cost, but they have more difficulty in protecting themselves from exchange rate swings that last several years. Such swings can involve costs in terms of resource misallocation and impediments to the conduct of demand management policies in both industrial and developing countries. Furthermore, there is always the risk that exchange rate swings may strengthen protectionist tendencies and help to create an environment in which some countries are tempted to undertake competitive devaluations or induce excessive depreciations of their currencies in order to export part of their unemployment.

Even with the benefit of hindsight, it is difficult to identify the specific sources of exchange rate variability. A major reason for this difficulty is that, in open economies with diversified financial markets, the behavior of the foreign exchange price of the currency is similar to the behavior of the price of any other financial asset, that is, it fluctuates as a result of many unanticipated events. The degree to which an event had been anticipated by market participants and the importance they had attached to it are factors that are often impossible to gauge. It is mainly for this reason that attempts to find a close relationship between short-run exchange rate movements and concurrent movements in other economic variables, such as interest rate differentials or current account balances, are usually unsuccessful. Actual short-run changes in interest rate differentials or current account balances are unsatisfactory proxies for both the unanticipated changes in these variables and their effects on expectations concerning future developments. Over longer periods, however, it is possible to some extent to associate broad exchange rate swings with major economic and financial developments that have gradually affected the expectations of private market participants. Although such an analysis cannot establish firm and precise causal relationships, it can contribute to an understanding of the sources of longer swings in exchange rates.

Most of the following analysis constitutes a review of the working of the exchange rate system during the past four years, which were characterized in particular by the pursuit of anti-inflationary policies. The focus is on the major factors that can be associated with the pronounced exchange rate swings experienced during this period. An attempt is then made to draw some of the policy implications.

Factors Behind Exchange Rate Swings

The most significant exchange rate swings of the past four years have been among those major currencies (or currency groups) that are floating independently (Chart 15). Exchange rates among the major EMS countries that maintain common margins of fluctuation have been less affected (Chart 16).

For the United States, Japan, and the Federal Republic of Germany, the exchange rate swings of the past four years can in part be attributed to differences in the speed of adjustment of wage and price inflation to reduced rates of monetary growth. In all three countries, there was a progressive shift toward more restrictive monetary policies during 1979 and the early part of 1980, as the authorities became concerned about renewed inflationary pressures in the wake of the oil price increase (Table 11). However, the initial reaction of domestic costs and prices differed considerably among the three countries. As measured by movements in the GNP deflator, the rate of inflation increased significantly in the United States, while it stayed almost constant in the Federal Republic of Germany and declined in Japan. This marked difference in inflationary developments occurred mainly because the initial conditions were different. Inflation was already high and rising in the United States on the eve of the 1979–80 oil price increase, and, as indicated by various surveys, inflationary expectations remained strong. In contrast, the rate of increase in the price level was low and stable in Japan and in the Federal Republic

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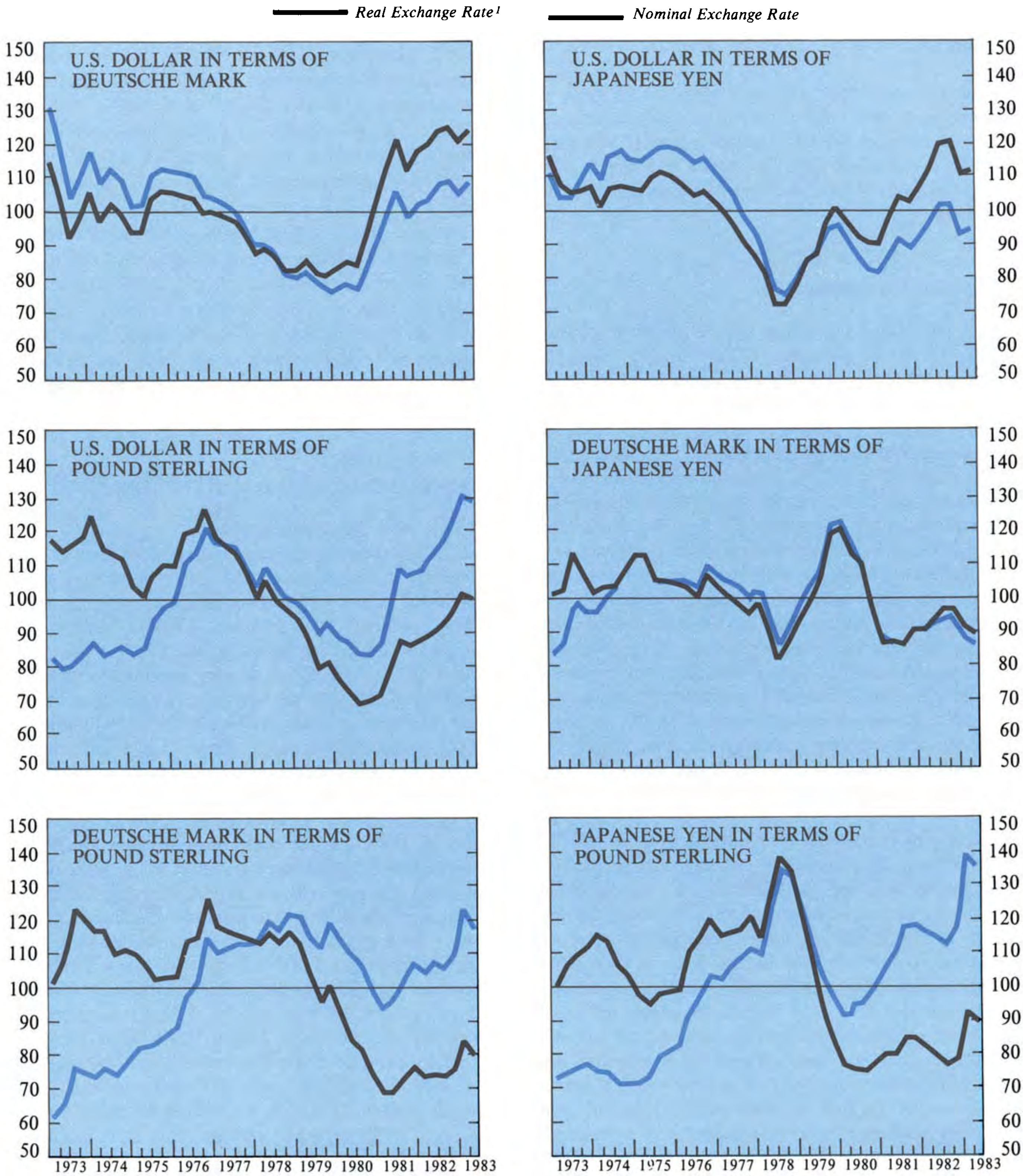
Chart 15. Bilateral Nominal and Real Exchange Rates Subject to Floating, First Quarter 1973–Second Quarter 1983

(Indices, average for period shown = 100)



[1] Calculated on the basis of relative GNP deflators.

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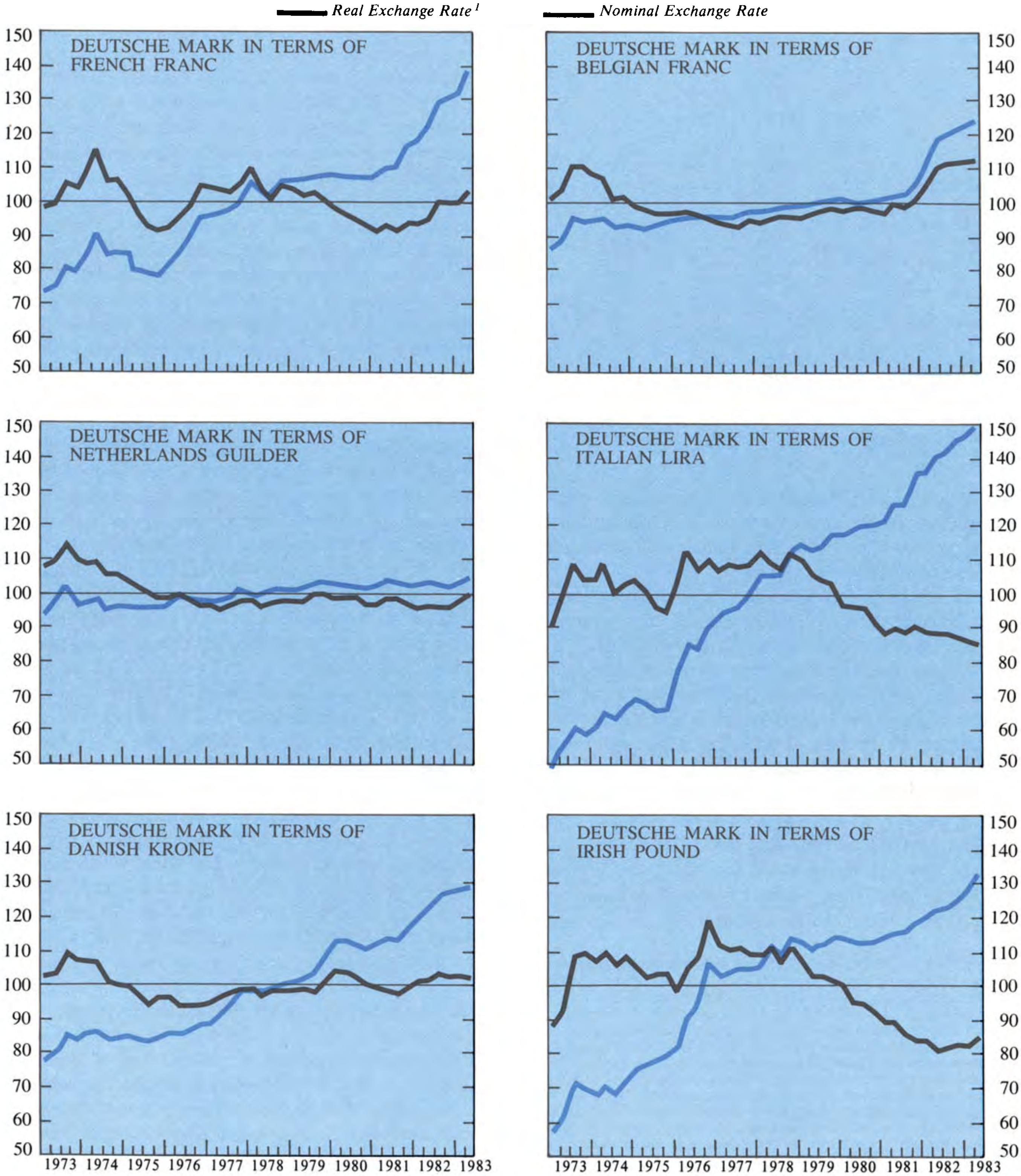
Chart 16. Selected Nominal and Real Exchange Rates Within the EMS, First Quarter 1973–Second Quarter 1983

(Indices, average for period shown = 100)



[1] Calculated on the basis of relative GNP deflators.

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Table 11. Major Industrial Countries: Changes in Stocks of Money (M1), 1976–82

(Percentage changes from year-end to year-end)

	1976–78	1979	1980	1981	1982
Nominal changes					
Canada	7.2	3.6	10.4	1.4	3.8
United States	7.6	7.4	7.3	5.0	8.5
Japan	11.4	3.0	–2.0	10.0	5.7
France	10.2	12.2	7.0	14.6	10.6
Germany, Fed. Rep. of	9.8	3.9	4.2	–0.8	6.8
Italy	22.4	23.5	13.4	10.0	17.0
United Kingdom	15.8	8.6	7.3	8.1	10.6
Real changes [1]					
Canada	—	–7.4	0.1	–8.7	–5.9
United States	1.1	–0.7	–2.6	–3.5	3.9
Japan	5.6	1.4	–5.8	7.8	4.5
France	0.5	1.5	–4.3	1.3	—
Germany, Fed. Rep. of	5.7	—	—	–5.3	1.8
Italy	4.5	5.0	–5.6	–7.3	–0.2
United Kingdom	3.4	–8.2	–8.6	–1.1	3.6

Sources: National estimates.

[1] Changes in deflated values approximated through use of GNP/GDP deflators for fourth quarters of successive years.

of Germany, and inflationary expectations had gradually abated. In addition, Japanese and German labor unions, aware of the new inflationary risk, settled for moderate nominal wage increases.

As a result of the difference in inflationary developments, real interest rates—that is, the difference between nominal interest rates and estimates of expected rates of inflation—diverged considerably in the three countries; in particular, real interest rates rose more strongly in the United States, where inflation was accelerating in the face of declining monetary growth, than in the two other countries (Chart 17).[1] In the United States, real short-term interest rates increased from about zero in 1978 to an average of about 8 per cent during 1981 and the first half of 1982. In Japan and the Federal Republic of Germany, the increase was less marked, from about 2 per cent in Japan and about 1 per cent in the Federal Republic of Germany in 1978 to an average of 5–6 per cent in both countries during 1981 and the first half of 1982.

This change in relative monetary conditions was an important factor contributing to the strength of the U.S. dollar vis-à-vis the yen and the deutsche mark from 1981 to the first half of 1982. The tendency toward higher nominal and real interest rates in the United States attracted foreign financial investments, causing the U.S. dollar to appreciate to a point at which interest rate differentials were offset by the expected rates of subsequent depreciation. This appreciation of the dollar resulted initially in an improvement in the U.S. terms of trade. At the same time, higher nominal and real interest rates contributed to a particularly marked decline in economic activity and in imports. The consequent improvement in the current account position helped to bring about a further exchange rate appreciation. While such effects can be expected to be temporary because the loss of competitiveness will in the longer run lead to a worsening of the current account, past experience would suggest that they can persist for a substantial period of time.

In addition to the difference in monetary conditions, several other factors may have played a role in the large net appreciation of the U.S. dollar vis-à-vis the yen and the deutsche mark, notably in real terms, between the third quarter of 1979 and the middle of 1982. In particular, since Japan and the Federal Republic of Germany are relatively more dependent on imported oil than the United States, the sharp increase in the price of oil in 1979–80 had a more substantial impact, proportionally, on their balance of payments than on that of the United States. Moreover, the weakness of the U.S. dollar in 1977–78 had led to a strong U.S. competitive position, which, with a lag, favored the improvement of the U.S. current account during 1979–80. There was an opposite situation in Japan and in the Federal Republic of Germany; strong appreciation of the yen and the deutsche mark in 1977–78 had led to weak competitive positions, which favored negative current account changes during 1979–80. In addition, it may be noted that the extent of the depreciation of the yen during the latter half of 1979 was probably also related to a perception in the market that, in its prolonged previous appreciation, the yen had substantially overshot its sustainable value.

It is more difficult to explain the continued strength of the U.S. dollar during the second half of 1982 and the first half of 1983. Monetary conditions, as reflected in short-term real interest rates, probably remained more restrictive in the United States than in the two other countries, but the difference was being rapidly eroded as the U.S. inflation rate declined sharply, bringing about a decline in the growth of transactions

[1] In Chart 17, the expected rate of inflation for each quarter is approximated by the average GNP deflator for three quarters centered on the quarter in question. Projections of the rate of inflation for the second and third quarters of 1983 were used for the end-of-period observations. The same measure of the expected rate of inflation is used to deflate short-term and long-term interest rates. The assumption is that market participants can project reasonably well the evolution of inflation over the near term, but not over the long term, so that even the supply and demand for long-term financial assets are mainly influenced by the ongoing rate of inflation. There is some evidence for this hypothesis; nevertheless, too much should not be made of these calculations, in particular those concerning the long-term rates. The main purpose of the calculations is to introduce some allowance for inflationary expectations in the appraisal of the levels of interest rates.

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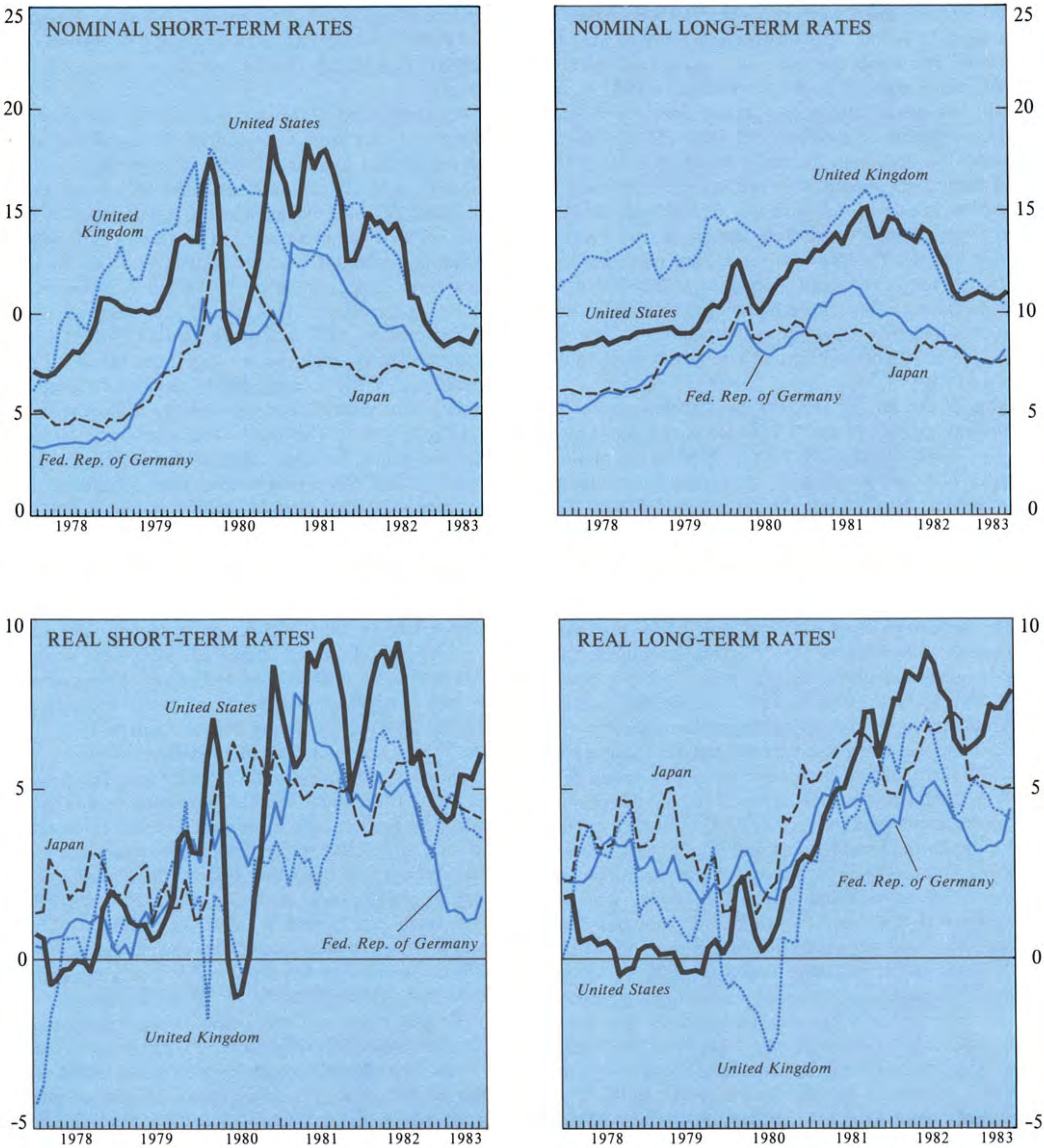
Chart 17. Four Major Industrial Countries: Nominal and Real Interest Rates, January 1978–June 1983

(In per cent per annum)



[1] Nominal interest rates are deflated by changes in the deflator of private domestic demand averaged over the previous quarter, the current quarter, and the next quarter to obtain real interest rates.

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demand for money, while the rate of U.S. monetary expansion rose. Such a reduction of the earlier divergences in monetary conditions tended to weaken the dollar and to strengthen the yen and the deutsche mark. Furthermore, there were two other factors acting in the same direction. The relative U.S. current account position worsened markedly in the second half of 1982 and is expected to worsen further in 1983 as the major changes in relative competitive positions induced by the exchange rate changes of 1980–82 continue to be felt. The decline in the real price of oil in late 1982 and early 1983 should have had an effect opposite in direction to that of the price rise of 1979–80. In fact, there was a period of marked depreciation of the U.S. dollar vis-à-vis the deutsche mark and, more particularly, the yen in November–December 1982. However, the period of dollar depreciation was short-lived and was followed by a phase of new strength vis-à-vis the deutsche mark and stability, at a relatively high value, vis-à-vis the yen.

One of the factors that can be associated with the persistent strength of the U.S. dollar during the second half of 1982 and the first half of 1983 is the marked change of expectations with respect to the evolution of the U.S. fiscal deficit during the mid-1980s. The emerging expectations of a large and persistent deficit may have led economic agents to revise their expectations of future U.S. interest rates upward. This would help explain why U.S. interest rates, in particular for longer maturities, have remained high despite the sharp decline in U.S. inflation. Real interest rate differentials on long-term financial assets were probably more favorable to U.S. assets in 1982 and the first half of 1983 than at any time during the previous three years.

In sum, the change of expectations with respect to the U.S. fiscal deficit may have played the same role during 1982 and the first half of 1983 as the change in expectations with respect to U.S. monetary conditions during the previous two and a half years. Nevertheless, it must be recognized that the magnitude of the net real appreciation of the U.S. dollar vis-à-vis the yen and the deutsche mark over the past four years—about 30 per cent vis-à-vis the yen and 40 per cent vis-à-vis the deutsche mark—is difficult to explain in terms of a succession of overshooting effects, or in terms of the longer-run implications of a fiscal deficit for the structure of the balance of payments. The major shift in the United States from a rate of inflation of about 8 per cent in the period 1978–79 to a rate of only 3 to 4 per cent in the early months of 1983 may also have contributed to the appreciation of the U.S. dollar. If economic agents prefer holding their financial assets in "strong" currencies, that is, the currencies of countries with low inflation rates, the recent success of the United States in restoring greater price stability will have enhanced the attractiveness of U.S. dollar assets. Last but not least, as discussed in Chapter 1, the U.S. dollar may in recent years have benefited from capital inflows induced by unsettled economic and political conditions abroad, as well as a favorable political climate for private investment in the United States.

For the United Kingdom, the exchange rate strength of the past four years also seems to be associated with the adjustment to reduced rates of monetary growth, although it is difficult to disentangle this effect from the effect of rising oil production and changes in the price of oil. The initial response of the rate of inflation to the tightening of monetary policy in 1979–80 was even more disappointing in the United Kingdom than in the United States. The rate of inflation rose from 11 per cent in 1978 to 19 per cent in 1980, largely because of sharp increases in wage rates following the breakdown of the incomes policy, the readjustment of public sector salaries, and the shift from income taxes to indirect taxes. The result was a severe monetary squeeze, which, together with favorable oil developments, pushed the pound sterling sharply upward. As the inflation rate began to decline in the course of 1981 and economic agents ceased to adjust their expectations of U.K. interest rates upward, the pound sterling began to decline from the high peak reached in the first quarter of 1981. However, the decline stopped late in 1981 and began again only one year later, when oil prices appeared likely to weaken markedly. Even after that second phase of the decline, the real effective exchange rate of the pound sterling was still about 30 per cent higher than in 1978, the year before the tightening of monetary policy.

Over the past four years, the exchange rates among the major EMS countries that maintain common margins of fluctuation were more stable in real terms than the rates among the major floating currencies (or currency groups). During this period, there were seven currency realignments, but most realignments were relatively small and tended to offset the effects of differences in inflation rates. The major exceptions were the realignments of February 1982 and March 1983, which led to a substantial decline in the exchange rates of the Belgian franc and the French franc vis-à-vis the deutsche mark and the Netherlands guilder. The relative stability of real exchange rates in the EMS was achieved with little or no convergence of inflation rates; on the whole, the inflation differentials were as large in 1982 and early 1983 as in the last years of the 1970s.

An important factor explaining the ability of the EMS countries to stabilize real exchange rates among

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their currencies is the somewhat more limited role of private financial transactions in the determination of these exchange rates. Except for the Federal Republic of Germany, the EMS countries have financial markets that are less diversified and less open to the outside than those of the United States, Japan, and the United Kingdom. At times, private capital flows may occur on a large scale, in particular through changes in the leads and lags for payments of trade transactions, but the type of persistent exchange rate overshooting that is caused by portfolio reallocation is less of a problem.

In addition, the EMS countries have accepted the existence of a common constraint on their financial policies, at least to some extent. In Belgium and Denmark, the exchange rate constraint induced a stronger domestic adjustment effort involving both a suspension of wage indexation and a shift toward a more restrictive budgetary policy. In France, the authorities had to end their isolated attempt to shift toward a more expansionary stance of financial policies, in part because of the resulting pressures on the exchange rate. More generally, interest rate policies have been used to foster exchange rate stability in the period between two currency realignments, mainly in countries with weak currencies, even though this has resulted in fluctuating interest rates (Chart 18).

However, the willingness to accept the existence of a common constraint has stopped short of adopting policies that would have ensured a convergence to low inflation rates in all EMS countries. It is impossible to assess what would have happened in the absence of the EMS exchange rate arrangements, but so far their disciplinary effect has not been as large as expected, and the EMS has not yet achieved its intended goal of fostering the emergence of a "zone of greater monetary stability" in Europe. In fact, the cumulative changes in nominal exchange rates that have taken place over the past four years have been larger than those during the previous four years. Furthermore, the frequency of realignments has been such that without some convergence of inflation rates in the near future and a reduction in the frequency of realignments, the system may begin to assume the character of a crawling peg.

Some Policy Implications

The above review of exchange rate developments over the past four years suggests that there are particular factors that generate exchange rate swings during a transitional period from high to low inflation rates. The main one is that the speed of adjustment of the inflation rate to the rate of monetary growth tends to differ among countries because of differences in the strength of inflationary expectations, the flexibility of the goods and labor markets, and the behavior of economic agents. To reduce these differences so as to achieve greater exchange rate stability is a difficult task. Nevertheless, there is much that the authorities of the countries with persistent inflationary tendencies can do to facilitate adjustment. By following an adequately restrictive monetary policy, supported by a fiscal policy consistent with the maintenance of low rates of monetary growth in the future, the authorities can foster the reduction of inflationary expectations. Moreover, they can influence these expectations by making it clear that they will not accommodate wage and price increases through monetary expansion, despite temporary adverse consequences for the level of employment. By reducing rigidities in the goods and labor markets, the authorities can also speed up the actual decline in the rate of inflation. For example, they can modify the application of wage indexation schemes to increase the responsiveness of wages (and thus prices) to changes in the level of aggregate demand. Finally, in some countries, the authorities may be able to use some flexible form of incomes policy as an adjunct to an appropriate policy of demand restraint.

While the authorities are not powerless in the face of the exchange rate swings that occur during a transitional period of adjustment, the prospects for restoring greater exchange rate stability are far better once the period of adjustment is over. As discussed in Chapter 1, the period of adjustment that began in 1979 is not complete, but the reductions in inflation rates that have taken place during 1982 and the early months of 1983, in particular in the United States and the United Kingdom, have demonstrated how much has already been achieved. It is not too early, therefore, to focus on issues that relate to the working of the exchange rate system when underlying economic conditions are relatively stable. In this context, both exchange market intervention and new monetary management techniques making use of the exchange rate as an indicator may have to be considered.

National authorities differ in the importance they attach to the role of sterilized intervention, that is, any combination of operations that change the monetary authorities' net foreign currency assets without changing their total monetary liabilities. These different attitudes largely reflect differences among countries in the size and depth of financial markets, as well as in economic and trade structures. In large countries with deep financial markets, sterilized intervention is viewed as being unlikely to have a significant and lasting effect, in part because of the scope for offsetting private capital flows. On the other hand, in some of the smaller

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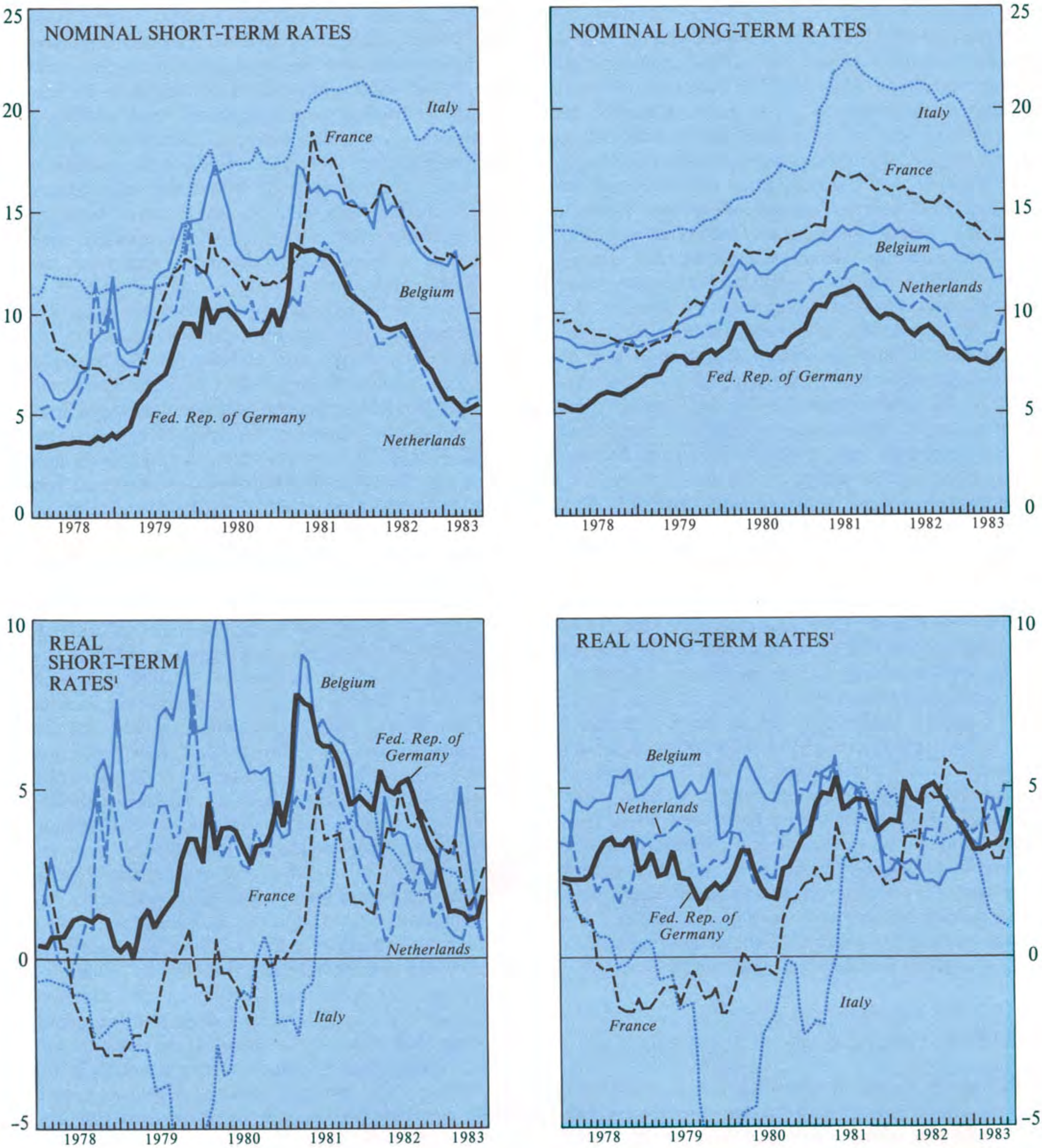
Chart 18. Selected Members of the EMS: Nominal and Real Interest Rates, January 1978–June 1983

(In per cent per annum)



[1] Nominal interest rates are deflated by changes in the deflator of private domestic demand averaged over the previous quarter, the current quarter, and the next quarter to obtain real interest rates.

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industrial countries that have less highly developed financial markets and, possibly, more control over capital flows, the tendency is to believe that sterilized intervention can play an important role in contributing to exchange rate stability. Even in these countries, however, it is clear that there are risks associated with exchange market intervention, including the risk that a system designed to avoid undue exchange rate movements may tend to postpone needed exchange rate adjustments. This risk is clearest in situations where the authorities are implementing some form of exchange rate pegging, but it may also be present under a regime of managed floating. The difficulty of assessing these risks helps to explain the diversity of views among the authorities in large industrial countries on the appropriateness of intervention.

While there is general agreement that official intervention should be undertaken to counter disorderly market conditions, the definition of such conditions is not easy. The U.S. authorities have expressed the view that in practice disorderly market conditions are rare and that intervention should be undertaken only under extraordinary circumstances, while other countries take the view that intervention may be required to give depth to markets that are "thin" and susceptible to an undesired degree of volatility, to offset the effects of other market inefficiencies, or to counter destabilizing speculation.

Even more fundamental differences of view surround the question of whether, for a given country, exchange market intervention can be effective in preventing an exchange rate from deviating unduly from the level that the authorities of that country consider reasonable on the basis of underlying economic and financial conditions. The experience of recent years suggests that the effectiveness of intervention in this context depends in part on whether the intervention is coordinated among major countries, and whether these countries are willing to commit themselves publicly to the defense of a certain exchange rate objective and to direct their economic and financial policies (and not merely intervention policy) to this objective. One reason for this may be that intervention per se has little effect on exchange rate expectations unless private market participants have reason to believe that the authorities are willing to continue to intervene in the future, and if necessary to modify their domestic policies, to prevent the exchange rate from moving beyond a certain point, at least over the near term.

Many of the issues concerning the role of intervention were recently reviewed by the working group set up by the seven largest industrial countries at the summit meeting in Versailles in June 1982. In its report, the working group was able to find a substantial area of common ground among the seven countries. In particular, the report indicated that "the Working Group felt that intervention had been an effective tool in the pursuit of certain exchange rate objectives—notably those oriented towards influencing the behaviour of the exchange rate in the short run. Effectiveness was found to have been greater when intervention was unsterilised than when its monetary effects were offset. . . . There was also broad agreement that sterilised intervention did not generally have a lasting effect, but that intervention in conjunction with domestic policy changes did have a more durable impact. At the same time, it was recognised that attempts to pursue exchange rate objectives which were inconsistent with the fundamentals through intervention alone tended to be counterproductive." [2]

In many respects, monetary management techniques making use of the exchange rate as an indicator may be a more promising approach to greater exchange rate stability than intervention. In recent years, it has been particularly difficult to assess the degree of restrictiveness inherent in a country's monetary policy stance. On occasion, this has led to the implementation of policy measures that destabilized both the domestic economy and the exchange rate. The development of reliable policy indicators is thus a matter of continuing concern. In particular, it is worth considering to what extent exchange rate stability and the performance of domestic monetary policy can both be enhanced through the use of the exchange rate as a policy indicator.

All of the major industrial countries, and many of the smaller ones as well, have relied heavily during recent years on preannounced monetary targets in the implementation of credible anti-inflation policies. In many circumstances, however, interpretation of monetary growth has been obscured both by short-run fluctuations in the demand for money related to shifts in market expectations and by structural and regulatory changes affecting the banking system. Changes in interest rates have at times provided important additional information, helping to indicate whether monetary growth can be ascribed chiefly to policy-induced increases in supply or to increases in demand. As a first approximation, for example, when rising interest rates coincide with accelerating monetary growth, this might suggest an upward shift in the demand for money balances. The difficulty with this interpretation is that the interest rates in recent years have been strongly affected by inflationary expectations, which may well

[2] Working Group on Exchange Market Intervention, established at the Versailles Summit of the Heads of State and Government, June 4, 5, and 6, 1982, *Report of the Working Group on Exchange Market Intervention,* March 1983, page 17.

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have been quite volatile and difficult to assess during periods when monetary policy is changing course.

For countries with independently floating or highly flexible exchange rates, changes in exchange rates provide further information that frequently has helped to clarify the picture emerging from monetary growth and changes in interest rates. Because restrictive monetary policies tend to induce exchange rate appreciation in real terms, and conversely for expansionary policies, sustained movements in real exchange rates may provide a helpful supplement to monetary growth and interest rate changes in indicating the thrust of a country's policy relative to that in other countries. As indicators of policy stance, however, exchange rates alone have serious defects. As the experience of the past decade has clearly demonstrated, exchange rates have been affected by a variety of influences and have not always provided an unambiguous indication of the direction of monetary policy, much less the degree of stimulus or restraint. The usefulness of the exchange rate as an indicator of the relative stance of monetary policy derives primarily from its relationship to other information. Changes in exchange rates can serve only as a supplementary indicator, helping to provide an interpretation of other developments, including changes in monetary growth and interest rates.

Developing Countries

The extent to which developing countries were able to achieve needed adjustment in recent years in the face of a worsening external environment was clearly affected by factors over which they had relatively little control. Conditions in international commodity and credit markets, as well as structural impediments to shifts in the pattern of resource allocation and production, were particularly important in this respect. Nevertheless, their economic policies with regard to exchange rates, demand management, and interest rates also had a significant influence on the wide variations among these countries with regard to the outcome of the adjustment process.

Exchange Rate Experience

The principal factors influencing a developing country's choice of exchange rate regime, discussed in detail in previous Annual Reports, include the desire to minimize the costs associated with short-term variations in exchange rates among the currencies of major trading partners, expectations concerning the medium-term behavior of the exchange rates of these currencies, and, for countries with more flexible arrangements, the influence of exchange rate considerations on formulation of domestic economic policies. Since 1977, there has been a tendency to move away from single currency pegs, and in particular away from the U.S. dollar, to a currency composite, or to alternative, more flexible, arrangements. (See Table 12.) The group of countries with more flexible arrangements includes a small number of countries that adjust their exchange rates according to a set of indicators related to the relative movements of domestic and foreign prices.

Most countries whose currencies remain pegged to a single currency have been reluctant to adjust the peg in response to movements in exchange rates among major currencies. As a result, the nominal effective exchange rates of these currencies have tended to appreciate or

Table 12. Developing Countries: Exchange Rate Arrangements, 1977–83 [1]

(Number of countries)

	1977	1978	1979	1980	1981	1982	1983
Pegged to a single currency	67	62	61	58	56	56	54
U.S. dollar	44	41	41	40	38	38	36
French franc	14	14	14	14	14	13	13
Other currency	9	7	6	4	4	5	5
Of which, pound sterling	*4*	*4*	*3*	*1*	*1*	*1*	*1*
Pegged to composite	26	28	27	32	32	34	35
SDR	12	15	13	15	14	15	14
Other composite	14	13	14	17	18	19	21
Flexible arrangements	17	23	29	28	32	35	36
Adjusted according to a set of indicators	7	5	4	3	4	4	5
Other [2]	10	18	25	25	28	31	31
Total	110	113	117	118	120	125	125

[1] Based on mid-year classifications; excludes Democratic Kampuchea, for which no current information is available.
[2] This category comprises the following categories used in Table 13: "Flexibility limited vis-à-vis single currency," "Other managed floating," and "Independently floating."

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depreciate along with the currency to which they are pegged. For instance, the nominal import-weighted effective exchange rates of currencies pegged to the U.S. dollar appreciated by some 20 per cent on average over the period 1980–82, while the nominal effective exchange rates of currencies pegged to the French franc depreciated by 6 per cent on average over the same period. For many of the latter countries, the effective depreciation was substantially reduced by the large proportion of trade conducted with France or with other countries whose currencies are pegged to the French franc.

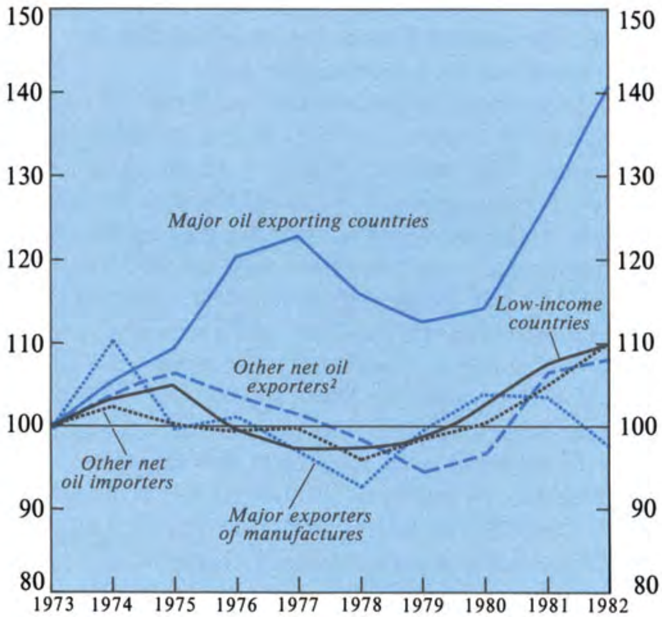
A number of countries have been reluctant to adjust nominal exchange rates when rates of inflation are higher than those of their major trading partners. This has tended to reduce the relative profitability of producing internationally tradable goods, thereby encouraging a shift of resources toward the sectors producing nontradable goods. One indicator of such shifts in profitability or competitiveness in the production of tradable goods is the relative movement of domestic and foreign prices adjusted for changes in exchange rates, that is, an index of the "real" effective exchange rate.[3] When a country's rate of inflation, adjusted for movements in nominal exchange rates, remains persistently higher than the inflation rates of its trading partners, there is generally an eventual reallocation of resources away from the tradables sector, which tends over the long run to weaken the external current account. Furthermore, when adverse changes in the terms of trade or other exogenous factors (such as an increased cost of servicing its external debt) have produced a long-term deterioration in the structure of a country's balance of payments, policies to increase, rather than just maintain, the relative price of tradable goods may be required.

The composition of countries' exports and economic activity also influence their exchange rate experience. For instance, most major oil exporters had substantial current account surpluses for much of the period 1973–82 and consequently did not undertake exchange rate measures even though their domestic inflation rates were generally higher than those of their major trading partners; as a result, their real effective exchange rates appreciated substantially. (See Chart 19.) This appreciation, which was particularly strong during the period 1980–82 because most of these countries' currencies

[3] In the following discussion, prices are measured by the consumer price index, with indices of partner countries averaged by using import weights, and exchange rates are measured by an import-weighted index of effective exchange rates. Some of the limitations of this index, and the reasons for using it rather than alternative indices, were described in *World Economic Outlook* (April 1982), pages 120–26. There have, in general, not been large differences between import-weighted indices and indices based on SDR or export weights.

Chart 19. Developing Countries: Real Effective Exchange Rates, by Analytical Subgroups of Countries, 1973–82 [1]

(Indices, 1973 = 100)



[1] These indices measure the evolution of a country's prices relative to those of its trading partners, adjusted for exchange rate changes. Prices are measured by the average annual consumer price index, with indices of partner countries averaged by using import weights, and exchange rates are measured by an import-weighted index of average annual effective exchange rates. Group indices are unweighted averages of country indices.
[2] Within the group of "non-oil developing countries."

also appreciated along with the U.S. dollar, tended to discourage economic diversification by reducing the competitiveness of domestic production of non-oil tradable goods.

The real exchange rates of the group of non-oil developing countries classified as net oil exporters were also influenced by developments in the world oil market. After a period of depreciation from 1975 to 1979, real exchange rates appreciated significantly through mid-1982 because rates of inflation higher than those of trading partners were not, in general, offset by exchange rate action. Beginning in the second half of 1982, however, devaluations by several of these countries, including Mexico, as part of comprehensive adjustment programs, contributed to a decline in their real effective exchange rates.

By contrast, countries classified as major exporters of manufactures have generally had relatively stable real effective exchange rates since 1973, despite a wide variation in the rates of domestic inflation within the group. The major exception was Argentina, where a sharp real appreciation occurred during the period

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1978–80, which was, however, reversed in 1982. The general stability of real exchange rates reflected an active use of exchange rate policies to maintain external competitiveness. Such policies were pursued to take advantage of the substantial diversification of these countries' economies and the consequent wide opportunities for switching resources to production for foreign markets or for import substitution.

These substitution possibilities, and price and income elasticities of demand for the exports of these economies that are generally higher than those of other non-oil developing countries, contributed to the ability of most major exporters of manufactures to cope with the adjustment problems of the past decade. The high degree of their integration into world trade and the international financial system, however, also caused some of them to be particularly affected by the global recession that began in 1980 and by the subsequent increase in protectionist measures in industrial countries. In response to these adverse developments, various economic strategies were followed within the group. Those countries, including most countries in Asia, that placed greater emphasis on maintenance of an appropriate exchange rate and domestic cost-price structure had, on the whole, greater success in reducing the size of their external imbalances, and their economic growth performance generally matched or exceeded that of countries that pursued policies involving less emphasis on the maintenance of international competitiveness.[4]

Other net oil importing countries—namely, middle-income primary producers and countries in the low-income group—faced a wide variety of circumstances. In a number of countries, particularly those that already had a relatively important manufacturing sector, the authorities successfully responded to the adverse external environment of the past three years by promoting diversification of exports and import substitutes. A key factor in this diversification was the provision of appropriate price incentives, including stable or declining real exchange rates, which were achieved through relatively moderate rates of domestic inflation (as in India, Ivory Coast, and Thailand) or through flexible exchange rate policies offsetting more rapid rates of inflation (as in Turkey).

Nevertheless, many countries exporting primary products, particularly in the low-income group, experienced an appreciation of their real effective exchange rates, especially after 1979. The largest real appreciations took place in some of the larger African countries, where exchange rate policies were not used with sufficient flexibility to offset relatively high rates of domestic inflation.

The Role of Exchange Rate Policies in External Adjustment

The authorities in many developing (and some industrial) countries are sometimes hesitant to use devaluation as a policy tool to correct an unsustainable external deficit, in part because of concern with its short-term costs and in part because of uncertainties as to its results. The costs are often seen in terms of the political and social repercussions of the effects of a devaluation on the distribution of income, particularly through its impact on consumer prices. The repercussions of these distributional effects may be regarded as costly even when they merely reverse the impact of earlier events and policies that had increased the relative prices of nontradable goods. The potential medium-term benefits of a devaluation are viewed as uncertain both in strength and timing, because the magnitudes and lags of the demand and supply responses to price changes are difficult to predict. Moreover, the trend toward greater protectionism in the industrial countries is seen as a factor reducing the potential impact of devaluation on the volume of a country's exports.

The effect of a devaluation on the balance of payments depends on the response of domestic supply of and demand for tradable goods to the shift in relative prices and on the impact of the devaluation and accompanying policy measures on the balance of aggregate supply and demand. The former effect will in turn depend in part on the structure of the economy and the nature of its exportables. On the one hand, a country with considerable exports of manufactures may have a relatively high short-run price elasticity of export supply, because existing plant and equipment can be used more intensively and output can be redirected from domestic to foreign markets. One recent notable example of such a redirection of output has been that achieved by Turkey over the period 1979–82.

On the other hand, a country exporting only a small number of commodities that do not compete with other goods in production or consumption may experience a limited short-run supply response to a devaluation. In such a situation, which is typical of most low-income countries, structural adjustment often takes considerable time; it may also require a substantial amount of new investment and, since these countries have limited access to world financial markets, additional concessional financing from abroad. Even for these economies, however, a sizable increase in production costs of a primary product relative to its local currency price

[4] These points are presented and discussed in more detail in *World Economic Outlook* (May 1983), Appendix A-5, pages 131–37.

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tends to discourage its production; it can also divert export receipts from official to parallel markets. There is now ample evidence that maintenance of international competitiveness is a key element in maintaining or increasing export market shares.[5] Instances of the latter development over the period 1979–82 are provided by Burma and Kenya, which managed to expand the volume of their exports following declines in their real effective exchange rates.

The size and speed of supply responses are not, however, solely structural characteristics of an economy, but are greatly influenced by domestic pricing and demand management policies. The links between exchange rate policy and decisions on production and investment are stronger, the greater is the flexibility of the domestic price structure and the more economic agents, including those in the public sector, are allowed to react to price incentives. Appropriate demand management policies, by convincing producers that the increase in profitability in the tradable goods sector is not a temporary development, serve, inter alia, to reduce inflationary expectations and to encourage necessary long-term resource shifts. If the sources of internal inflation are not eliminated, the shift in the cost-price structure in favor of the tradable goods sector will soon be eroded, requiring further exchange rate action.

A number of countries, including Argentina, Brazil, and Israel, have resorted to continuous depreciation of the exchange rate (a "crawling peg") in the face of rapid domestic inflation. Such an approach is clearly preferable to maintaining an unchanged exchange rate, under which severe distortions would soon develop in a situation of rapid inflation. A crawling peg may also be less vulnerable to speculative capital flows than a regime of infrequent changes in the exchange rate. An outcome preferable to any of these alternatives, however, would be a reduction of inflationary pressures. While the use of continuous depreciation might be thought to allow a country to adopt an inflation target without regard to external developments, inflationary expectations soon become entrenched and large segments of the economy seek to protect themselves through various forms of indexation. The resulting increased rigidity of relative prices makes it more difficult to reduce inflationary pressures, or to adjust to external shocks, without substantial adverse impact on the level of economic activity.

[5] Evidence is presented in *World Economic Outlook* (May 1983), Appendix A-5, pages 131–37 to show that over the period 1973–82 countries that have been able to maintain international competitiveness, as measured by an index of the real effective exchange rate, have enjoyed a more buoyant growth of exports.

It has been observed that a group of developing countries exporting similar products faces a low price elasticity of demand for these exports and that, therefore, a simultaneous attempt to increase export supply by exchange rate depreciation by each country in the group would only lead to a deterioration of the terms of trade of all the countries. The importance of this consideration, however, varies substantially among different groups of developing countries, since the price elasticity of demand depends on the nature of the product exported. Although exports of mining and agricultural products without close substitutes in industrial countries generally face inelastic demand, a number of primary commodity exports compete with identical or related goods produced in the industrial world, so that the price elasticity of demand for these goods is not negligible in the medium term, provided that the industrial countries allow greater access to their markets. In addition, there is substantial empirical evidence that industrial countries' imports of manufactures from developing countries are quite price sensitive, and in recent years they constituted the most rapidly growing component of industrial countries' imports from developing countries as a whole. The benefits of this expansion, however, accrued mainly to the major exporters of manufactures and to other middle-income oil importing countries with significant manufacturing sectors. The low-income group of countries (excluding India and China) have only limited exports of manufactures, accounting for some 11 per cent of total exports on average in recent years. A greater diversification of their export base, notwithstanding the potential price effects associated with it, will be required over the medium term if the burden of overall adjustment is not to be forced onto the import side of their accounts. A reversal of recent trends toward more protectionist trade policies in the industrial countries would also have a major influence on developing countries' export prospects; this issue is discussed in greater detail in a later section of this chapter.

The potential benefits of a more appropriate structure of costs and prices are not, however, limited to exports. An exchange rate action can bring substantial benefits on the import side. In particular, in countries where an overvalued currency and a domestic price structure that discriminates against agricultural production have led to large food imports, exchange rate devaluation combined with a shift toward more market-related prices can result in a substantial short-term increase in domestic output of food crops. In recent years a number of countries, including Malawi, Somalia, and Sri Lanka, have achieved significant pro-

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duction responses in domestic agriculture following a shift in the internal terms of trade toward agriculture.

The adjustment problems of centrally planned economies bear special mention. Many of these countries experienced growing external difficulties in 1981 and 1982, particularly on their convertible currency accounts, and, in response, many adopted adjustment programs. Although administrative cutbacks in imports were the dominant feature of most of these adjustment efforts, a number of countries, including Hungary and Romania, did adopt policies involving further movement of relative prices in domestic markets toward those prevailing in world markets, combined with a greater role for financial incentives and decision making at the level of individual economic units. In some countries, particularly Hungary, these policies were supported by more active use of the exchange rate to promote exports and reduce import dependence. As in market economies, the effectiveness of exchange rate and other price corrections in improving the external balance depends on the support provided by measures to restrain domestic expenditure. In addition, recent experience suggests that adoption of market-oriented measures to promote external and structural adjustment may be best supported by further decentralization of economic decision making, accompanied by a greater accountability of enterprises for the financial outcome of their actions.

Exchange Rates and Interest Rate Policy

An exchange rate action often needs to be supported by a shift toward more appropriate interest rate policies, which have a major impact on both resource allocation and demand management. In many developing countries nominal interest rates are held by administrative means at a level below that which would equate the underlying supply and demand for funds, and are frequently held well below current rates of inflation. Although the importance of interest rate policy varies with the institutional framework of a country and the degree of sophistication of its financial markets, interest rates that are not competitive with international rates or with returns on alternative domestic assets generally contribute to lower rates of investment and economic growth, because domestic financial savings are discouraged in favor of the accumulation of stocks of goods or of foreign financial assets. In the past two years, a number of countries, including Jamaica, Thailand, and Turkey, have achieved substantial increases in rates of domestic financial savings following a shift toward positive real interest rates as a result of some combination of higher nominal interest rates and lower inflation.

If interest rates are kept too low, countries typically resort to administrative measures for the selective allocation of credit. Such allocation tends to be influenced heavily by social or political considerations rather than by the productivity of the resulting investment. At the same time, low interest rates in combination with an overvalued currency, which lowers the local currency price of imported capital equipment, can result in the adoption of production techniques that are overly capital intensive and adversely affect employment opportunities. Negative real interest rates also exert a destabilizing influence on demand management: the reduced willingness to hold domestic financial assets exacerbates the inflationary consequences of an expansionary monetary policy. Moreover, the increase in the demand for foreign assets occasioned by such circumstances is difficult to prevent, even in countries with strict capital controls, especially when the currency is overvalued.

Experience suggests, especially for countries with relatively developed domestic financial institutions, that more appropriate interest rates, together with realistic exchange rate policies, can help foster efficient use of resources, which contributes to the required external adjustment while helping to restore a satisfactory rate of economic growth. They can also have a direct impact on the external accounts by encouraging net capital inflows to supplement domestic savings. Recent developments in a number of Latin American countries, in particular, show that expectations regarding future exchange rate movements are also crucial in this regard; if destabilizing short-term capital flows are to be avoided, it is important that a move toward more market-related interest rates be accompanied by exchange rates that are consistent with underlying economic forces.

Protectionism and Developing Countries' Adjustment Policies

In many developing countries, the authorities' initial response to a weakening external position has often been to introduce or intensify restrictions on imports and, less frequently, to adopt various indirect incentives for selected exports. The generally difficult balance of payments situation of non-oil developing countries in 1982 led many of them to intensify import restrictions, particularly in the form of quantitative controls. Restrictions on invisible transactions were also intensified by many countries. Similarly, emerging balance of payments difficulties led to the introduction or intensi-

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fication of import restrictions in some oil exporting countries during the course of the year. Only a limited number of developing countries, including Bangladesh, Haiti, India, Jamaica, Morocco, Pakistan, Tunisia, Turkey, and Uganda, achieved some liberalization of their import regimes. Most of these liberalizations took place within the framework of adjustment programs supported by use of Fund resources. The use of selective export incentives also increased in 1982, as a number of developing countries, particularly in Latin America, sought to promote their exports through new fiscal incentives or preferential financing facilities.[6]

A policy of import controls and selective export incentives generally entails a high cost in terms of economic efficiency. To be sure, the "infant industry" argument may justify some controls and incentives, provided their levels are not excessive and provided they are only imposed temporarily. Nevertheless, if high import tariffs and export subsidies are maintained indefinitely, and if the differences in tariff or subsidy rates between closely related goods are large, the resulting distortion of relative prices leads to an inefficient structure of production and investment and eventually to a lower rate of economic growth than could have been achieved otherwise. In some cases, an increasingly severe foreign exchange constraint leads to even more stringent direct import controls and a resulting sharp decline in output because of dislocation caused by shortages of imported inputs and spare parts. A number of African economies, among others, have experienced such difficulties during the past two years. Such countries are less able to adjust to the impact of external shocks than countries that have followed outward-looking growth strategies.

Moreover, developing countries are an increasingly important market for the exports of members of this group. In recent years about 30 per cent of all exports from non-oil developing countries have gone to other developing countries (including the major oil exporters). Consequently, increased protection within the group of developing countries has a direct impact on the export prospects and adjustment possibilities of the developing countries themselves.

The dampening effect on production of inappropriate relative prices and import shortages caused by excessive trade protection can be reversed by an exchange rate depreciation combined with a liberalization of import restrictions. It is important, however, that these measures be taken in a timely manner, because the longer the economic distortions prevail, the more difficult will be the adjustment process, as patterns of investment and resource allocation adapt to the distorted price structure and vested interests become entrenched.

Both the long-term prospects for export expansion and the ability of developing countries to expand their exports as part of a process of medium-term adjustment depend crucially on expanding the absorptive capacity of the industrial countries, which account for over 60 per cent of all exports from non-oil developing countries. Therefore, the spread of protectionist measures in most industrial countries during the past two years has substantial adverse effects on adjustment possibilities and the longer-term development potential in developing countries. Protectionism generally stems from a desire to limit the loss of employment and reduction in real incomes in specific industrial sectors, rather than from overall balance of payments problems. Consequently, new protectionist measures are concerned mainly with specific commodities, particularly certain manufactures and processed agricultural products, and frequently involve a recourse to nontariff barriers, including quantitative restrictions and voluntary export restraints that may be imposed in a discriminatory (country-specific) manner.

One protectionist measure of particular importance to developing countries is the extension until July 1986 of the Multi-Fibre Arrangement, which regulates developing countries' exports of textiles and clothing to the industrial countries. The protocol extending the arrangement contains understandings that may further restrict trade by allowing for stricter terms of access to markets to be applied to "dominant" suppliers than to other developing countries. This new provision, which will affect primarily Asian developing countries in the group of major exporters of manufactures, is directed at countries that have already demonstrated a significant comparative advantage in the production of textiles and clothing. Other recently introduced measures include the imposition by various industrial countries of quantitative restrictions on imports of steel and steel products, automobiles, footwear, electronic consumer goods, and other manufactured products. Even though some of these measures affect primarily trade among industrial countries, they represent a progressive extension of restrictions to sectors in which developing countries, principally the major exporters of manufactures, have an actual or potential comparative advantage.

Since most of the new protectionist measures involve quantitative restrictions, they will tend to hinder developing countries from undertaking adjustment by means of exchange rate policies designed to expand the vol-

[6] A more comprehensive coverage of changes in countries' trade restrictions is contained in the *1983 Annual Report on Exchange Arrangements and Exchange Restrictions* (International Monetary Fund, Washington, 1983).

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ume of exports. Such restrictions have had only a limited direct impact on the exports of countries without substantial manufacturing production. Nevertheless, the general trend toward greater protectionism in manufactures tends to discourage new export-oriented investment in these sectors and so hinders efforts to achieve a greater diversification of the export base of developing countries.

The existing highly restrictive structure of agricultural protection in most industrial countries has a direct impact on the export potential and adjustment possibilities of a broad range of developing countries. Although a few additional restrictions on agricultural trade have been introduced (including limitations on imports of sugar into the United States, cereal substitutes into the European Community, and meat into the North American market), the structure of this protection has remained largely unchanged in the past two years. However, the level of subsidization and protection of domestic production under arrangements for price equalization has increased markedly as a result of depressed commodity prices. Such an insulation of domestic producers and consumers from changes in supply and demand in international markets shifts the burden of adjustment onto other countries, including many developing countries, by reducing the demand in those markets for the output of lower-cost producers.

To a considerable extent, the pace of adjustment of developing countries will be determined by the speed at which industrial countries are able to adjust to larger and more diversified flows of imports by resisting pressures for new protectionist measures and by dismantling existing restrictions. This is of special importance for the heavily indebted developing countries, which require open foreign markets if they are to generate sufficient export earnings to meet their external debt-servicing requirements. A case for reducing protectionism in the industrial countries will also be easier to make to the extent that developing countries refrain from subsidizing production of export goods, which tends to induce retaliatory measures. Moreover, developing country markets are of growing importance to the industrial countries, so that there are many opportunities for mutually beneficial trade liberalization, which would only increase the stability of the trading system as a whole.

Adjustment and the External Debt of Non-Oil Developing Countries

The current account developments and financing patterns of recent years have led to substantial changes in the level and composition of the external debt of non-oil developing countries, as discussed in Chapter 1. The size of this debt and the related debt-servicing payments have a significant influence on the adjustment process in the countries concerned, in terms of both the policy choices facing national authorities and their continued access to world financial markets. In particular, both the original external borrowing and the ensuing debt-servicing payments will have an important influence on exchange rate policy.

In countries with poorly developed financial markets, an increase in external borrowing to finance domestic expenditure—provided that it is not all devoted to the acquisition of traded goods (such as imported capital equipment)—will lead to an initial improvement in the balance of payments, a rise in the price of nontraded goods relative to the price of traded goods, and a consequent tendency for the real effective exchange rate to appreciate. If the growing size of the country's external debt eventually necessitates a cutback in new external borrowing, the balance of payments will deteriorate, and restoration of external balance may require both an exchange rate depreciation and a reduction of domestic expenditure relative to income.

For some developing countries with relatively well-developed financial markets, especially those in Latin America, the initial improvement in the balance of payments resulting from increased borrowing has tended to be offset by an outflow of private capital. Such outflows have arisen in part because residents have increased the proportion of foreign assets in their portfolios in expectation that the exchange rate would have to depreciate in the long run in order to generate the trade surplus needed to service the larger stock of foreign debt. This tendency has not appeared in those countries, for instance in Asia, where such borrowing has been perceived as financing investment in export-oriented industries, thereby improving future current account prospects.

The ability of non-oil developing countries to cope with their debt-servicing burdens depends not only on future levels of world demand and interest rates and on the pursuit of appropriate macroeconomic policies in the borrowing countries but also on the uses made of the resources generated by the external borrowing. If the additional resources made available by external borrowing are used for sufficiently productive investment in the traded goods sector, they will generate future real resources that will permit servicing of the debt without affecting future consumption, as well as directly produce foreign exchange earnings to meet debt-servicing obligations. A poor choice of investment projects, however, perhaps caused by reliance on an inappropriate domestic price structure, may mean that

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future returns from the investments will be insufficient to cover debt service, which will then be partly at the expense of future consumption. Moreover, in many developing countries much of the recent borrowing has been used to finance investment in infrastructure, most of whose output is nontraded. Consequently, even if the investments themselves have a high rate of return, an increase in the relative price of traded goods may be required to generate foreign exchange to meet debt-servicing payments. There is also often a serious imbalance between the maturity structure of the investments and the debt, which increases the countries' vulnerability to the emergence of possibly temporary, but nevertheless serious, debt-servicing problems. This imbalance is especially prevalent in some Latin American countries that have relied excessively on short-term loans from the international banking system.

Borrowing to maintain consumption in the face of temporary declines in income, owing to adverse movements in the terms of trade or internal shocks, might be justified in some instances, especially if there are large costs associated with adjusting to a lower consumption level. Nevertheless, as in the case of borrowing to finance low-return investments, the resulting debt-servicing payments will then be at the expense of future consumption. Such payments will make future adjustment all the more difficult, especially if the factors adversely affecting income prove to be not easily reversed. Under such circumstances, an exchange rate depreciation may well be required as part of the package of expenditure-reducing and expenditure-switching measures to bring about the reduction in domestic consumption and to generate the trade surplus required to meet the debt-servicing payments.

There is evidence that, at least among the major borrowers, the increase in external indebtedness over the past decade has been associated with a higher rate of investment and has not been used primarily to finance consumption at the expense of a lower rate of domestic savings. In this regard, it may be noted that for 14 of a group of 20 non-oil developing countries, including most of the largest international borrowers, the ratio of saving to GNP increased from 1968–72 to 1974–77 and rose further in 1978–81; during the latter period, the saving rates of all but 2 of the 20 countries were equal to or higher than those they had in the period 1968–72.[7]

In the final analysis, the viability of any level of external debt depends to a large extent on the perceptions by foreign lenders of a country's creditworthiness. The marked slowdown in bank lending in the second half of 1982, which, although broadly based, affected particularly Latin American and East European countries, was a major cause of the adjustment of current account balances that took place during the year and that is expected to be carried further in 1983. It is important, however, that increased concern over the outstanding indebtedness of some of the major borrowing countries not result in a further sudden sharp fall in net bank lending, since this could only exacerbate already serious short-term liquidity problems and impede an orderly process of adjustment. The implementation of sound adjustment programs by the countries concerned plays a major role in restoring confidence to international capital markets by convincing creditors that realistic policies are in place to ensure effective utilization of available foreign savings.

Even with effective adjustment policies, however, the external payments situation for many developing countries will remain difficult in the near future. The resolution of debt-servicing difficulties will take time and will depend on renewed growth of economic activity in the industrial countries and of world trade, on measures to promote exports from developing countries, on adequate growth of official development assistance, and on further progress in reducing the high fiscal deficits and inflationary expectations throughout the world economy that are contributing to high interest rates.

Surveillance Over Exchange Rate Policies

Under the Articles of Agreement, the Fund is charged with overseeing the international monetary system in order to ensure its effective operation. Article IV, Section 3(*b*) provides that "the Fund shall exercise firm surveillance over the exchange rate policies of members, and shall adopt specific principles for the guidance of all members with respect to those policies." These principles, which were enunciated in an Executive Board decision adopted in 1977,[8] were reviewed in 1980 and 1982 and will be reviewed again not later than April 1, 1984.

The principles of surveillance emphasize that the Fund is concerned with the policies of all member countries regardless of the exchange rate arrangements to which they adhere. In general, Fund surveillance focuses on the examination of the overall economic

[7] These trends are discussed in more detail in *World Economic Outlook* (May 1983), Appendix A-7, pages 140–44.

[8] See Executive Board Decision No. 5392-(77/63), adopted April 29, 1977, *Selected Decisions of the International Monetary Fund and Selected Documents,* Tenth Issue (Washington, 1983), pages 10–14 (hereinafter referred to as *Selected Decisions*).

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situation of a member country in order to assess the appropriateness of its policies with respect both to the sustainability of its external position and to the effects on other member countries. The existence of a problem and the need for discussion with a member may be signaled by one or more conditions, including exchange rate movements that appear to be unrelated to underlying economic and financial conditions, protracted large-scale exchange market intervention in one direction, unsustainable levels of official or quasi-official borrowing or lending, changes in the use of restrictions on, or incentives for, current or capital transactions, or the pursuit of domestic financial policies that provide abnormal encouragement or discouragement to capital flows.

Issues in the Implementation of Surveillance

As in other recent years, the existence of large and sustained movements in exchange rates among the currencies of industrial countries was a central issue in the implementation of Fund surveillance during 1982 and the first half of 1983. In addition, the emergence of severe debt-servicing problems in a number of developing countries led the Fund to consider the appropriateness of their exchange rate and other adjustment policies even more closely than in the past. Furthermore, the increasing tendency toward protectionism in trade relations and restrictions on financial transactions lent special significance to surveillance over the policies of both developing and industrial countries.

The problems associated with exchange rate variability among the industrial countries remained a major source of concern for the Fund. Particularly worrisome in this context were the pronounced swings in exchange rates among the major currencies. As discussed above, the adjustment from a high to a low inflation rate may itself be a temporary source of these exchange rate swings, but, ultimately, there is no doubt that the achievement of stable underlying economic and financial conditions is a prerequisite for a stable and well-functioning exchange rate system. For this reason, as well as for domestic purposes, the Fund has continued to urge countries to persevere with anti-inflationary policies now in place and to strengthen them whenever necessary.

In addition, the Fund has urged countries to adopt a set of policies that takes adequate account of interactions with economic policies and conditions in other countries. Two problems have been given particular attention. First, as described earlier in this chapter, differences among the major countries in the relative emphasis given to monetary and fiscal restraint may have contributed to the substantial changes that have taken place in real exchange rates. Some differences in the policy mix are naturally to be expected, reflecting economic conditions and social choices of the countries concerned; nonetheless, it is important for countries to take into account the effects of their policy choices on other countries. Second, the effects of anti-inflationary policies on exchange rates have been aggravated by a slow rate of economic adjustment, especially in labor markets. Accordingly, the Fund, taking into account the conditions prevailing in individual countries, has frequently suggested the implementation of supporting measures such as incomes policies or policies designed to reduce structural rigidities in the economy.

A different kind of exchange rate problem has arisen from the lack of convergence of economic conditions among countries attempting to maintain stable nominal exchange rates. Many countries peg their currency either to a single currency or to a currency composite, and other countries participate in a cooperative arrangement. In practice, these countries choose the extent to which it is desirable to adapt their domestic policies to those of the countries to which their exchange rates are pegged, and they occasionally adjust their exchange rates to compensate for the effects of whatever differences remain in economic conditions. These adjustments, however, are especially difficult to implement successfully when a country's underlying policies and economic conditions differ fundamentally from those in countries to whose currencies its exchange rate is pegged. Markets may come to expect recurrent adjustments in one direction, resulting in speculative pressures that necessitate frequent adjustments or the imposition of controls on the flow of capital. The Fund accordingly has stressed the importance of overall convergence of underlying economic conditions as a necessary requirement for the smooth functioning of such exchange rate arrangements.

The Fund must also consider whether members may have used exchange rate policies to gain a competitive advantage. Any depreciation of a country's real exchange rate will at least temporarily improve that country's competitive position. A surveillance issue arises only if a particular devaluation appears to lead to an unwarranted change in competitiveness, namely, one that seems excessive in view of the loss of competitiveness experienced in the past and the size of the current and prospective external imbalances. However, the difficulty of determining appropriate exchange rate adjustments has been particularly acute during the past few years, as the smaller industrial countries have responded to the policies of monetary restraint adopted by the major industrial countries. In these circum-

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stances, with the volume of world trade declining, countries that needed to adjust their balance of payments have had to try to increase their share of total trade. In general, therefore, many of the smaller industrial countries have had to bring about a depreciation of their exchange rates in both nominal and real terms.

There are a number of possibly adverse consequences of currency devaluations that the Fund has urged countries to keep in mind. Most important, devaluations may shift a large part of the adjustment burden onto other small countries that are close trading partners of the devaluing country. It is thus essential to ensure that devaluations not be so large as to raise the possibility of an unwarranted change in competitiveness. In addition, devaluation may weaken a country's own domestic stability by adding to inflationary pressures. These pressures have been especially acute where wages are adjusted automatically for variations in consumer prices, even when they result from variations in prices of imported goods.

The second major surveillance issue faced by the Fund during this period was related to the need for adjustment on the part of developing countries with external debt problems. In this context, the Fund has stressed the need to maintain appropriate exchange rates. As noted earlier in this chapter, there is considerable evidence that those developing countries that have tended to avoid overvaluation of their exchange rates have adjusted better to the harsher external environment of recent years than many other developing countries. In contrast, the trade and growth performance of those countries whose real exchange rates have tended to appreciate has deteriorated relatively more than average. There are, of course, many reasons for this difference in performance, but the difference in growth strategies and in exchange rate policies seem to be an important reason.

The Fund has also stressed that improvement in economic performance requires the implementation of domestic financial policies that provide appropriate support for exchange rate adjustments. Monetary restraint is essential in countries experiencing high rates of inflation, and the general tendency toward increasing fiscal deficits over a number of years—in industrial as well as developing countries—needs to be reversed. In many countries, current account deficits have been in part the result of large structural fiscal deficits that have absorbed a disproportionate share of domestic saving. The fiscal deficits thus have contributed both directly and indirectly to the growth of external debt, which in turn has brought about a debt-servicing burden that has further perpetuated the current account deficits.

Given the extent of the adjustment problems of developing countries, the Fund has encouraged the commercial banks to provide adequate financing in support of Fund-assisted adjustment programs, since abrupt cutbacks in the flow of net bank lending (such as took place in the latter half of 1982) make it more difficult for the non-oil developing countries to maintain an appropriate balance between financing and adjustment. This difficulty is especially serious for the net oil exporters and the major exporters of manufactures, the two subgroups of the non-oil developing countries that rely most heavily on private financing. The Fund has also urged industrial countries to open their domestic markets more fully to both agricultural and industrial exports of developing countries.

The growth of protectionism is of course of concern to the Fund not only in relation to the adjustment problems of developing countries but also in relation to its general surveillance responsibilities. Over the past several years, many industrial and developing countries have introduced various kinds of trade barriers. The proliferation of these measures, including unilateral quotas, bilateral arrangements, and "voluntary restraint" by exporters, directly affects the global allocation of resources, the effectiveness of exchange rate adjustments, and the efficiency of the open multilateral trading system. In the broadest sense, trade restrictions are major impediments to the process of global adjustment because they obstruct the exchange of goods on the basis of comparative costs and retard needed structural change in the domestic economies of countries imposing them. Because of the severe external constraints facing many of the developing countries, the possibility of achieving significant reductions in trade restrictions will depend to a large extent on the leadership provided by the industrial countries. In this connection, the undertaking of the General Agreement on Tariffs and Trade (GATT) at its ministerial meeting in November 1982 "to resist protectionist pressures in the formulation and implementation of national trade policy and in proposing legislation" and "to avoid measures which would limit or distort international trade" is to be welcomed. The ministers also agreed upon a detailed work program to be pursued under GATT auspices, one aim of which will be to "ensure the effective implementation of GATT rules and provisions and specifically those concerning the developing countries, thereby furthering the dynamic role of developing countries in international trade." [9]

It now remains to translate these intentions into concrete policy actions so as to resume progress toward an open multilateral trading environment, which is in

[9] General Agreement on Tariffs and Trade, Press Release No. 1328 (Geneva), November 29, 1982, at pages 3 and 4.

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the interest of both developed and developing countries. To this end, the Fund has intensified its collaboration with the GATT and has placed increased emphasis on these issues in all of its surveillance activities.

Procedures for Implementing Surveillance

The difficult world economic environment and the strains within the international financial system have heightened the need for the effective implementation of surveillance. The Fund, in its most recent review of the implementation of surveillance, took steps accordingly to further adapt established surveillance procedures to improve their effectiveness. Important goals in these efforts are to ensure a uniform treatment of member countries and to encourage exchange rate policies that are consistent with a medium-term global adjustment strategy.

Article IV consultations remain the principal vehicle for the exercise of Fund surveillance over the exchange rate policies of member countries. The discussion and analysis of economic developments in connection with Article IV consultations provide a basis for the Fund's assessment of members' policies from the perspective both of individual members and of the functioning of the international economy. Because of this central role, it is essential that Article IV consultations be held regularly and that their analytical content be comprehensive. In principle, consultations are to take place annually, but in practice it has not proven possible to adhere to a strict annual cycle for all members. In recognition of a need to achieve a higher degree of frequency of consultations, there has been some adaptation of procedures this year. For most members—including in particular those whose policies have a substantial impact on other economies, those that have Fund-supported programs, and those for which there are substantial doubts about the medium-term viability of the balance of payments situation—there will be stricter adherence to an annual consultation cycle. At the conclusion of each consultation, a date by which the Executive Board discussion of the next consultation is expected to be concluded will be set. For members on an annual cycle, the interval between consultations will be limited to 12 months, with a grace period of 3 months beyond the specified date. For other members, an interval greater than 12 months may be proposed, but in no case will it exceed two years. The Executive Board will be notified through periodic reports of any delays in the consultation schedule.

The analytical content of Article IV consultations is continuously adapted to ensure comprehensiveness and relevance. The 1983 review stressed the need for a more expanded coverage of trade policy and for a forward-looking analysis of external debt management consistent with the global economic analysis provided in the World Economic Outlook exercise. In the context of Article IV consultations, more comprehensive analysis of the effects of trade measures on domestic adjustment and the exchange rate, as well as on the country's trading partners, will provide a basis for discussion between the Fund and the member country.

Intensified efforts are being made to improve the coverage of external debt developments and policies in Article IV consultation reports, and, to the extent possible, to provide a forward-looking analysis of a country's debt-servicing prospects. This analysis is not to be confined to countries using Fund resources but is to be employed as a normal procedure for members engaged in significant external borrowing operations. Essential to this effort is the development by the Fund's Bureau of Statistics (in cooperation with the Bank for International Settlements) of a broad data base covering international banking and external debt. Further, under the aegis of the Central Banking Department's technical assistance program, member countries will be provided with more technical assistance in the field of external debt. These activities will enable the staff to provide a more comprehensive analysis of external debt management in the context of Article IV consultations and to inform the Board, at an early stage, of potential payments difficulties faced by individual member countries.

The established procedures for surveillance provide that notifications of changes in members' exchange arrangements be communicated to the Fund within three days. Of the notifications communicated to the Executive Board in 1982, some 80 per cent were in conformity with the three-day standard. Significant changes in a member country's arrangements are normally followed promptly by a staff assessment of the change. In addition, the staff prepares a quarterly paper for the Executive Board, summarizing developments in members' exchange arrangements during the previous quarter.

Changes in exchange rates or exchange rate policies are also the subject of informal discussions between the Fund and the authorities of individual countries. Moreover, the policies of the major industrial countries are discussed during special staff visits as well as by the Executive Board in the context of the World Economic Outlook exercise. Past decisions on surveillance procedures prescribe two other types of discussion that are more formal. First, paragraph V of the Procedures for Surveillance agreed in 1977 requires the Managing Director, when he considers that a member's exchange

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rate policies might not be in accord with the exchange rate principles, to raise the matter informally and confidentially with the member and to inform the Executive Board of his conclusions. Second, the supplemental procedure adopted by the Executive Board in January 1979 authorizes the Managing Director to initiate informal and confidential discussions with a member if he considers that a modification in the member's exchange arrangements or exchange rate policies, or the behavior of the exchange rate of its currency, might be important or might have important effects on other members. If, after prior discussion with the member, he considers that the matter is important, he may initiate and conduct an ad hoc consultation. In 1982, following a preliminary discussion in the Executive Board of the devaluation by Sweden, a special consultation was held between the staff and the Swedish authorities. A comprehensive report on the devaluation was then discussed by the Executive Board.

Following the March 1983 review of surveillance procedures, the Executive Board decided to initiate, on an experimental basis, a system whereby the Executive Board will be notified regularly of all sizable changes in real effective exchange rates. This decision was taken in recognition of the importance of changes in real exchange rates in the adjustment process and the need for the Fund to apply surveillance with respect to exchange rate changes uniformly to all members, irrespective of their exchange arrangements. This procedure will be in addition to existing procedures for notification of changes in member countries' nominal exchange rates. Moreover, it is planned to issue periodic staff reports to the Executive Board containing a review of changes in real effective exchange rates over the most recent period, highlighting changes that are particularly large.

Complementing the surveillance procedures applied to individual countries are the comprehensive analyses of the world economy and the exchange rate system provided in the World Economic Outlook. In this context, the staff analysis focuses on a global medium-term approach to domestic and external adjustment problems. Particular attention is given to the implications for global adjustment of the policies and developments in the major industrial countries. Special studies of current issues are included as a regular feature of the World Economic Outlook.

In addition to regular staff reports on recent developments in international capital markets, trade policy, and exchange and trade restrictions, the staff prepared a number of Executive Board papers on topics related to surveillance. Among these were papers dealing with exchange rate policies in developing countries, issues concerning the Fund's approach to centrally planned economies, the effects of the energy situation on oil exporting countries, interest rate policies of developing countries, and external debt-servicing problems.

Exchange Arrangements of Member Countries

The trend toward the adoption of more flexible exchange arrangements, as noted in last year's Annual Report, continued in 1982 and the first half of 1983. During 1982, six countries changed their exchange arrangements to or from pegged arrangements, of which five moved in the direction of greater flexibility. The other member reverted to a single currency peg in conjunction with a sizable devaluation and an effort to unify its multiple exchange markets. Two other countries that had previously limited the flexibility of their exchange rate in terms of a single currency undertook instead to manage their exchange rate on a flexible basis; a third ceased management altogether and now allows its exchange rate to float independently. Five other countries did diminish the flexibility of their exchange arrangement slightly, but two of these did so within the context of a simplification of their multiple exchange markets. In the first half of 1983, two countries changed their exchange arrangements in the direction of greater flexibility and another two changed their pegs from the U.S. dollar and the SDR to composite currency pegs reflecting their patterns of trade. Of the two countries that undertook to manage their exchange rates with greater flexibility, one moved from a single currency peg, while the other moved from an arrangement under which the flexibility of its exchange rate was limited in terms of a single currency.

At the end of June 1983, the currencies of 54 members were pegged to a single currency (36 to the U.S. dollar, 13 to the French franc, 2 to the South African rand, and 1 each to the Indian rupee, the pound sterling, and the Spanish peseta). Fourteen currencies were pegged to the SDR and 25 to other currency composites. In all, therefore, 93 members had currencies classified under the "Pegged" category. Seventeen members maintained exchange arrangements classified in the category headed "Flexibility Limited." Within this group, 9 currencies were in the subclassification "Single Currency" (all vis-à-vis the U.S. dollar) as a result of having their exchange rates fluctuate within the equivalent of margins of 2¼ per cent or less against an identifiable single currency of another member; the other 8 currencies, as shown in Table 13, were those of countries maintaining cooperative arrangements with the EMS. Thirty-five members maintained exchange arrangements in the "More Flexible" category; of these, 5 adjusted their exchange rates according to a set of indicators, 22 had managed floating rates, and the currencies of 8 members floated independently.

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Table 13. Exchange Rate Arrangements, June 30, 1983 [1]

Pegged					Flexibility Limited Vis-à-Vis a Single Currency or Group of Currencies		More Flexible		
U.S. dollar	French franc	Other currency	SDR	Other composite	Single currency [2]	Cooperative arrangements	Adjusted according to a set of indicators	Other managed floating	Independently floating
Antigua and Barbuda	Benin	Bhutan (Indian rupee)	Burma	Algeria [3]	Afghanistan	Belgium [3]	Brazil	Argentina	Canada
Bahamas [3]	Cameroon	Equatorial Guinea (Spanish peseta)	Guinea [3]	Austria	Bahrain [4]	Denmark	Chile [3]	Australia	Israel
Barbados	Central African Republic	The Gambia (pound sterling)	Guinea-Bissau	Bangladesh [3, 5]	Ghana	France	Colombia	Costa Rica [3]	Japan
Belize	Chad	Lesotho (South African rand)	Iran, Islamic Republic of	Botswana	Guyana	Germany, Federal Republic of	Peru [3]	Ecuador [3]	Lebanon
Bolivia	Comoros	Swaziland (South African rand)	Jordan	Cape Verde	Maldives	Ireland	Portugal	Greece	South Africa
Burundi	Congo		Kenya	China [3]	Qatar [4]	Italy [6]		Iceland	United Kingdom
Djibouti	Gabon		Malawi	Cyprus	Saudi Arabia [4]	Luxembourg [3]		India [7]	United States
Dominica	Ivory Coast		São Tomé and Principe	Fiji	Thailand	Netherlands		Indonesia	Uruguay
Dominican Republic [3]	Mali		Seychelles	Finland [8]	United Arab Emirates [4]			Korea	
Egypt [3]	Niger		Somalia [9]	Hungary [3]				Mexico [3]	
El Salvador [3]	Senegal		Vanuatu	Kuwait				Morocco	
Ethiopia	Togo		Viet Nam	Madagascar				New Zealand	
Grenada	Upper Volta		Zaïre [3]	Malaysia				Nigeria	
Guatemala			Zambia [10]	Malta				Pakistan	
Haiti				Mauritania				Philippines	
Honduras				Mauritius				Sierra Leone [3]	
Iraq				Nepal				Spain	
Jamaica [3]				Norway				Sri Lanka	
Lao People's Democratic Republic				Papua New Guinea				Turkey	
Liberia				Singapore				Uganda [3]	
Libyan Arab Jamahiriya				Solomon Islands				Western Samoa	
Nicaragua [3]				Sweden				Yugoslavia	
Oman				Tanzania					
Panama				Tunisia					
Paraguay				Zimbabwe					
Romania									
Rwanda									
St. Lucia									
St. Vincent									
Sudan [3]									
Suriname									
Syrian Arab Republic [3]									
Trinidad and Tobago									
Venezuela [3]									
Yemen Arab Republic									
Yemen, People's Democratic Republic of									

[1] No current information is available to Democratic Kampuchea. All members whose currencies are pegged to a single currency do so at present within zero fluctuation margins. Members whose currencies are pegged to the SDR or "Other composite" maintain their exchange rates within zero or very narrow margins, seldom exceeding ± 1 per cent about the peg. Within the "Flexibility Limited" category the "Single currency" subcategory lists those members that are observed to maintain an exchange arrangement such that their exchange rate fluctuates with a variability equivalent to 2¼ per cent margins with respect to another member's currency. The subclassification, "Cooperative arrangements," lists the countries participating in the European Monetary System (EMS). With the exception of Italy, which maintains margins of 6 per cent, these countries maintain 2¼ per cent margins with respect to their cross rates based on the central rates expressed in terms of the European currency unit (ECU). Members with exchange arrangements listed under the "More Flexible" category are divided on the basis of the extent to which the authorities intervene in the setting of exchange rates. In some instances the exchange rate is allowed to move continuously over time; if the authorities intervene at all they do so only to influence, but not to neutralize, the speed of exchange rate movement. That exchange arrangement is classified as "Independently floating." Alternatively, the exchange rate may be set for a short interval, usually one day to one week, and the authorities stand ready to buy and sell foreign exchange at the specified rate (the "managed floating" group).

[2] All exchange rates have shown limited flexibility vis-à-vis the U.S. dollar.

[3] Member maintains dual exchange markets involving multiple exchange arrangements. The arrangement shown is that maintained in the major market.

[4] Exchange rates are determined on the basis of a fixed relationship to the SDR, within margins of up to ± 7.25 per cent. However, because of the maintenance of a relatively stable relationship with the U.S. dollar, these margins are not always observed.

[5] Changes in the exchange rate vis-à-vis the U.S. dollar generally occur when the effective exchange rate, as calculated on the basis of the weighted currency basket, deviates by more than ± 1 per cent from the pegged level.

[6] Margins of ± 6 per cent are maintained with respect to the currencies of other countries participating in the exchange rate mechanism of the European Monetary System.

[7] The exchange rate is maintained within margins of 5 per cent on either side of a weighted composite of the currencies of the main trading partners.

[8] The fluctuation band of the Bank of Finland's currency index is currently about 4.5 per cent (equivalent to margins of ± 2.25 per cent).

[9] The exchange rate is maintained within margins of ± 2.25 per cent.

[10] The exchange rate is maintained within margins of ± 2.5 per cent in terms of the fixed relationship between the kwacha and the SDR.

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International Liquidity and Reserves

International reserves, which are defined to include official holdings of gold, foreign exchange, SDRs, and reserve positions in the Fund, were strongly affected by developments in the world economy in 1982. For the first time in more than two decades, the foreign exchange component declined, from SDR 305 billion at the end of 1981 to SDR 295 billion at the end of 1982. Both international reserves and international liquidity, which also takes into account the capacity to borrow from abroad, were affected by developments in exchange rates and exchange arrangements, adjustments in general macroeconomic policies, and the emergence of disturbances in financial markets associated with debt-servicing problems of some developing countries. To limit the adverse impact of these disturbances on the international monetary system, important initiatives were taken by the Fund, which played an active role in promoting adjustment in countries suffering from serious international payments problems. In addition, agreements were recently reached to increase substantially the resources available to the Fund from quota subscriptions and the General Arrangements to Borrow.

The remainder of this chapter examines recent developments regarding international reserves and liquidity. First, the changing composition, distribution, and sources of international reserves are reviewed. This review is followed by a description of the size, composition, and yield of the foreign exchange component of reserves. The role of private international capital markets is then dealt with in terms of their provision of international liquidity and their impact on the adjustment process. Next, the adequacy of reserves and international liquidity is considered. The chapter concludes with a discussion of the measures that the Fund has undertaken to provide liquidity and promote international financial adjustment.

Recent Evolution of Official Reserve Assets

Non-Gold Reserves

In 1982, international reserves, excluding gold, fell by about 1 per cent to SDR 338 billion (Table 14). This was the first annual decline in nominal non-gold reserves since 1959, and it represents a substantial turnaround from the average annual rate of growth of these reserves of 16 per cent in the period from 1974 to 1980 or even from the 5 per cent growth in 1981.

The decline in non-gold reserves in 1982 was the result of a fall of more than 3 per cent in the foreign exchange component of reserve holdings, which was only partially offset by the increase in Fund-related reserve assets—SDRs and reserve positions in the Fund. In general, the behavior of total international reserves, excluding gold, tends to parallel that of the foreign exchange component, which accounts for more than 85 per cent of the total. Nevertheless, beginning in 1980 this relationship has become less close as a result of divergent movements in foreign exchange holdings and Fund-related reserve assets.

In both the industrial countries and the oil exporting countries non-gold reserves declined in 1982 (Table 14). The decline was especially pronounced for the oil exporting countries, whose holdings fell by SDR 4.4 billion, or 6 per cent. The reduction in the holdings of industrial countries amounted to less than SDR 1 billion and was approximately offset by the small increase in the reserve holdings of non-oil developing countries. In this last group, the non-gold reserves of the low-income countries increased by 1 per cent in 1982, but those of the middle-income primary producing countries fell by 10 per cent.

At the end of 1982, the industrial countries held 55 per cent of total non-gold reserves, the oil exporting countries 22 per cent, and the non-oil developing countries 23 per cent (Chart 20). At the end of 1973, in comparison, 66 per cent of total reserves were held by industrial countries, 9 per cent by oil exporting countries, and 25 per cent by non-oil developing countries. These changes demonstrate the extent of the redistribution of reserves from the industrial countries to the oil exporting countries that has taken place in the intervening period. The redistribution reflects primarily shifts in the current account of the balance of payments, largely in response to changes in the value of oil trade.

Foreign Exchange Reserves

Official holdings of foreign exchange declined by SDR 10 billion in 1982 to SDR 295 billion at the end of the year. For both the industrial and the non-oil developing countries, the steepest decline occurred in the first quarter of 1982, and the industrial countries showed a further, smaller, drop in the second quarter. Thereafter, some reconstitution of foreign exchange reserves occurred, resulting in a small net gain over the year for the non-oil developing countries. In contrast, the foreign exchange reserves of the oil exporting countries declined steadily during the year. Although the declines in the foreign exchange reserves of the indus-

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Table 14. Official Holdings of Reserve Assets, End of Selected Years 1973–82 and End of March 1983 [1]
(In billions of SDRs)

	1973	1977	1978	1979	1980	1981	1982	March 1983
All countries								
Total reserves excluding gold								
Fund-related assets								
Reserve positions in the Fund	6.2	18.1	14.8	11.8	16.8	21.3	25.5	29.4
Special drawing rights	8.8	8.1	8.1	12.5	11.8	16.4	17.7	17.5
Subtotal, Fund-related assets	15.0	26.2	22.9	24.3	28.6	37.7	43.2	46.9
Foreign exchange	102.7	203.6	223.9[2]	249.7	296.8	304.8	294.6	293.3
Total reserves excluding gold	117.7	229.8	246.9[2]	274.0	325.4	342.5	337.8	340.2
Gold [3]								
Quantity (*millions of ounces*)	1,022	1,029	1,037	944[4]	952	952	947	947
Value at London market price	95.0	139.8	179.9	367.1	440.2	325.0	392.2	364.1
Industrial countries								
Total reserves excluding gold								
Fund-related assets								
Reserve positions in the Fund	4.9	12.2	9.6	7.7	10.7	13.5	17.1	20.7
Special drawing rights	7.1	6.7	6.4	9.3	8.9	11.9	14.1	14.1
Subtotal, Fund-related assets	12.0	18.9	16.0	17.1	19.6	25.4	31.2	34.8
Foreign exchange	65.7	100.0	127.2	136.1	164.3	159.7	153.2	155.1
Total reserves excluding gold	77.7	118.9	143.1	153.2	183.9	185.2	184.4	190.0
Gold [3]								
Quantity (*millions of ounces*)	874	881	884	789[4]	788	788	787	787
Value at London market price	81.3	119.6	153.4	306.7	364.2	269.1	326.0	302.6
Oil exporting countries								
Total reserves excluding gold								
Fund-related assets								
Reserve positions in the Fund	0.3	5.4	4.4	3.0	4.1	5.8	6.7	7.4
Special drawing rights	0.3	0.4	0.5	1.0	1.2	1.8	2.1	2.0
Subtotal, Fund-related assets	0.6	5.8	4.9	4.0	5.3	7.6	8.8	9.4
Foreign exchange	10.2	55.2	40.1[2]	51.0	66.9	72.4	66.8	60.5
Total reserves excluding gold	10.8	61.0	45.0[2]	55.0	72.2	80.0	75.6	69.9
Gold [3]								
Quantity (*millions of ounces*)	34	34	36	37	40	42	42	42
Value at London market price	3.1	4.8	6.3	14.2	18.5	14.2	17.4	16.2
Non-oil developing countries								
Total reserves excluding gold								
Fund-related assets								
Reserve positions in the Fund	0.9	0.5	0.9	1.0	2.1	2.0	1.7	1.3
Special drawing rights	1.4	1.1	1.2	2.1	1.7	2.7	1.6	1.4
Subtotal, Fund-related assets	2.4	1.6	2.1	3.2	3.8	4.7	3.3	2.7
Foreign exchange	26.8	48.4	56.6	62.6	65.5	72.7	74.6	77.7
Total reserves excluding gold	29.2	49.9	58.7	65.8	69.2	77.3	77.8	80.3
Gold [3]								
Quantity (*millions of ounces*)	114	114	117	118	124	122	118	118
Value at London market price	10.6	15.5	20.2	46.2	57.5	41.8	49.7	45.4

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

[1] "Fund-related assets" comprise reserve positions in the Fund and SDR holdings of all Fund members and Switzerland. Claims by Switzerland on the Fund are included in the line showing reserve positions in the Fund. The entries under "Foreign exchange" and "Gold" comprise official holdings of those Fund members for which data are available and certain other countries or areas, including Switzerland. Figures for 1973 include official French claims on the European Monetary Cooperation Fund.

[2] Beginning with April 1978, Saudi Arabian holdings of foreign exchange exclude the cover against a note issue, which amounted to SDR 4.3 billion at the end of March 1978.

[3] 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.

[4] The decrease recorded in the quantity of countries' official gold holdings from the end of 1978 to the end of 1979 reflects mainly the deposit by the members of the European Monetary System of 20 per cent of their gold holdings with the European Monetary Cooperation Fund. The European currency units issued in return for these deposits are shown as part of the countries' official foreign exchange holdings.

trial and the oil exporting countries were similar in absolute magnitude, at about SDR 6 billion, the proportionate erosion was greater for the oil exporting countries. The increase of about SDR 2 billion in the foreign exchange reserves of the non-oil developing countries reflected divergent regional developments: Western Hemisphere countries registered sharp declines in their holdings, and European and African

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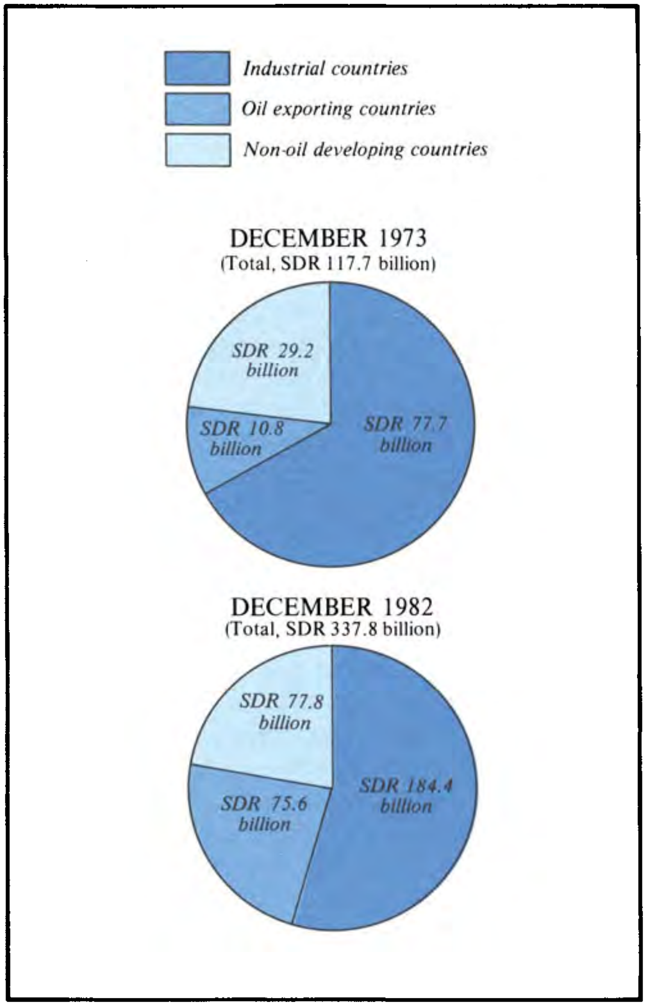
Chart 20. Non-Gold Reserves, December 1973 and December 1982
(In billions of SDRs)



countries also showed losses. However, the Asian countries on the whole maintained their holdings of foreign exchange reserves, and China had a large increase. For the Middle Eastern countries there was also an increase in holdings, though of smaller proportions.

The decline in the foreign exchange holdings of industrial countries in 1982, as in 1981, reflected in part the intervention undertaken to smooth exchange market fluctuations and to support currencies in the face of a strong U.S. dollar. The leading industrial countries, with the exception of the Federal Republic of Germany and the United States, experienced fairly pronounced reductions in foreign exchange reserves. The holdings of many of the smaller industrial countries also declined.

Since U.S. dollar-denominated assets constitute a large proportion of total foreign exchange reserves, changes in the SDR/dollar rate can exert a significant influence on the SDR value of these holdings. Following a 9 per cent appreciation of the U.S. dollar relative to the SDR in 1981, the U.S. dollar appreciated by a further 5 per cent during 1982. This appreciation increased the SDR value of a given volume of U.S. dollar reserves in the same proportion. If foreign exchange reserves are measured in terms of the U.S. dollar, the decline in 1982 is thus steeper—about $30 billion, or 8 per cent, to $325 billion at the end of the year.

Holdings of Fund-Related Reserve Assets

Fund-related reserve assets consisting of both reserve positions in the Fund and SDRs grew by almost 15 per cent in 1982 to reach SDR 43 billion at the end of the year (see Table 14). The growth of Fund-related reserve assets relative to foreign exchange holdings has raised the share of the former in total non-gold reserves almost to the proportion observed at the end of 1973 (13 per cent). Since no allocation of SDRs was made in 1982, the increase in countries' holdings of SDRs resulted mainly from the net use of the Fund's holdings in the extension of credit to members. There was some decline in the Fund's holdings of SDRs, from a peak of SDR 5.5 billion at the end of 1980 to SDR 3.7 billion at the end of 1982. This development was in accordance with the Fund's policy during this period of using its SDR holdings along with its currency resources to finance its lending policy. Reserve positions in the Fund increased by SDR 4 billion during 1982 to SDR 26 billion. As in 1981, most of the increase in these reserve positions accrued to the United States and Saudi Arabia. The reserve position of the United States rose by SDR 3.1 billion, reflecting the larger use of U.S. dollars in Fund operations, while that of Saudi Arabia rose by SDR 1.3 billion as a result of that country's increased lending to the Fund.

Non-oil developing countries reduced their holdings of Fund-related assets by SDR 1.4 billion during 1982. The bulk of the decline occurred in SDR holdings (SDR 1.1 billion), partly as a consequence of their use in repurchase transactions with the Fund and partly because of the exchange of large amounts of SDRs for currencies, notably by Argentina, Brazil, and Mexico. Although the oil exporting countries increased their holdings of Fund-related assets by SDR 1.2 billion, the biggest increase, by SDR 5.8 billion, occurred in the holdings of the industrial countries. Reserve positions in the Fund of the industrial countries rose by 27 per cent, to SDR 17 billion, at the end of 1982, reflecting

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the higher use of the currencies of these countries during 1982 in connection with the extension of Fund credit to other countries. Over the same period, SDR holdings of the industrial countries increased by 18 per cent, to SDR 14 billion.

Gold

The physical stock of gold held as part of official reserves did not change much in 1982 and remained at about 1 billion ounces. The distribution between different country groups of the gold stock also remained stable. There was, however, some use of gold as a collateral for official borrowings by some countries. The decline in gold prices that had occurred in 1981 was partly reversed in 1982, especially in the latter half of the year. During 1982, the market value of gold expressed in SDRs rose by 21 per cent. When gold holdings are valued at market prices, their share in total reserve portfolios rose from 49 per cent in 1981 to 54 per cent in 1982.

Developments in First Quarter of 1983

Compared with the stock held at the end of 1982, total non-gold reserves of all countries increased by about SDR 2 billion at the end of the first quarter of 1983 (see Table 14). While the amount held by the non-oil developing countries grew by a similar amount, there was a sharp decline of almost SDR 6 billion (7 per cent) in the holdings of the oil exporting countries, which matched a gain in the non-gold reserves held by the industrial countries. Total holdings of Fund-related reserve assets grew substantially by about SDR 4 billion, mostly as a consequence of the increase in the reserve positions in the Fund held by industrial countries. Total foreign exchange reserves declined, and there was some shift in holdings from the oil exporting countries to the industrial countries. Among the non-oil developing countries, the decline during 1982 in the foreign exchange reserves held by the Western Hemisphere countries was halted, while the other regions managed to generally maintain or increase their holdings.

Some Characteristics of Foreign Exchange Reserves

This section reviews certain characteristics of the foreign exchange component of international reserves and its recent evolution, taking account of the price and quantity changes affecting its SDR value. The currency composition of foreign exchange holdings is examined, and the sources of supply for foreign exchange reserves are discussed. In addition, the cumulative returns, taking into account both interest earnings and exchange rate movements, on SDRs and major currencies are compared.

Currency Composition and Sources

The tendency toward diversification of reserve currency holdings, which had been observed in the period following the breakdown of the Bretton Woods par value system, began to show a reversal in 1981, a development that continued in 1982. A principal reason for diversifying reserve portfolios is to reduce the perceived risk of capital losses that might arise as a result of significant exchange rate movements. However, the use of the U.S. dollar as an intervention currency, the depth and range of U.S. dollar-denominated financial markets, and, in recent years, the high returns on dollar assets have reduced incentives for diversification of official reserve holdings.

From the end of 1977 to the end of 1980, the share of the U.S. dollar in total identified official holdings of foreign exchange declined from 79 per cent to 69 per cent (see Tables 15 and 16). Since 1980, however, the share of the U.S. dollar has increased; it rose to 71 per cent at the end of 1982. In these calculations, the SDR value of European currency units (ECUs) issued against U.S. dollars is counted as part of total U.S. dollar holdings, and the SDR value of ECUs issued against gold is not counted as part of foreign exchange holdings. However, when ECUs, which in 1982 amounted to 14 per cent of total identified foreign exchange holdings, are treated separately, the share of the dollar declines to 60 per cent of these holdings (see Table 16).

ECUs are issued by the European Monetary Cooperation Fund to the central banks of the members in exchange for the transfer of 20 per cent of the gold holdings and 20 per cent of the gross U.S. dollar holdings of these institutions. These swaps are renewed every three months, and changes in members' holdings of U.S. dollars and gold, as well as in the market price of gold and in the value of the U.S. dollar, affect the amount of ECUs outstanding. In 1982, holdings of ECUs dropped by over SDR 5 billion (12 per cent) largely as the result of a decline in the value of the gold component, which in turn reflected a lagged response to the fall in gold prices during the first half of 1982.[10] While the aggregate amount of the U.S.

[10] At the time the swaps are renewed, gold is valued at the lower of two prices: the average price recorded in the preceding six months and the price on the penultimate working day.

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Table 15. Currency Composition of Official Holdings of Foreign Exchange, End of 1977–End of 1982 [1]

(In millions of SDRs)

	1977	1978	1979	1980	1981	1982
U.S. dollar						
Change in holdings	29,592	11,665	−15,218	10,909	7,281	−7,525
Quantity change	36,096	22,277	−13,854 [2]	5,913	−7,895	−16,095
Effect of price change	−6,504	−10,612	−1,364	4,996	15,176	8,570
Year-end value	150,393	162,058	146,840	157,749	165,030	157,505
Pound sterling						
Change in holdings	52	123	939	2,768	−1,273	−353
Quantity change	−152	156	657	2,199	−392	250
Effect of price change	204	−33	282	569	−881	−603
Year-end value	3,062	3,185	4,124	6,892	5,619	5,266
Deutsche mark						
Change in holdings	4,966	5,299	3,515	8,857	−2,369	−3,668
Quantity change	3,929	4,027	2,559	11,528	−753	−3,625
Effect of price change	1,037	1,272	956	−2,671	−1,616	−43
Year-end value	15,610	20,909	24,424	33,281	30,912	27,244
French franc						
Change in holdings	515	25	137	943	−196	−90
Quantity change	496	−66	86	1,189	266	194
Effect of price change	19	91	51	−246	−462	−284
Year-end value	1,828	1,853	1,990	2,933	2,737	2,647
Swiss franc						
Change in holdings	1,593	−774	1,858	2,624	−244	−914
Quantity change	1,029	−1,258	1,766	3,084	−682	−538
Effect of price change	564	484	92	−460	438	−376
Year-end value	3,701	2,927	4,785	7,409	7,165	6,251
Netherlands guilder						
Change in holdings	51	299	419	652	157	−430
Quantity change	27	222	385	806	266	−405
Effect of price change	24	77	34	−154	−109	−25
Year-end value	822	1,121	1,540	2,192	2,349	1,919
Japanese yen						
Change in holdings	1,079	3,129	850	2,235	1,124	−360
Quantity change	847	2,794	2,149	791	1,018	−208
Effect of price change	232	335	−1,299	1,444	106	−152
Year-end value	2,219	5,348	6,198	8,433	9,557	9,197
European currency units						
Change in holdings	—	—	32,531	15,109	−4,277	−5,399
Quantity change [3]	—	—	27,765	−2,105	−1,229	−1,906
Effect of price change	—	—	4,766	17,214	−3,048	−3,493
Year-end value	—	—	32,531	47,640	43,363	37,964
Sum of the above						
Change in holdings	37,848	19,766	25,031	44,097	203	−18,739
Quantity change	42,272	28,152	21,513	23,405	−9,401	−22,333
Effect of price change	−4,424	−8,386	3,518	20,692	9,604	3,594
Year-end value	177,635	197,401	222,432	266,529	266,732	247,993
Total official holdings [4]						
Change in holdings	41,919	20,289	25,832	46,969	8,029	−10,092
Year-end value	203,606	223,911	249,743	296,712	304,741	294,649

Source: Fund staff estimates.

[1] The currency composition of foreign exchange is based on the Fund's currency survey and on estimates derived mainly, but not solely, from official national reports. The numbers in this table should be regarded as estimates that are subject to adjustment as more information is received. Quantity changes are derived by multiplying the change 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 (except that the average of daily rates is used to obtain the average quarterly SDR price of the U.S. dollar). This procedure converts the change in the quantity of national currencies from own units to SDR units of account. Subtracting the SDR value of the quantity change so derived from the quarterly change in the SDR value of foreign exchange held at the end of two successive quarters then yields the SDR value of the quarterly price change for each currency. All changes are summed over consecutive quarters to yield cumulative changes over the years (or other periods) shown.

[2] Reflects mainly deposits of U.S. dollars by members of the European Monetary System (EMS) in the European Monetary Cooperation Fund.

[3] Quantity changes in European currency units (ECUs) issued against dollars are evaluated by applying the SDR price of the U.S. dollar on the swap date to the estimated change in dollar holdings. Similarly, quantity changes in ECUs issued against gold are determined by applying the SDR price of the ECU on the swap date to the ECU price of gold used by the EMS and multiplying by the change in the number of ounces.

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

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Table 16. Share of National Currencies in Total Identified Official Holdings of Foreign Exchange, End of Selected Years 1973–82 [1]

(In per cent)

	1973	1976	1977	1978	1979	1980	1981	1982	Memorandum: 1982 Including ECUs [2]
All countries									
U.S. dollar	76.1	79.7	79.4	76.9	73.7	68.7	71.1	71.4	60.0
Pound sterling	5.6	2.0	1.6	1.5	1.9	2.9	2.2	2.2	2.0
Deutsche mark	7.1	7.0	8.2	9.9	11.5	13.8	12.3	11.6	10.4
French franc	1.1	0.9	1.0	0.9	0.9	1.2	1.1	1.1	1.0
Swiss franc	1.4	1.4	2.0	1.4	2.2	3.1	2.9	2.7	2.4
Netherlands guilder	0.5	0.5	0.4	0.5	0.7	0.9	0.9	0.8	0.7
Japanese yen	0.1	0.8	1.2	2.5	2.9	3.5	3.8	3.9	3.5
Unspecified currencies	8.1	7.8	6.2	6.3	6.0	5.9	5.6	6.3	20.0
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Industrial countries									
U.S. dollar	86.3	87.0	89.1	86.2	83.5	77.9	78.9	77.2	56.6
Pound sterling	3.7	0.7	0.5	0.5	0.6	0.6	0.7	0.7	0.6
Deutsche mark	2.9	3.8	4.0	6.6	7.5	12.4	11.2	10.8	8.8
French franc	—	0.1	—	—	—	—	—	—	—
Swiss franc	0.8	0.9	0.7	0.4	1.3	1.5	1.5	1.6	1.4
Netherlands guilder	0.3	0.3	0.2	0.3	0.4	0.5	0.6	0.5	0.4
Japanese yen	—	0.4	0.3	1.6	2.0	2.8	3.2	3.9	3.2
Unspecified currencies	6.0	7.0	5.1	4.4	4.5	4.2	4.0	5.2	29.1
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Developing countries [3]									
U.S. dollar	55.0	72.8	68.7	62.7	62.5	58.9	62.8	64.7	64.7
Pound sterling	9.5	3.2	2.8	3.0	3.4	5.3	3.9	4.0	4.0
Deutsche mark	15.9	10.1	12.9	15.0	16.0	15.3	13.6	12.5	12.5
French franc	3.3	1.6	2.0	2.1	2.0	2.5	2.2	2.4	2.4
Swiss franc	2.6	1.9	3.4	2.9	3.3	4.8	4.3	3.8	3.8
Netherlands guilder	0.9	0.7	0.7	0.9	1.1	1.3	1.3	1.2	1.2
Japanese yen	0.2	1.1	2.1	4.0	4.0	4.3	4.5	4.0	4.0
Unspecified currencies	12.6	8.6	7.4	9.3	7.8	7.6	7.3	7.5	7.5
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Various Fund publications and Fund staff estimates.

[1] The detail in each of the columns may not add to 100 because of rounding. Starting with 1979, the SDR value of European currency units (ECUs) issued against U.S. dollars is added to the SDR value of U.S. dollars, but the SDR value of ECUs issued against gold is excluded from the total distributed here.

[2] This column is for comparison and indicates the currency composition of reserves when holdings of ECUs are treated as a separate reserve asset, unlike the earlier columns starting with 1979 as is explained in the preceding footnote. The share of ECUs, amounting to 14.4 per cent for the total and 24.8 per cent for the industrial countries, respectively, has been added to that of unspecified currencies.

[3] The calculations here rely to a greater extent on Fund staff estimates, especially for the oil exporting countries, than do those provided for the group of industrial countries.

dollar component also declined, the appreciation of the dollar relative to the SDR helped to moderate the fall in the value of holdings.

To explain developments in the currency composition of foreign exchange holdings, it is useful to distinguish between price and quantity changes affecting the SDR value of official holdings of foreign exchange (see Table 15). The amount of U.S. dollar holdings declined for the second year in a row, the drop in 1982 being particularly marked. However, the continued appreciation of the U.S. dollar against other major currencies served to increase the SDR value of U.S. dollar reserves. Nonetheless, the effects of the U.S. dollar appreciation were not sufficient in 1982 to prevent an absolute decline in official U.S. dollar holdings expressed in terms of SDRs. The drop in the SDR value of other foreign exchange holdings reflected a decline in the amount held, as well as a depreciation relative to the SDR of nearly all of the other currencies specified in Table 16. Since official holdings of other

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currencies declined to a greater extent than U.S. dollar holdings, the share of the U.S. dollar in foreign exchange reserves increased. In part, the relative position of the U.S. dollar improved because of the high yields that could be earned on U.S. dollar assets in 1981 and 1982.

When measured in terms of U.S. dollars, the decline in identified foreign exchange holdings amounted to about $37 billion in 1982. This reflects a contraction of $25 billion in the amount of foreign exchange held and a negative price effect of $12 billion as a consequence of the depreciation of the other major reserve currencies ($7 billion) and of the ECU ($5 billion) relative to the dollar.

During the 1970s, a number of other currencies were affected by this diversification of official portfolios. The relative share of the pound sterling declined significantly from 1973 to 1979, although some reversal in the trend occurred when the pound appreciated, especially in 1980. The share of the deutsche mark in foreign exchange reserves increased by more than 50 per cent from 1973 to 1982, to about 12 per cent at the end of that period, and holdings of Japanese yen grew from a negligible amount to about 4 per cent (see Table 16). While the use of the deutsche mark for intervention, especially within the European Monetary System, has increased, the U.S. dollar still remains the principal intervention instrument. The other reserve currencies thus appear to be held primarily as working balances to facilitate transactions, as hedges against exchange losses, and as investments.

In addition to official portfolio preferences and the effects of foreign exchange intervention practices, the factors determining the supplies of the various currencies have also affected the evolution of the multiple reserve currency system. When the U.S. current account of the balance of payments was in substantial deficit during 1977–78, the volume of dollar holdings rose sharply, even though the share of the U.S. dollar in total foreign exchange holdings declined as a result of the depreciation of the U.S. dollar relative to the SDR. The reversal in the U.S. current account position in 1980–81 reduced the supply of dollars, but, as noted earlier, the share of the dollar in foreign exchange holdings increased, in part because of the sharp appreciation of that currency relative to the SDR. Broadly similar developments at times also characterized the fluctuations in the share of the deutsche mark in official foreign exchange holdings. The emergence of current account deficits in the Federal Republic of Germany in 1979–80 was associated with a marked increase in the quantity of deutsche mark held as reserves in 1980. Despite some depreciation in the deutsche mark/SDR rate in 1980, the share of the deutsche mark in total foreign exchange holdings rose sharply, from 11.5 per cent in 1979 to 13.8 per cent in 1980.

Attitudes of the national authorities regarding the international use of their currencies also affect the currency composition of reserves. The decision to issue external liabilities denominated in the national currency, which may be held in the reserves of other countries, is sometimes regarded as conferring a balance of payments advantage. This advantage needs to be weighed, however, against the risk of diminished control over domestic monetary developments. Few countries whose currencies are potential reserve assets are content to have their currencies held to any large extent in the foreign exchange holdings of other countries.

The degree of currency diversification differs significantly among major country groups. The larger industrial countries tend to concentrate their reserve holdings in U.S. dollars, although in recent years there has been some diversification even in this group. In contrast, the smaller industrial countries generally exhibit more currency diversification. The most pronounced differences in currency diversification, however, are those between the industrial countries and the developing countries, for which the portfolio or investment aspects of reserve holdings have become important because of the relatively attractive yields that have been offered in international capital markets. Although the ratio of U.S. dollar assets to total foreign exchange holdings has increased to nearly two thirds for developing countries, it remains substantially below the ratio of four fifths observed for industrial countries (see Table 16). While the developing countries have reduced the share of their foreign exchange reserves held in sterling since 1973, that share is still higher than the corresponding share of the industrial countries. Holdings of French franc assets, which are not a significant proportion of industrial countries' reserves, account for over 2 per cent of the foreign exchange reserves of the developing countries. The share of the deutsche mark has increased sharply for industrial countries, especially after the creation of the European Monetary System, but the proportion of this currency in the official portfolios of developing countries has declined in recent years. The share of the yen has, however, increased sharply, for both industrial and developing countries.

The drop in reported total official holdings of foreign exchange in 1982 took the form of a decline in holdings of U.S. dollars, of other currencies, and of ECUs (see Table 17). The fall in reported official claims on residents of the United States amounted to about 5 per cent in 1982 and was similar to the decline estimated for deposits in the Eurodollar markets. However, there is a sizable discrepancy between external

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Table 17. Sources of Official Holdings of Foreign Exchange Reserves, End of Year 1975–82 [1]
(In billions of SDRs)

	1975	1976	1977	1978	1979	1980	1981	1982
U.S. liabilities to foreign official institutions	69	79	104	120	109	123	139	149
Items not included in reported U.S. dollar holdings [2]	−6	−8	−10	−7	−13	−22	−35	−50
Official claims on residents of the United States	63	71	94	113	96	101	104	99
Official claims on residents of other countries denominated in the debtor's own currency	14	17	19	27	30	41	39	38
Subtotal	77	88	113	140	126	142	143	137
Identified official holdings of Eurocurrencies								
Eurodollars	39	47	54	47	49	54	60	57
Other currencies	12	13	19	21	25	34	33	30
Subtotal	51	60	73	68	74	88	93	87
European currency units	—	—	—	—	33	48	43	38
Residual [3]	11	14	18	16	17	19	26	33
Total official holdings of foreign exchange	139	162	204	224	250	297	305	295

Sources: International Monetary Fund, *International Financial Statistics;* U.S. Treasury Department, *Bulletin;* and Fund staff estimates.

[1] Official foreign exchange reserves of Fund members (except for China, for which data are not available) and certain other countries and areas including Switzerland. Beginning in April 1978, Saudi Arabian holdings exclude the foreign exchange cover against a note issue, which amounted to SDR 4.3 billion at the end of March 1978.

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

[3] Part of this residual occurs because some member countries do not classify all the foreign exchange claims that they report to the Fund (mainly China, Hungary, Iraq, Israel, Qatar, and Romania). Includes identified official claims on the International Bank for Reconstruction and Development, on the International Development Association, and the statistical discrepancy.

liabilities to foreign official institutions as reported by U.S. sources, which show an increase of about 7 per cent, and claims on residents of the United States taken from reported reserve holdings, not all of which is explained by the issuance of ECUs (see footnote 2 in Table 17). According to the reported holdings, about one third of U.S. dollar-denominated official foreign exchange holdings is held in the Eurodollar markets. The share of other Eurocurrency deposits in the total of claims denominated in these currencies is closer to one half but showed a significant decline in 1982.

Rates of Return on Major Currencies

In a multiple reserve currency system, considerations of risk and return are among the most important factors determining the allocation of reserve portfolios among short-term investments denominated in different currencies. In principle, monetary authorities might wish to select reserve portfolios that generate adequate returns for given acceptable levels of risk. Crucial criteria in selecting investments are the expectations concerning yields and relative exchange rate movements. Such expectations cannot, of course, be observed, but some inferences about them can be drawn on the basis of observed yields and exchange rate movements.

The cumulative returns on amounts invested at the beginning of the second quarter of 1973 in the money market instruments denominated in the five major currencies that currently comprise the SDR basket are shown in Chart 21.[11] The rates of return on the different assets have at times diverged considerably. An investment of one SDR at the SDR-weighted composite interest rate in the second quarter of 1973 would have grown to SDR 2.409 by the end of the first quarter of 1983, less than the SDR 2.578 that would have been obtained had the investment been placed in U.S. Treasury bills, but more than the SDR 2.023 that would have been realized on a French franc investment. Yields on investments in yen and deutsche mark assets would also have earned more than the SDR standard, while assets denominated in pounds sterling would have earned less. The pattern of cumulative returns relative to the SDR standard differed from period to period. In

[11] For these comparisons, the present currency composition of the SDR that became effective on January 1, 1981 was assumed throughout the period shown. The yields assumed for the calculation are the combined market rate for the SDR and the component rates for the respective currencies. These are described more fully in the Annual Report for 1982.

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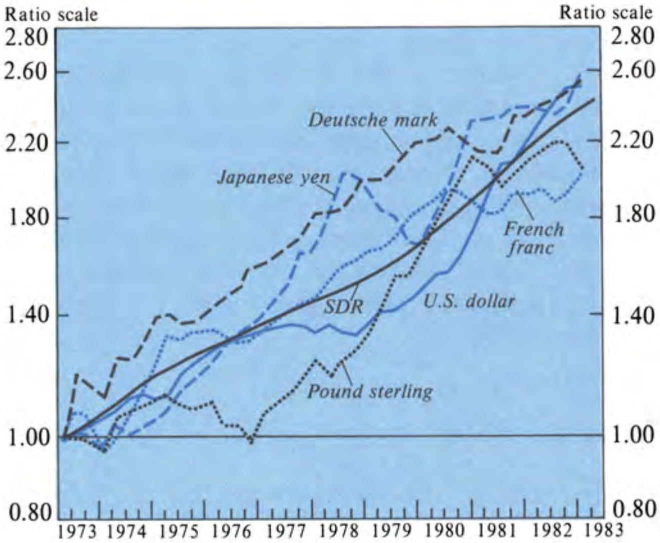
Chart 21. Growth of Investments in Specified National Currencies and SDRs, Second Quarter 1973–First Quarter 1983 [1]

(In SDRs)



[1] Cumulative values (in SDRs) of investments in the SDR and in short-term assets denominated in each of the five major currencies of which the SDR is composed, each investment amounting to SDR 1.00 at the beginning of the second quarter of 1973. For this calculation, the SDR was assumed, throughout the period shown, to have had the present currency composition (i.e., the five-currency basket that became effective on January 1, 1981) and to have earned interest at the full combined (weighted average) market rate of interest on the five national assets.

the period up to the end of 1978, the cumulative return on U.S. Treasury bills amounted to about 87 per cent of the return on the SDR standard investment and to only 65 per cent of the yield on an investment denominated in yen. The relative fluctuations in such returns are a source of uncertainty regarding the profits to be obtained from concentrating reserves in any one currency. An incentive is thus provided to diversify the portfolio and to consider investments in currency composites of which the SDR constitutes one example.

The relative movements in the cumulative returns on investments denominated in different currencies are broadly similar to the observed shifts in the share of national currencies in identified official holdings of foreign exchange (see Table 16). The relatively low return on U.S. Treasury bills in the period to the first quarter of 1981 and the higher yields since that time, correlates with an initial decline and subsequent upswing in the share of U.S. dollar assets in official foreign exchange holdings. As was noted earlier, such movements tend to reflect the reserve-holding behavior of the smaller industrial and developing countries more than that of the major industrial countries.

International Financial Markets, External Debt, and the Adjustment Process

Since private financial markets have come to play an important role in the financing of payments imbalances, the disturbances experienced in these markets during 1981 and 1982 had an important impact on the international adjustment process. In particular, these financial shocks entailed sharp, adverse changes in the availability and, to a lesser extent, the cost of international credit for many developing countries. To limit the extent of these problems and to avoid too harsh and abrupt balance of payments adjustment, international institutions and the governments of several major countries have employed a series of innovative measures designed to help maintain the availability of international credit and reserves. While the disturbances in financial markets in 1981–82 have generally been associated with difficulties in specific banking institutions or countries, the sharp changes in financial flows and interest rates also reflected more general developments, in particular, the major structural changes in international financial markets that occurred during the 1970s and the short-term cyclical developments of the early 1980s. The rest of this section on the role of private financial markets examines how these structural and cyclical factors contributed to the emergence of disturbances of the financial system in 1982 and what these developments imply about the near-term outlook for the international adjustment process.

The Changing Character of International Financial Markets During 1973–82

In the 1970s, international financial markets underwent a series of structural and institutional changes that brought about closer linkages between individual national financial markets and enlarged the role of private financial institutions in the financing of current account deficits of non-oil developing countries. From 1975 to 1982, international bank lending and bond issues grew at an average rate of about 23 per cent per annum. These capital flows reflected the growing integration of capital markets among the largest industrial countries as well as the need to finance expanding trade flows and government budget deficits.

A major stimulus to international bank lending was the need to recycle the current account surpluses of the

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major oil exporting countries during the mid-1970s. One indicator of the importance of private international banking flows in this recycling process is the ratio, for the non-oil developing countries, of the sum of long-term net borrowing from private financial institutions and "other net short-term borrowing" [12] to the sum of the current account deficits and reserve accumulations.[13] During 1974 and 1975, for example, the recycling role of banks expanded, and this private lending ratio rose from 45 per cent in 1973 to 52 per cent in 1975. Thereafter, the relative importance of bank lending declined, with the ratio falling to 36 per cent in 1977, until the renewed rise of current account imbalances at the end of the decade lifted the ratio to another peak at 57 per cent in 1980. Since then, the private lending ratio has receded, and, as debt-servicing problems began to have an impact on the banks' willingness to lend to certain countries, it has dropped sharply to 31 per cent in 1982.

While the non-oil developing countries were also able to obtain funds from a number of official and other non-bank private sources, the importance of private bank lending is evident in the proportion of total external debt represented by liabilities to banks. The total outstanding debt of non-oil developing countries rose from $161 billion in 1974 to $279 billion in 1977 and to $612 billion by the end of 1982. During the 1977–81 period, the proportion of total debt accounted for by debts to banks rose from 43 per cent at the end of 1977 to 55 per cent at the end of 1981.

Although international borrowing on this substantial scale was undertaken largely in response to external developments, it also reflected a tendency in a number of countries toward an excess of investment and government deficits over domestic saving. Private international capital flows, therefore, funded not only adjustments to external disturbances but also expenditure programs and longer-term investment activities, even though many of the loans were of short-term or medium-term maturity. In particular, short-term maturities created the possibility that the required amortization and interest payments on the debt could at times differ considerably from the earnings on the corresponding investments. The likelihood of such a divergence taking place actually increased over the 1970s as a result of changes in maturity, risk, and return of the financial instruments used in the transfer process.

During the period 1975–80, greater variability of inflation, interest rates, and exchange rates accompanied the generally increasing trend in inflation in some of the countries with major financial markets. In addition, rising nominal interest rates imposed large capital losses on holders of fixed-rate bonds. Substantial changes in exchange rates also created the potential for large swings in the value (measured in domestic currency) of financial instruments denominated in foreign currency. In view of this experience, lenders sought protection from risks linked to variation in exchange rates and interest rates both by purchasing instruments of shorter maturity and by showing a preference for instruments that placed a greater share of these risks on the borrower. These preferences were reflected in the development of such instruments as floating rate notes, interest rate swaps, and deferred payment bonds.

Financial Disturbances of 1982

These changes in the characteristics of financial instruments increased the sensitivity of yields and flows in international financial markets to the cyclical effects generated by increases in the real price of oil, higher levels of nominal and real interest rates, a shift toward less expansionary financial policies in the major industrial countries, and a sharp increase in the financing requirements of many of the major debtor countries during the late 1970s and early 1980s. The disturbances in the financial system that emerged during 1982 thus both reflected and contributed to the declining level of economic activity in the world economy.

Economic developments had a significant impact on the debt-servicing capacity and balance of payments positions of some of the developing countries, especially those with large external debts bearing floating interest rates. During 1981 and 1982, interest rates rose to record high levels, which sharply increased the cost of servicing external debts. The exports of developing countries were also adversely affected by the decline in economic activity, which was accompanied by a sharp fall in the prices of primary commodities, stagnation in world trade, and protectionist measures adopted in some industrial countries. The combination of these external developments and, in some countries, the presence of large-scale investment programs and government deficits soon created the need for either significantly higher levels of external borrowing or stringent adjustment programs, or some combination of these two policies. In part influenced by the expectation of an early recovery from the world recession, some countries significantly increased their international borrowing.

While developments in the real sector increased the

[12] This sum is broadly consistent with the national balance of payments statistics measure of net borrowing from private banks.

[13] See Table 10 in Chapter 1.

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financing requirements of a number of countries, disturbances in the financial markets in the last months of 1981 and in 1982 contributed to a serious reduction in the availability of international credit, a redistribution of credit among the groups of industrial, oil exporting, and non-oil developing countries, and the maintenance of high real interest rates. Although international bank lending continued to expand in 1982, the net flows of such credits declined from $165 billion in 1981 to $95 billion in 1982 (Table 18). During the first half of 1982, international bank lending increased at roughly the same rate as in the first half of 1981; but the growth of bank lending, especially to developing countries, dropped off severely in the second half of the year. Total net bank lending to the non-oil developing countries, which had reached about $50 billion in 1980 and 1981, declined to $25 billion in 1982, with only $6 billion occurring in the last six months of the year. This decline can be ascribed to the reduced willingness of banks to lend to certain developing countries. International bank lending to industrial countries also fell, from $99 billion in 1981 to $57 billion in 1982; and the centrally planned economies actually reduced their outstanding bank debt by $4 billion in 1982.

There was also a shift in the sources of banking funds (Table 18). After increasing their combined deposits in banks by $41 billion in 1980 and by $5 billion in 1981, the oil exporting countries reduced these deposits by $19 billion in 1982 as their current account surplus was eliminated. This reduction in deposit holdings by the oil exporting countries was more than offset by an increase in deposit holdings of the industrial countries.

These changes in deposit placements and lending over the period 1980–82 substantially affected the net claims of banks on various country groups. The industrial countries moved from being a relatively small net source of funds in 1980 ($7 billion) to the largest single source in 1982 ($45 billion). Correspondingly, the oil exporting countries switched from being a large net supplier of funds in 1980 ($35 billion) to being

Table 18. External Lending and Deposit Taking of Banks in the BIS Reporting Area, 1978–82 [1]

(In billions of U.S. dollars)

	1978	1979	1980	1981	1982	First Quarter 1982	Second Quarter 1982	Third Quarter 1982	Fourth Quarter 1982
Destination of lending [2]	90	125	160	165	95	20	30	25	20
Industrial countries	38	69	96	99	57	15	10	19	13
Oil exporting developing countries	15	7	6	2	8	1	3	3	1
Non-oil developing countries	24	40	49	51	25	5	14	—	6
Centrally planned economies [3]	7	6	5	5	–4	–2	–1	–1	—
International organizations and unallocated	6	3	4	8	9	1	4	4	—
Sources of funds [2]	90	125	160	165	95	20	30	25	20
Industrial countries	68	66	103	141	102	22	30	26	24
Oil exporting developing countries	3	37	41	5	–19	–1	–6	–3	–9
Non-oil developing countries	14	13	8	9	5	–2	4	–1	4
Centrally planned economies [3]	2	5	1	—	2	–3	1	1	3
International organizations and unallocated	3	4	7	10	5	4	1	2	–2
Change in net claims [4] on	—	—	—	—	—	—	—	—	—
Industrial countries	–30	3	–7	–42	–45	–7	–20	–7	–11
Oil exporting developing countries	12	–30	–35	–3	27	2	9	6	10
Non-oil developing countries	10	26	41	42	20	7	10	1	2
Centrally planned economies [3]	5	1	4	5	–6	1	–2	–2	–3
International organizations and unallocated	3	—	–3	–2	4	–3	3	2	2

[1] The data on lending and deposit taking are derived from stock data on banks' claims and liabilities (net of redepositing among banks in the BIS reporting area) that include valuation changes owing to exchange rate movements. Data on adjusted flows are provided by the BIS, but the distribution of those adjusted flows among the major groups of countries according to Fund classifications is a Fund staff estimate.

The BIS reporting area comprises all banks in the Group of Ten countries, Austria, Denmark, Ireland, and Switzerland and the branches of U.S. banks in the Bahamas, Cayman Islands, Hong Kong, Panama, and Singapore.

[2] The distribution of global figures by major groups of borrowers (depositors) was derived from BIS data. For industrial countries, gross claims (liabilities) were reduced by redepositing among banks in the reporting area but increased by claims on (liabilities to) offshore centers. The latter thus were assumed, in the absence of information on the country distribution of onlending from (deposit taking by) offshore centers, to represent lending to (deposit taking from) industrial countries. For the other groups of borrowers and depositors, net claims (liabilities) were equated to gross claims (liabilities).

[3] Excludes Fund member countries.

[4] Lending minus sources of funds.

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the largest net borrower in 1982 ($27 billion). The annual net borrowings of the non-oil developing countries were reduced from $41 billion to $20 billion between 1980 and 1982, and the centrally planned economies switched from a net borrower position in 1980 and 1981 to a net lender position in 1982, primarily as a result of the repayment to banks of outstanding loans.

The slowing in bank lending during 1982 reflected the impact of a number of disturbances in financial markets in both industrial and developing countries. Throughout the year, the risk of bankruptcies of some of the more heavily indebted corporations created the potential of significant losses on domestic loans for many banks in the industrial countries. Capital markets were also forced to contend with the collapse of a number of financial institutions in industrial and developing countries. During the second half of the year, the debt-servicing problems of countries, such as Mexico and later Brazil, further strained financial markets. In response to this increase in perceived lending risks, loan maturities declined somewhat and the spreads between the London interbank offered rate (LIBOR) and loan rates charged, especially to certain developing countries, increased. While all country groups experienced some increase in the spreads they paid, the adjustments of international financial markets to these disturbances primarily involved sharp reductions in the availability of credit for specific borrowers.

In contrast to international bank lending, international bond issues continued to expand at a high rate in the latter part of 1981 and in 1982. The sum of foreign and Eurobond issues rose by $25 billion (50 per cent) in 1982. Since only the most creditworthy borrowers were able to issue in international bond markets, the expansion of international bond issues was one means by which the flow of international credit was redistributed between borrowers from industrial, oil exporting, and non-oil developing countries. The primary factor in the continued expansion of international bond issues during the year was the general decline in nominal interest rates. Long-term interest rates followed a gradual downward trend, but a sharp decline in short-term interest rates was sufficient to create a positively sloped yield curve in most major financial markets. In part, purchasers were attracted to the bond market by the prospect of high but declining long-term interest rates, and the borrowers' need for secure longer-term funding brought forth a sustained flow of new issues. As conditions in the market for syndicated loans tightened during the second half of the year, borrowers also shifted increasingly to the bond markets.

This expansion of activity in the bond markets was of little direct benefit to the non-oil developing countries, since bond purchasers were interested primarily in instruments issued by borrowers in industrial countries or by international institutions. Almost all of the growth in net international bond issues between 1980 and 1982 was accounted for by borrowers from industrial countries, whose proceeds rose from $20 billion to $46 billion (Table 19). Issues by developing countries have remained at approximately $3 billion a year throughout the period 1979–82, but even this small figure overstates the position of these countries during the last half of 1982 and the first quarter of 1983. As market participants responded to the financial difficulties of a number of these countries in the second half of 1982, bond issues by developing countries declined markedly. During the first quarter of 1983, they accounted for issues of only $143 million out of total issues of $18 billion.

Private Capital Flows and the Financing of the International Adjustment Process

The reduction in the rate of growth of international credit had a pronounced effect on the adjustment process. Deteriorating export performance, increased debt-servicing costs associated with high interest rates and greater reliance on short-term maturities, and worsening fiscal positions all contributed in varying degrees to the emergence of debt-servicing problems in a number of major debtor countries. Perceptions of these problems were often triggered by a sharp reduction or reversal in the net inflow of international capital, heightened in some cases by private capital outflows. The rapid decline in the availability of international credit to a number of developing countries created the prospect, in the absence of multilateral official action, of an adjustment process involving severe reductions in output, income, and imports. Given the scope of the repayment problems faced by

Table 19. Developments in International Bond Markets, 1978–82

(In billions of U.S. dollars)

	1978	1979	1980	1981	1982
Net bond market lending	30	33	28	37	58
By category of borrower					
Industrial countries	19	22	20	27	46
Developing countries	4	3	2	3	3
Other (including international organizations)	7	8	6	7	9

Sources: Organization for Economic Cooperation and Development; and Fund staff estimates.

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some of the major debtor countries, a series of special steps were therefore taken in order to ensure a more orderly adjustment process. In August, a special loan facility of nearly $1 billion designed to help maintain short-term liquidity for Mexico was arranged by the U.S. Government. This facility was matched by a loan of the same amount obtained through the Bank for International Settlements (BIS), with the backing of a number of central banks. These "bridging" loans were designed to allow time for a program supported by Fund resources to be developed. In November, following agreement on an appropriate adjustment program, the Fund also asked banks to provide additional medium-term loans of $5 billion (a 7 per cent increase in total bank exposure).

In the second half of 1982, a number of developing countries, especially in Latin America, experienced debt-servicing problems. While the response to these problems varied among countries, the proposed adjustment programs contain a number of common elements, which were also present in the program for Mexico. They included a bridging loan obtained from the BIS but backed by central bank guarantees, the rescheduling of existing loans, and a program supported by Fund resources often accompanied by commitments of commercial banks to new lending. Even with these special measures, however, the continuation of a smooth adjustment process over an extended period is likely to require the provision of significant further amounts of international credit from the private financial markets. To attain the goals of sustainable debt-servicing and viable balance of payments positions for the major debtor countries, continued international cooperation between the various international agencies, private financial institutions, and national governments will be needed.

In the period immediately following the first major increase in the price of oil, private financial institutions played a crucial role in the recycling of the current account surpluses of the oil exporting countries. The availability and flexibility of this source of credit allowed many countries to undertake more gradual and less stringent adjustment measures. Such a transfer of resources was facilitated by the fact that many developing countries began the period 1973–74 with relatively low ratios of outstanding external debt and debt-servicing payments to exports of goods and services. In the late 1970s and early 1980s, the ready availability of private international credit allowed some countries to finance substantial investment and expenditure programs and, at times, to delay adjustment to external and internal developments. The combination of rising interest rates and heavy international borrowing nearly doubled the debt service ratios for many countries. Some countries soon found it difficult to meet their payments for imports, interest charges, and debt amortization through export receipts and new borrowing. Once these repayment difficulties became evident during 1982, the potential for a rapid withdrawal of many private financial institutions from international lending threatened to require abrupt and harsh adjustment measures for a number of large debtor countries. The sharp changes in the availability of private international credit to a number of developing countries that have been witnessed in the past five years thus had an adverse effect on the stability of the international adjustment process.

The Adequacy of International Reserves

An appraisal of the adequacy of international reserves must take into account both the factors affecting the demand for reserves and those determining the supply. The expected size and volatility of payments imbalances are the principal determinants of the demand for international reserves. Of particular importance in this regard are a country's exchange rate arrangements and the pace of its adjustment to external imbalances. Moreover, the variability of private capital flows and debt service charges experienced in recent years adds to the importance of holding adequate international reserves for the purpose of accommodating temporary payments imbalances and avoiding disruptive adjustment of the domestic economy. The supply of reserves depends primarily on the financial policies of the reserve currency countries, the state of the international capital markets, and, quantitatively to a much more modest extent, on the policies determining the supply of Fund-related reserve assets.

As a first step in assessing the adequacy of reserves, it is useful to consider measures that relate reserve holdings to key determinants of the demand for international reserves.[14] The average ratio of non-gold reserves to imports of goods and services, as one measure of the availability of reserves relative to the need for them, fell from 19 per cent in 1973–74 to 17 per cent in 1981–82. If official holdings of gold valued at current market prices are included in reserves, this ratio remains unchanged at about 36 per cent between 1973–74 and 1981–82. These overall ratios, however, conceal significant differences among groups of countries. The ratio of non-gold reserves to imports for the non-oil developing countries declined

[14] See the Annual Report for 1981 for a more extensive discussion.

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from 21 per cent in 1973–74 to 15 per cent in 1981–82, and for the oil exporting countries from 96 per cent to 57 per cent. This compares with a more or less unchanged ratio of about 15 per cent for the industrial countries. The ratio of reserves (including gold) to imports of goods and services rose from 37 per cent in 1973–74 to 39 per cent in 1981–82 for the industrial countries, whereas for the non-oil developing countries this ratio declined from 31 per cent to 24 per cent. The oil exporting countries also showed a decline in this ratio from 114 per cent to 68 per cent. Since reserves are held to finance payments imbalances for which the size of imports can only be a proxy, it is also useful to consider the ratio of non-gold reserves to current account deficits. The ratio for all countries that had current account deficits declined moderately from 2.7 in 1973–74 to 2.4 in 1981–82. However, the corresponding ratio for the non-oil developing countries alone fell from 2.1 to 0.9 over the same period.

As indicators of reserve adequacy, the preceding ratios do not reflect the impact of changes in the structure of the international monetary system on the demand for reserves. For example, while a given ratio of reserves to imports can indicate an adequate level of reserves when international capital movements are limited, it may signify inadequate reserves when there are large volatile capital movements. Again, a move from a fixed to a floating exchange rate might, in principle, reduce a country's need for reserves and could thus alter its evaluation of the adequacy of a given stock of reserves. In practice, however, there has not been a marked decline in reserve holdings, especially by the industrial countries, during the period of widespread floating since 1973. A number of reasons may account for this observation. First, many countries have not adopted floating rates but have continued to peg their exchange rates to one of the major currencies or to baskets of currencies (see Table 13). Second, a number of countries intervene in the foreign exchange markets in order to dampen movements of their exchange rates. Third, the international economy has been subjected to a variety of real shocks and financial disturbances, which have increased the precautionary demand for international reserves.

The demand for international reserves is also influenced by the access many countries have to international financial markets. During the late 1970s and early 1980s, a number of countries often relied on borrowing in the international capital markets as an alternative to owning reserves. This suggests that it might be more appropriate to consider the adequacy, not of reserves alone, but of international liquidity—a broader concept that takes into account the borrowing capacity of countries. Developments during the last six months of 1982 have indicated, however, that a country's access to international capital markets can change rapidly during periods of financial disturbance. As several countries have recently discovered, reliance on borrowing capacity instead of owned reserves can result in rapid depletion of reserves when access to capital markets is restricted. This applies especially to debtor countries with large short-term external liabilities relative to their reserve holdings. A partial indicator of this vulnerability is the ratio of official non-gold reserves to short-term debt. For the non-oil developing countries, this ratio amounted to more than two in 1973–74 but had dropped to less than one by 1981–82, suggesting that any cessation of short-term capital flows could place the entire amount of reserve holdings in jeopardy.

Some of the key factors influencing the availability of international reserves and liquidity are the monetary policies of the reserve currency countries and the state of their respective balance of payments. While the policies of some of these countries in the 1970s were characterized by rates of money creation substantially higher than those in the 1950s or 1960s, the early 1980s have generally been a period of monetary restraint. In principle, a more restrictive monetary policy in a reserve center will tend to reduce the rate of increase in the supply of the potential reserve media that is generated directly by the reserve center and also through the international capital markets and, hence, the means for financing the acquisition of international reserves by other countries. In addition, such a policy stance can be accompanied during some periods by a rise in the cost of international borrowing.

The observed decline in foreign exchange reserves in 1982 cannot by itself be viewed as an indication of reserve inadequacy, because a decline in holdings may reflect a fall in demand for reserves. In order to come to an assessment of the adequacy of overall liquidity, it would be necessary to separate the influences of demand and supply factors. There are indications that the supply of international reserves was reduced by the move to a balance of payments surplus position on the part of the reserve centers and reduced access of many countries to international capital markets. On the demand side, there are mixed indications: the recent decline in international trade flows points to a reduction in the demand for reserves, while the increased uncertainty with respect to the possibility of obtaining international credit when needed must have tended to increase the demand for owned reserves. The assessment of reserve adequacy is made particularly difficult by the divergence of experiences in different country groups. Despite the decline in the overall level of reserves, the reserve positions of many countries in the

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industrial group, and for several other countries, including many oil exporting countries, appear satisfactory when assessed in terms of the traditional indicators reviewed above. On the other hand, for the non-oil developing countries and especially for the African and Western Hemisphere groups, there was a pronounced decline in the ratios of reserves to imports and other comparable ratios to levels well below their historical averages. This suggests that any improvement in the foreign exchange earnings of these countries may well be used in part for replenishing their reserves.

Whenever global reserves are adequate, a country can usually increase its reserves through an appropriate mixture of international borrowing and the pursuit of adjustment policies to improve its balance of payments. The difficulties presently being encountered by many countries in expeditiously replenishing their reserve holdings point in the direction of either or both of the following: some lack of global adequacy in the availability of international liquidity or the existence of important impediments, such as those affecting access to international goods and capital markets, to the achievement of a more appropriate distribution of reserves. In many instances, a decisive factor contributing to the difficulties experienced in replenishing reserve holdings has been market skepticism as to the adequacy of policies pursued by the countries concerned. In the last analysis, the adequacy of international liquidity and reserves must be judged in terms of the contribution they can make to sustained and balanced noninflationary growth in the world economy, which requires, inter alia, that pressing balance of payments problems be solved through an appropriate combination of financing and adjustment. In the present difficult environment, official sources of liquidity are likely to play an increasingly important role in supporting countries' efforts to find solutions to external financial problems.

The Role of the Fund in the Provision of Liquidity

A major function of the Fund is to provide international liquidity in accordance with the purposes of the Fund specified in the Articles of Agreement. Part of the liquidity supplied takes the form of reserve assets that can be used for balance of payments financing ("unconditional liquidity"), while part takes the form of credit to members that is generally subject to conditions ("conditional liquidity").

Conditional liquidity is provided by the Fund under its various lending facilities. Most of the Fund's credit extended under these arrangements requires an adjustment program for the member that is intended to promote a sustainable external position. At the end of April 1983, total commitments under conditional forms of lending amounted to SDR 25 billion, of which about two thirds represents undrawn balances. In addition, it is often the case that when the member obtains Fund financing under agreed conditions, its access to international capital markets is enhanced. This catalytic role of the Fund has become more important in the recent period when private lending institutions have been less willing to engage in international lending.

Unconditional liquidity is supplied through the allocations of SDRs and also in the form of reserve positions in the Fund, which are the claims corresponding to the resources that countries have made available to the Fund. Member countries holding SDRs and reserve positions in the Fund can use them to finance balance of payments deficits without having to enter into policy commitments with the Fund. As was noted earlier in this chapter, Fund-related reserve assets held in countries' reserves amounted to SDR 48 billion at the end of April 1983—14 per cent of total non-gold reserves. Almost two thirds of these assets consisted of reserve positions in the Fund, with the remainder taking the form of SDR holdings. Industrial countries held almost three fourths of these Fund-related reserve assets, oil exporting countries held one fifth, and non-oil developing countries held the remaining one twentieth.

Provision of Liquidity Through Members' Use of Fund Resources

The Fund makes its resources available to members, under agreed conditions, in support of efforts on their part to overcome balance of payments problems in an orderly way without undue disruption of the flows of international trade and payments. Several facilities are available for extending credit to members for varying periods up to ten years and subject to different degrees of conditionality. For example, the extended Fund facility, which was set up in 1974, is designed to assist members experiencing protracted payments difficulties whose correction requires sustained effort through appropriate policies. In credit arrangements that envisage policy actions to be taken by the member, the use of the Fund's resources is normally made conditional upon continued policy action in accordance with a program agreed between the member and the Fund. However, no policy adjustment would normally be required when the need for balance of payments financing is of a temporary character resulting solely from circumstances believed to be likely to reverse themselves in the near future, as under the compensatory financing facility

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designed to meet temporary shortfalls in export earnings.

The limits placed under present policies on a member's use of the Fund's credit facilities are defined in terms of the member's quota in the Fund. For example, to meet a shortfall in export earnings, a member may draw from the Fund up to 100 per cent of its quota. On the other hand, in order to meet a protracted and structural balance of payments problem, a member may, subject to conditions as mentioned above, borrow Fund resources up to 150 per cent of its quota in any year, up to 450 per cent over three years, and, in some circumstances, up to a cumulative limit of 600 per cent of its quota, apart from any amounts borrowed by the member under the compensatory financing and buffer stock facilities.

The number of member countries using Fund resources has increased substantially over the past decade. Ninety-two members had outstanding drawings at the end of 1982 as against 28 members at the end of 1973. While the amount of outstanding Fund credit has shown considerable cyclical variability, it increased from its earlier peak of SDR 13 billion at the end of 1977 by some 80 per cent to SDR 25 billion at the end of June 1983. For the non-oil developing countries as a group, outstanding borrowings from the Fund at the end of June 1983 amounted to more than 30 per cent of the group's non-gold reserve holdings. The proportion of the outstanding Fund credit subject to high conditionality has increased from 16 per cent at the end of 1976 to 58 per cent at the end of 1982. This evolution has resulted mainly from the need for more active adjustment policies of members using Fund resources in present circumstances and in the light of the continuing requirement for safeguarding the revolving nature of the Fund's resources. The steps described earlier in this chapter to strengthen and broaden surveillance and to monitor members' external debt developments could, by providing earlier warning of impending problems, help to reduce the pressure on the Fund's limited financial resources.

To enable the Fund in the present economic situation to meet approved requests for financial assistance in support of adjustment programs, the Board of Governors has decided to increase quotas from SDR 61 billion to SDR 90 billion. The proposed increase is subject to consent and payment of increased subscriptions by member countries, which are expected to be completed late in 1983. A further increase in the resources available to the Fund will result from the recent decision of the participants in the General Arrangements to Borrow to support a proposed increase in the total of commitments under these Arrangements from SDR 6.4 billion to SDR 17 billion. In the past, the resources available under the Arrangements could be used only to support drawings by the ten participants that are members of the Fund. The participants have now agreed that these resources may be used by the Fund in support of conditional credits to nonparticipating Fund members if the Fund's other resources should prove inadequate to deal with an exceptional situation associated with balance of payments problems of members of a character or aggregate size that could threaten the stability of the international monetary system. Switzerland, a nonmember of the Fund, will become a full participant in the Arrangements. The Fund, in association with the participants in the General Arrangements to Borrow, has also concluded a borrowing arrangement with Saudi Arabia, in the amount of SDR 1.5 billion, that has similar purposes. In addition, the Fund has supplemented these resources through arrangements to borrow from members and other official sources (see Chapter 3).

SDR Allocation

SDR allocations are made for "basic periods," which are specified in the Articles to be of five years' duration unless the Executive Board decides on a different duration. The two decisions on SDR allocation in the past were for three-year periods, 1970–72 and 1979–81. In accordance with the Articles, allocations can be made on the basis of proposals by the Managing Director, concurred in by the Executive Board, and approved by the Board of Governors by an 85 per cent majority of the total voting power. The most recent allocation of SDRs was made on January 1, 1981; this was the last allocation of the third basic period. No allocations have been made in the fourth basic period, which began on January 1, 1982, because the broad support among members required to enable the Managing Director to make a proposal has not yet emerged.

The question of further SDR allocations is currently under review by the Executive Board. At its meeting in Washington, D.C., in February 1983, the Interim Committee considered the question of allocations of SDRs in view of developments since the Annual Meeting in Toronto in September 1982. The Committee's discussion was held against the backdrop of declining inflation rates in several of the industrial countries, together with concerns that reduced trade flows, generally depressed commodity prices, and, in particular, the external debt problems of several countries might be linked in part to an inadequate supply of international liquidity. The Executive Board was asked to review the latest trends in economic growth, inflation, and international liquidity so that the Managing Direc-

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tor could determine before the next meeting of the Interim Committee (in September 1983) whether a proposal for a new SDR allocation could be made that would command broad support among Fund members.

In decisions on SDR allocation, the Fund is required by its Articles of Agreement to take several elements into account. There must be a long-term global need to supplement existing reserve assets. Also, SDR allocations must promote the attainment of the Fund's purposes and be consistent with the objective of avoiding economic stagnation and deflation as well as excess demand and inflation in the world. In addition to these requirements, the objective of making the SDR the principal reserve asset in the international monetary system must also be recognized. A report by the Executive Board on the question of SDR allocation will be the subject of discussion at the next meeting of the Interim Committee and at the Annual Meeting of the Board of Governors in September 1983.

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Chapter 3
Activities of the Fund

Introduction

Developments in the world economy, as described in Chapters 1 and 2 of this Report, were reflected in the extensive use of the Fund's resources by members in the financial year ended April 30, 1983. Both aggregate commitments under stand-by and extended arrangements and gross and net purchases rose to new peaks, with commitments rising by SDR 8.8 billion to SDR 25 billion and gross purchases by SDR 3.3 billion to SDR 10.3 billion (see Table 20). All of the commitments were made to, and virtually all the purchases were made by, non-oil developing countries. The amounts involved surpassed previous high points by very large proportions.

The bulk of the financial assistance made available by the Fund to its members since 1977 has been through purchases in amounts and under facilities that require high degrees of conditionality in accordance with the Fund's policy of combining adjustment and financing (see Table 21). By the end of the financial year, 39 stabilization programs were in effect; of the total of SDR 25 billion committed by the Fund under these programs, about one third had been drawn by members. The largest among the new commitments during 1982/83 were the extended arrangements for Brazil (SDR 4.2 billion) and Mexico (SDR 3.4 billion).

Notwithstanding the sharp increase in high-conditionality financing provided by the Fund, extensive use was also made by members of the Fund's low-conditionality facilities, principally the compensatory financing facility. Resort to this facility, as well as to the buffer stock financing facility, reflects the severe impact of the international recession on primary exporting countries and the resultant shortfall in their export earnings. Purchases under the compensatory financing facility during 1982/83 rose to a record SDR 3.7 billion; similarly, but on a much smaller scale, purchases under the buffer stock financing facility reached a record level (SDR 352 million).

The sharp escalation in the use of the Fund's resources in the past few years, together with the prospect of substantial payments imbalances among member countries continuing for some time, has placed the Fund's financial resources under pressure. It is critical that at this juncture the Fund should maintain its resources at an adequate level, both to provide necessary balance of payments financing in support of the adjustment policies adopted by its members and to act as a catalyst in generating other flows of external finance—particularly from commercial sources—that are vital for a manageable and orderly resolution of current world payments problems. A strengthening of the Fund's financial resources is thus being sought with some urgency, through both an increase in members' quotas (from SDR 61 billion to SDR 90 billion) and an enlargement of the General Arrangements to Borrow (from SDR 6.4 billion to SDR 17 billion), along with an expansion in the scope of the Arrangements. Legislative or administrative action in member countries will be necessary before the new resources become available; it is hoped that these procedures will have been completed before the end of 1983.

Under its enlarged access policy, the Fund, since mid-1981, has provided conditional financing to members facing serious payments imbalances that are large in relation to their quotas. The Executive Board will be considering various aspects of this policy before the next meeting of the Interim Committee in September 1983. The policy on enlarged access is financed by Fund borrowing, and since May 1981 the Fund has arranged to borrow SDR 9.3 billion from its members and official institutions.

There were no allocations of SDRs during the year, the last allocation being in 1981, which was the last year of the third basic period. The question of further allocations of SDRs, and also possibilities for further improving the attractiveness of the SDR, are currently under review by the Executive Board.

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Table 20. Selected Financial Activities by Type and Country, 1976–83
(In millions of SDRs)

	Financial Year Ended April 30								
	1976	1977	1978	1979	1980	1981	1982	1983	1976–83
				By Type					
I. General Resources Account									
Gross purchases [1]	5,267.4	4,749.7	2,367.3	1,239.2	2,210.8	4,385.9	6,960.2	10,258.2	37,438.7
Net purchases [2]	(4,866.6)	(3,899.6)	(−1,861.8)	(−3,267.2)	(−1,041.8)	(1,924.2)	(4,950.3)	(8,703.1)	(18,173.0)
II. Administered Accounts									
Trust Fund loans	—	31.7	268.2	670.0	961.7	1,059.9	—	—	2,991.5
Oil facility subsidy account payments (grants)	13.8	27.5	25.0	19.1	27.8	50.1	9.3	2.5	175.1
Supplementary financing facility subsidy account payments (grants)	—	—	—	—	—	—	22.9	44.3	67.2
III. SDR allocations	—	—	—	4,032.6	4,033.2	4,052.5	—	—	12,118.3
Total	5,281.2	4,808.9	2,660.5	5,960.9	7,233.5	9,548.4	6,992.4	10,305.0	52,790.8
				By Country (I + II + III)					
Industrial countries	2,391.3	2,198.1	1,438.8	2,593.7	2,617.6	2,543.9	—	54.0	13,837.5
United States	—	—	—	874.1	874.1	857.3	—	—	2,605.5
United Kingdom	1,000.0	1,700.0	1,250.0	304.2	304.2	298.3	—	—	4,856.8
Italy	780.2	—	90.0	129.0	128.9	126.5	—	—	1,254.6
Others	611.1	498.1	98.8	1,286.4	1,310.4	1,261.8	—	54.0	5,120.6
Developing countries	2,889.9	2,610.8	1,221.7	3,367.2	4,615.9	7,004.3	6,992.4	10,251.0	38,953.3
Oil exporting	—	—	—	369.3	369.3	380.3	—	65.1	1,184.0
Non-oil developing	2,889.9	2,610.8	1,221.7	2,997.9	4,246.6	6,624.0	6,992.4	10,185.0	37,769.3
Africa	*580.5*	*635.3*	*336.6*	*861.7*	*1,262.6*	*1,472.9*	*1,999.9*	*2,072.1*	*9,221.6*
Asia	*882.0*	*603.8*	*435.4*	*1,011.5*	*1,197.4*	*3,448.3*	*3,163.5*	*3,106.1*	*13,848.0*
Europe	*611.5*	*340.1*	*271.6*	*249.0*	*765.8*	*981.2*	*1,326.0*	*1,188.1*	*5,733.3*
Middle East	*133.6*	*199.5*	*143.1*	*289.7*	*152.4*	*75.7*	*.8*	*25.2*	*1,020.0*
Western Hemisphere	*682.3*	*832.1*	*35.0*	*586.0*	*868.4*	*646.0*	*502.2*	*3,794.4*	*7,946.4*
All countries	5,281.2	4,808.9	2,660.5	5,960.9	7,233.5	9,548.4	6,992.4	10,305.0	52,790.8
Memorandum:									
Stand-by and extended arrangements as of April 30									
Commitments	1,472.2	5,197.6	5,759.3	1,600.4	3,049.7	9,475.1	16,206.3	25,025.5	—
As per cent of total quotas	5.0	17.8	17.8	4.1	7.8	15.9	26.7	41.0	—
Undrawn balances	1,085.8	3,581.1	3,638.8	1,377.5	2,718.0	8,076.4	11,154.6	16,405.1	—
As per cent of commitments	73.8	68.9	63.2	86.1	89.1	85.2	68.8	65.6	—
Gold distribution [3]	—	209.7	212.6	220.4	230.8	—	—	—	873.5
Profits from gold sales distributed to developing countries [4]	—	—	222.6	70.6	302.4	400.2	—	—	995.8

[1] Excluding purchases in the reserve tranche.
[2] Excluding purchases and repurchases in the reserve tranche; net repurchases (—).
[3] Valued at SDR 35 per fine ounce.
[4] Distribution in U.S. dollars. SDR amounts based on SDR/U.S. dollar rate in effect at time of distribution.

A comprehensive review of the procedures for consultations between the Fund and its members under Article IV was conducted by the Executive Board in April 1983. As a result, a number of procedural changes were introduced to ensure greater regularity of consultations. Such consultations remain the principal means by which the Fund exercises surveillance over the exchange rate policies of individual member countries.

The Executive Board also discussed Fund policies

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Table 21. Low-Conditionality and High-Conditionality Purchases, 1976–83
(In billions of SDRs)

	Financial Year Ended April 30							
	1976	1977	1978	1979	1980	1981	1982	1983
I. Low-conditionality purchases	5.09	2.97	0.41	0.64	1.05	1.56	1.65	4.12
First credit tranche	0.29	0.78	0.09	0.13	0.16	0.78	0.02	0.03
Oil facility	3.97	0.44	—	—	—	—	—	—
Compensatory financing facility	0.83	1.75	0.32	0.46	0.86	0.78	1.63	3.74
Buffer stock facility	—[1]	—	—	0.05	0.03	—	—	0.35
II. High-conditionality purchases	0.18	1.78	1.96	0.59	1.15	2.82	5.31	6.14
Credit tranche	0.17	1.59	1.85	0.35	0.93	1.90	2.73	3.68
Extended Fund facility	0.01	0.19	0.11	0.24	0.22	0.92	2.58	2.46
III. Total I + II	5.27	4.75	2.37	1.24	2.21	4.39	6.96	10.26

[1] Less than SDR 5 million.

and external debt-servicing problems of member countries and agreed that the Fund should try to improve the external debt surveillance content of Article IV consultations as well as those relating to stand-by and extended arrangements. It was also agreed that the Fund should improve its ability to compile and analyze timely and adequate information on external debt developments and problems on a worldwide basis in cooperation with other institutions like the World Bank and the Bank for International Settlements.

In May 1982 the Executive Board reviewed the technical assistance services offered by the Fund in the areas of central banking and fiscal affairs. It reaffirmed that the Fund would continue to adopt a flexible and pragmatic approach, taking into account the specific needs of member countries. During the year, in response to the developing international financial situation and the needs of some member countries, the Fund expanded its technical assistance in the area of external debt.

Membership and Quotas

Membership and Participation in the Special Drawing Rights Department

On May 6, 1982, Hungary became a member of the Fund with a quota of SDR 375 million, raising the total membership to 146 and the total of members' quotas to SDR 61,059.8 million. Hungary elected to participate in the Special Drawing Rights Department and, as a result, all Fund members were participants in that Department at the end of the financial year. The application of the Polish People's Republic for membership, which was received during the preceding year, is still pending.

Eighth General Review of Quotas

Under the Articles of Agreement, the Board of Governors is required to conduct general reviews of Fund quotas at intervals of not more than five years. In accordance with this requirement, the Eighth General Review of Quotas was completed on March 31, 1983, when the Board of Governors adopted a resolution [1] authorizing an increase of 47.5 per cent in aggregate Fund quotas from the present level of SDR 61,059.8 million to SDR 90,034.8 million. The overall magnitude of the increase in Fund quotas under the Eighth General Review was agreed in the light of the financing and adjustment role envisaged for the Fund in the world economic conditions likely to prevail over the next several years.

The proposed new quotas for each member, before rounding, were arrived at as follows: 40 per cent of the overall increase was distributed to all members in proportion to their existing individual quotas; the remaining 60 per cent was distributed in the form of selective adjustment in proportion to each member's share in the total of "calculated" quotas, which are derived from formulas considered to broadly reflect members' relative positions in the world economy.

These formulas were reduced from ten to five by eliminating those which included merchandise trade as a proxy for the current account. The formulas were changed in some respects, but the economic criteria used in the past were retained. Some of the modifications broadened the definition of certain economic variables used to represent those criteria; for instance, the importance of a member's reserves in the calculations was increased by introducing this variable in four of the five formulas that did not contain it and the weight of the variability of current receipts was reduced.

[1] Resolution No. 38-1, adopted March 31, 1983 and reproduced in Appendix II.

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The Executive Board also considered the positions of 17 members with very small quotas (i.e., with existing quotas of less than SDR 10 million) and agreed that the proposed quotas resulting from the application of the distribution method be rounded to the next higher multiple of SDR 0.5 million for these members. The Executive Board also agreed that the proposed quotas for all other members be rounded to the next higher multiple of SDR 0.1 million.

The procedure for implementing the quota increase has been agreed as follows. Each member has until November 30, 1983 to consent to the proposed increase in its quota. The Executive Board may extend the period of consent if it deems it appropriate. Twenty-five per cent of the increase in each member's quota is payable in reserve assets, either in SDRs or in currencies of other members prescribed by the Fund, subject to their concurrence, or in any combination of SDRs and such currencies. A reserve asset payment increases the usable resources of the Fund and thereby strengthens its liquidity. The balance of 75 per cent is payable by the member in its domestic currency.

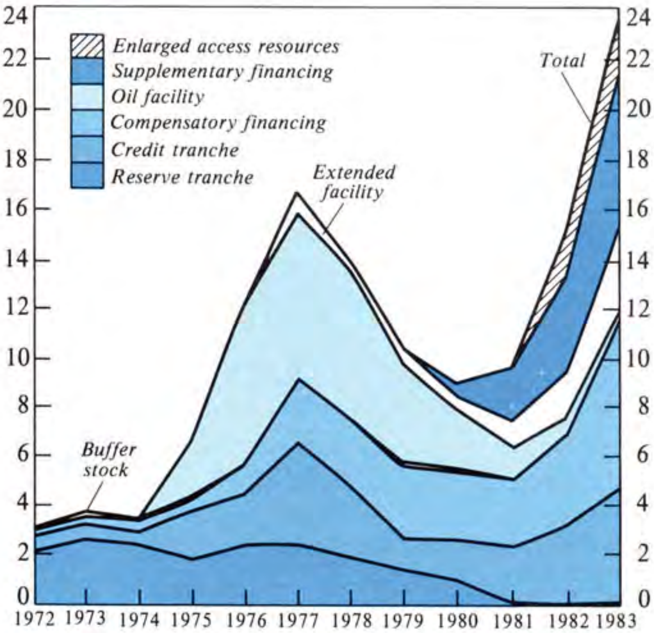
The new quotas will become effective for members that have notified the Fund of their consent after the Fund determines that consents have been received from members having not less than 70 per cent of present total quotas and after the consenting members have paid their increased subscriptions in full. A member has 30 days to pay the increase in its subscription from the date it consents or the date the Fund determines that the participation requirement has been met, whichever is later. The new quotas are intended to become effective before the end of 1983, involving a considerable acceleration of the normal timetable for completion of a general review of quotas. The acceleration was considered necessary in view of the prevailing international economic and financial conditions and resultant strains on the Fund's resources.

As of August 2, 1983, 19 members (Burma, Costa Rica, Cyprus, Denmark, Ethiopia, Gabon, The Gambia, Honduras, Kuwait, Malaysia, Malta, Nigeria, Norway, the Philippines, Seychelles, South Africa, Swaziland, Uganda, and the United Kingdom) accounting for 13.22 per cent of total quotas in the Fund as of February 28, 1983 had consented to increases in their quotas. (See Appendix I, Table I.15 for present quotas and the proposed quotas under the Eighth General Review.)

Transactions and Operations in the General Resources Account

The salient feature of activity in the General Resources Account in 1982/83 was the rise of nearly 50 per cent in total purchases (excluding those in the reserve tranche) from SDR 7.0 billion in 1981/82 to SDR 10.3 billion—the highest level of purchases in any one financial year. Increases occurred under almost all facilities, but the most substantial rise was in purchases under the compensatory financing facility which increased from SDR 1.64 billion to SDR 3.74 billion. Purchases under the extended Fund facility showed a slight fall from SDR 2.58 billion to SDR 2.46 billion. (See Chart 22 and Table 22.)

Chart 22. Use of Fund's Resources as at April 30, 1972–83



Total repurchases during the year declined further to SDR 1.56 billion, the lowest level since financial year 1976/77. This decline reflects the relatively low level of purchases made three to five years ago. Most repurchases were in respect of purchases made under the oil facility and under the compensatory financing facility. The last outstanding purchases under the oil facility were fully repaid in May 1983. The first repurchase in respect of a purchase under the supplementary financing facility was made in November 1982. At the end of the financial year 1982/83, outstanding purchases amounted to SDR 23.6 billion—an all-time high—compared with SDR 14.9 billion at April 30, 1982.

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Table 22. Flow of Transactions in the General Resources Account and Resulting Stocks, 1977–83
(In millions of SDRs)

Type of Transaction	Financial Year Ended April 30						
	1977	1978	1979	1980	1981	1982	1983
Total purchases	4,910	2,503	3,720	2,433	4,860	8,041	11,392
Reserve tranche	161	136	2,480	222	474	1,080	1,134
Credit tranches	2,370	1,937	485	1,106	2,682	2,748	3,703
Buffer stock	—	—	48	26	—	—	352
Compensatory financing	1,753[1]	322	465	863	784	1,635	3,740
Extended facility	190	109	242	216	920	2,578	2,463
Oil facility	437	—	—	—	—	—	—
Total repurchases	868	4,485	4,859	3,776	2,853	2,010	1,555
Gold sales	411	452	453	419	—	—	—
Replenishment up to May 31, 1978	201	239	—	—	—	—	—
Competitive bids	—	—	181	187	—	—	—
Noncompetitive bids	—	—	51	1	—	—	—
In distributions	210	213	220	231	—	—	—
Outstanding borrowings							
In connection with oil facility	6,702	6,329	4,257	2,474	1,528	526	18
Under General Arrangements to Borrow	911	1,576	777	777	777	777	777
From Swiss National Bank	89	154	—	—	—	—	—
Supplementary financing facility	—	—	—	502	2,018	4,112	6,037
Under policy on enlarged access	—	—	—	—	—	1,358	4,120
Holdings of General Resources Account at end of year							
Usable currencies[2]	5,300	11,200	8,800	10,600	23,400	17,400	14,400
SDRs	771	1,371	1,290	1,407	5,445	5,456	4,335
Gold[3]	4,959	4,507	4,055	3,636	3,620	3,620	3,620

[1] In addition, credit tranche purchases equivalent to SDR 39.56 million in the financial year ended April 30, 1976 were reclassified as having been made under the compensatory financing decision.
[2] "Usable currencies" are those that are available to the Fund for net sales through the operational budget, except for those currencies held by the Fund in excess of quota. Since the Second Amendment became effective on April 1, 1978, the criterion for including currencies for net sales is that the members concerned have a balance of payments and reserve position that the Fund considers "sufficiently strong" for that purpose.
[3] Valued at SDR 35 per fine ounce.

Purchases

Reserve Tranche Purchases

Reserve tranche[2] purchases represent a use of members' own liquid reserves in the Fund, and do not constitute use of Fund credit. Members using the credit tranches or the extended Fund facility have the option, under a decision taken by the Fund in 1981,[3] of either retaining or using their reserve tranche positions. Of the members with outstanding purchases under such arrangements, 33 retained their reserve tranche positions, totaling over SDR 459.5 million. During 1982/83, reserve tranche purchases by 28 members totaled SDR 1.1 billion, a slight increase from the SDR 1 billion in the previous financial year and the highest level since 1978/79. The largest such purchases were made by Brazil (SDR 259.8 million), Argentina (SDR 228.4 million), Indonesia (SDR 218.4 million), and Iraq (SDR 111.9 million). Also, some members drew on their reserve tranche positions to settle their financial obligations to the Fund.

[2] The "reserve tranche" is measured by the extent to which the Fund's holdings of a member's currency in the General Resources Account, after deducting holdings excluded under Article XXX (*c*), are less than its quota.

[3] Executive Board Decision No. 6830-(81/65), adopted April 22, 1981, effective May 1, 1981, *Selected Decisions,* Tenth Issue, page 299. The decision excluded holdings from purchases in the credit tranches or under the extended Fund facility under Article XXX (*c*) (iii).

Credit Tranche Purchases

Purchases in the credit tranches increased sharply in 1982/83, to a record SDR 3.7 billion from SDR 2.7 billion in the previous year. (See Table 22.) The largest amounts purchased were by Yugoslavia (SDR 590.5 million), Romania (SDR 402.0 million), Argentina (SDR 300.7 million), and Turkey (SDR 300 million). (See Appendix I, Table I.5.) Of the remaining amount, SDR 1,632.0 million was purchased by 29 members under stand-by arrangements, and SDR 477.5 million by 5 members making credit tranche purchases that were not under stand-by arrangements. Two of these members, Brazil and Mexico, purchased the amounts available to them in the first credit tranche (SDR 249.4 million and SDR 200.6 million, respectively) as part of a package of assistance

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Table 23. Status of Stand-By Arrangements and Extended Fund Facility Arrangements on April 30, 1983
(In millions of SDRs)

Member	Date of Inception	Date of Expiration	Quota	Amount Agreed	Amount Drawn	Undrawn Balance
Stand-by arrangements						
Argentina	1/24/83	4/23/84	802.50	1,500.00	300.74	1,199.26
Bangladesh	3/28/83	8/31/83	228.00	68.40	22.80	45.60
Barbados	10/1/82	5/31/84	25.50	31.88	12.38	19.50
Central African Republic	4/22/83	4/21/84	24.00	18.00	—	18.00
Chile	1/10/83	1/9/85	325.50	500.00	122.00	378.00
Costa Rica	12/20/82	12/19/83	61.50	92.25	18.45	73.80
El Salvador	7/16/82	7/15/83	64.50	43.00	27.50	15.50
Guinea	12/1/82	11/30/83	45.00	25.00	11.50	13.50
Haiti	8/9/82	9/30/83	34.50	34.50	17.00	17.50
Honduras	11/5/82	12/31/83	51.00	76.50	30.60	45.90
Hungary	12/8/82	1/7/84	375.00	475.00	225.60	249.40
Kenya	3/21/83	9/20/84	103.50	175.95	45.20	130.75
Liberia	9/29/82	9/28/83	55.50	55.00	35.00	20.00
Madagascar	7/9/82	7/8/83	51.00	51.00	40.80	10.20
Malawi	8/6/82	8/5/83	28.50	22.00	16.00	6.00
Mali	5/21/82	5/20/83	40.50	30.38	30.38	—
Philippines	2/25/83	2/28/84	315.00	315.00	50.00	265.00
Romania	6/15/81	6/14/84	367.50	1,102.50	542.00	560.50
Senegal	11/24/82	11/23/83	63.00	47.25	5.91	41.34
Somalia	7/15/82	1/14/84	34.50	60.00	33.75	26.25
South Africa	11/3/82	12/31/83	636.00	364.00	159.00	205.00
Sudan	2/23/83	2/22/84	132.00	170.00	68.00	102.00
Thailand	11/17/82	12/31/83	271.50	271.50	94.80	176.70
Togo	3/4/83	4/3/84	28.50	21.37	2.00	19.37
Turkey	6/18/80	6/17/83	300.00	1,250.00	1,160.00	90.00
Uganda	8/11/82	8/10/83	75.00	112.50	75.00	37.50
Uruguay	4/22/83	4/21/85	126.00	378.00	—	378.00
Yugoslavia	1/30/81	12/31/83	415.50	1,662.00	1,283.00	379.00
Zambia	4/18/83	4/17/84	211.50	211.50	31.50	180.00
Zimbabwe	3/23/83	9/22/84	150.00	300.00	60.00	240.00
Total				9,464.48	4,520.91	4,943.57
Extended Fund facility arrangements						
Brazil	3/1/83	2/28/86	997.50	4,239.38	124.88	4,114.50
Dominica	2/6/81	2/5/84	2.90	8.55	6.41	2.14
Dominican Republic	1/21/83	1/20/86	82.50	371.25	74.25	297.00
India	11/9/81	11/8/84	1,717.50	5,000.00	2,400.00	2,600.00
Ivory Coast	2/27/81	2/22/84	114.00	484.50	330.60	153.90
Jamaica	4/13/81	4/12/84	111.00	477.70	328.00	149.70
Mexico	1/1/83	12/31/85	802.50	3,410.63	100.31	3,310.32
Pakistan	12/2/81	11/23/83	427.50	919.00	635.00	284.00
Peru	6/7/82	6/6/85	246.00	650.00	100.00	550.00
Total				15,561.01	4,099.45	11,461.56
Total stand-by and extended Fund facility arrangements				**25,025.49**	**8,620.36**	**16,405.13**

approved in conjunction with arrangements under the extended Fund facility. Of the three other members, the Yemen Arab Republic purchased its first and second credit tranches (SDR 9.75 million) and the People's Democratic Republic of Yemen its first credit tranche (SDR 15.38 million) under the Fund's policy on emergency assistance relating to natural disasters. The use of ordinary resources under stand-by arrangements amounted to SDR 1,327.4 million. More than half of the financing under the stand-by arrangements was from borrowed resources under the supplementary financing facility (SDR 956.7 million) and the enlarged access policy (SDR 941.1 million).

Stand-by arrangements were approved for 27 members during the year under review, a number exceeded only in 1968 (32). (See Table 23 and Appendix I, Table I.4.) The amount approved under the arrangements totaled a record SDR 5.45 billion, an increase

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of SDR 2.34 billion over 1981/82. More than half of this total, SDR 2.9 billion, is to be financed with borrowed resources under the enlarged access policy. The commitment of ordinary resources for all the arrangements amounts to SDR 2.6 billion. The largest stand-by arrangement was approved for Argentina, for SDR 1.5 billion for a 15-month period. Two-year arrangements were approved for two members: SDR 500 million for Chile, and SDR 378 million for Uruguay. The other arrangements were for periods of 5 months to 20 months for amounts ranging from SDR 18 million for the Central African Republic to SDR 475 million for Hungary. All but 5 of the arrangements provided for use of borrowed resources under the enlarged access policy. One arrangement (Thailand) was canceled during the year and replaced by a new arrangement. As at April 30, 1983, undrawn balances under stand-by arrangements amounted to SDR 4.9 billion (see Table 23) and two arrangements were inoperative because of members' failure to observe performance criteria.

Extended Fund Facility

The extended Fund facility [4] provides medium-term assistance to member countries for longer periods and in amounts larger in relation to quotas than under the tranche policies to overcome serious structural balance of payments maladjustments. The Executive Board, in its latest review in July 1982 of the decision on the facility, together with a review of the Fund's stand-by arrangements, decided that the provisions of the facility were appropriate in present circumstances. It was decided to have a further review not later than the time when the Eighth General Review of Quotas became effective.

During 1982/83, four new arrangements, all for three-year periods, were approved for a total of SDR 8.7 billion, compared with five arrangements for a total of SDR 8.2 billion in 1981/82. Purchases under the arrangements are to be financed with borrowed resources under the enlarged access policy for SDR 5.7 billion and from the Fund's ordinary resources for SDR 3 billion. The largest arrangements were for Brazil (SDR 4.2 billion) and Mexico (SDR 3.4 billion). The two other arrangements were for Peru (SDR 0.7 billion) and the Dominican Republic (SDR 0.4 billion). The arrangements for Zaïre and Zambia that took effect early in 1981/82 were canceled in June and July 1982, respectively.

Purchases under extended arrangements (SDR 2.5 billion) were close to the previous year's level (SDR 2.6 billion). Of nine members making purchases, India purchased more than half the total amount, SDR 1.5 billion, and Pakistan purchased the second largest amount, SDR 0.3 billion. The other purchases were made by Brazil, Dominica, the Dominican Republic, Ivory Coast, Jamaica, Mexico, and Peru and ranged from SDR 2.9 million to SDR 153.9 million. SDR 1.2 billion, or about half of the total amount purchased, was financed from the Fund's ordinary resources, while the remainder was financed through borrowed resources under the supplementary financing facility (SDR 1.0 billion) and under the enlarged access policy (SDR 0.2 billion). As of April 30, 1983, total undrawn commitments under the extended Fund facility amounted to SDR 11.5 billion, compared with SDR 6.5 billion a year earlier.

Supplementary Financing Facility

The supplementary financing facility [5] enabled the Fund to provide supplementary financing under stand-by and extended arrangements in conjunction with the use of the Fund's ordinary resources. The facility was financed by 14 lenders, which agreed in 1979 to provide a total of SDR 7.8 billion. Under these agreements, funds could not be committed after February 22, 1982 nor be borrowed by the Fund after February 22, 1984.

Resources borrowed under the facility in 1982/83 and disbursed for purchases by members under stand-by and extended arrangements amounted to SDR 2.0 billion, compared with SDR 2.1 billion in 1981/82. This amount was used in conjunction with the Fund's ordinary resources and in some cases along with resources borrowed under the subsequently established enlarged access policy. As of April 30, 1983 a total of SDR 6.1 billion had been disbursed under the facility.

Policy on Enlarged Access to Fund Resources

In March 1981 the Executive Board adopted a policy on enlarged access to the Fund's resources until the Eighth General Review of Quotas becomes effective.[6]

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[4] Executive Board Decision No. 4377-(74/114), adopted September 13, 1974, as amended by Decisions Nos. 6339-(79/179), December 3, 1979, and 6830-(81/65), April 22, 1981, effective May 1, 1981, *Selected Decisions,* Tenth Issue, pages 27–31.

[5] Executive Board Decision No. 5508-(77/127), adopted August 29, 1977, *Selected Decisions,* Tenth Issue, pages 33–38.

[6] Executive Board Decision No. 6783-(81/40), adopted March 11, 1981, *Selected Decisions,* Tenth Issue, pages 40–45. See also *Annual Report of the Executive Board for the Financial Year Ended April 30, 1981,* pages 85–88. (Hereinafter referred to as *Annual Report, 19—.*)

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Under this policy, following the full commitment of resources from the supplementary financing facility and the completion of new borrowing agreements, the Fund has been able to continue its assistance to members facing payments imbalances that are large in relation to their quotas and which need resources in larger amounts and for longer periods than are available under the regular tranches. Drawings on the Fund's resources under this policy, as under the supplementary financing facility, are determined in specified proportions from ordinary and borrowed resources in accordance with existing policies on phasing and performance criteria.

The Managing Director is authorized to substitute, prior to February 22, 1984, supplementary financing resources for enlarged access resources if supplementary financing facility funds have become available from a canceled or expired arrangement. Thus, during the year a total of SDR 0.8 billion of supplementary financing funds was substituted for enlarged access resources in arrangements for four members (The Gambia, India, Liberia, and Mauritius). (See Appendix I, Table I.5.) A further amount of SDR 150 million was substituted in May 1983 in connection with a purchase by India under its extended arrangement.

The Executive Board reviewed the policy on enlarged access in May 1983 and will consider this further before the next meeting of the Interim Committee. The aspects to be considered include, inter alia, the limits in relation to quotas on conditional access to the Fund's resources, which currently are 150 per cent of quota annually or 450 per cent over three years, with a cumulative limit of 600 per cent.[7]

Compensatory Financing Facility—Exports

The compensatory financing facility compensates members for temporary shortfalls in export earnings due largely to circumstances beyond their control. Use of the facility has continued to increase significantly in terms of the number of members making purchases as well as in absolute size and as a share of total Fund credit since the major liberalizations of the facility in December 1975 and August 1979.

In 1982/83, 29 members made use of the facility for a total of SDR 3.7 billion, of which Brazil purchased the largest amount, SDR 965 million (96.7 per cent of quota) and South Africa the second largest amount, SDR 636 million (100 per cent of quota). (See Appendix I, Table I.5.) Other large purchases were made by Argentina (SDR 520.1 million or 64.8 per cent of quota) and by Chile (SDR 295 million or 90.6 per cent of quota). The remaining amounts purchased under the facility ranged from SDR 1.6 million (or 50 per cent of quota) by the Solomon Islands to SDR 199.9 million (or 81.3 per cent of quota) by Peru. As of April 30, 1983, outstanding purchases amounted to SDR 6.8 billion (by 67 members), representing 29 per cent of total purchases outstanding. Thirty-two members had compensatory financing purchases outstanding in amounts exceeding 50 per cent of their quotas, of which eleven were at 100 per cent or more of their quota.

The facility was comprehensively reviewed by the Executive Board in July 1983.

Compensatory Financing of Fluctuations in the Cost of Cereal Imports

Assistance for fluctuations in the cost of cereal imports is integrated with the assistance available for export shortfalls. Outstanding purchases in respect of export shortfalls and cereal import costs combined may be up to 125 per cent of the member's quota. This facility, which is operative for an initial period of four years from May 13, 1981, provides assistance to members to finance temporary increases in the costs of cereal imports that are caused by factors largely beyond the member's control.[8]

During the year, three members—Bangladesh, Kenya, and Malawi—purchased the equivalent of SDR 71.2 million, SDR 60.4 million, and SDR 12.2 million, respectively. Since its inception, five members (Bangladesh, Kenya, Korea, Malawi, and Morocco) have made purchases under the facility, and the amount outstanding as of April 30, 1983 was SDR 0.5 billion. One member, Morocco, had an amount outstanding under the 1981 decision of 105.1 per cent of quota, while the others were all below 100 per cent.

Buffer Stock Financing Facility

The buffer stock financing facility, established in 1969,[9] assists members in balance of payments need in financing their contributions to international buffer stocks which meet the criteria laid down in the decision establishing the facility. The Fund has, to date, authorized the use of its resources to finance members' contributions to cocoa, tin, sugar, and rubber buffer stocks. Purchases under the buffer stock financing facility

[7] See also *Annual Report, 1982,* pages 82–83.

[8] Executive Board Decision No. 6860-(81/81), adopted May 13, 1981, *Selected Decisions,* Tenth Issue, pages 65–70.

[9] Executive Board Decision No. 2772-(69/47), June 25, 1969, as amended by Decision No. 4913-(75/207), December 24, 1975, *Selected Decisions,* Tenth Issue, pages 70–71.

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reached a record SDR 352 million in 1982/83. Purchases were made by 10 members (see Appendix I, Table I.5) in 14 transactions for their contributions to buffer stocks established under the Fifth and Sixth International Tin Agreements, the 1977 International Sugar Agreement, and the 1980 International Natural Rubber Agreement.

Five members—Australia, the Dominican Republic, Malawi, Mauritius, and Swaziland—purchased a total of SDR 48.5 million for contributions under the International Sugar Agreement, and four members—Bolivia, Indonesia, Malaysia and Thailand—purchased SDR 172.9 million for contributions under the Fifth and Sixth International Tin Agreements. (Indonesia contributed under the Sixth Agreement and Malaysia contributed under both the Fifth and Sixth Agreements.) Indonesia, Malaysia, Sri Lanka, and Thailand purchased SDR 130.6 million for contributions under the International Natural Rubber Agreement.

On November 12, 1982 the Executive Board, after a review of the terms of the 1979 International Natural Rubber Agreement and the Sixth International Tin Agreement, adopted a decision [10] permitting the Fund's buffer stock financing facility to be used to finance eligible members' compulsory contributions to the buffer stocks of these two Agreements.

The International Natural Rubber Agreement, which entered into force provisionally in October 1980 and definitively in April 1982, provides for the joint operation of an international buffer stock of 550,000 tons of rubber to stabilize world rubber prices within an agreed intervention price range. The Agreement will be in operation through October 1985. The Sixth International Tin Agreement came into force on July 1, 1982 for five years with a possible extension for another two years. It currently provides for a total buffer stock of 39,666 tons of tin and for export controls as the principal operating mechanisms to stabilize the price of tin within an intervention range, which may be adjusted to conform with the medium-term price trend. The Fund has also approved assistance to members in connection with the First International Cocoa Agreement, but no drawings have been made to date under that Agreement.

Since the establishment of the buffer stock financing facility in 1969, Fund assistance in connection with the Fourth, Fifth, and Sixth International Tin Agreements, the International Sugar Agreement, and the International Natural Rubber Agreement has totaled SDR 455.7 million to 15 countries as of April 30, 1983. Purchases outstanding under the buffer stock financing facility at the end of the financial year totaled SDR 307 million.

Repurchases

Repurchases during 1982/83 totaled SDR 1,555 million, which was about 23 per cent below the total of SDR 2,010 million repurchased in 1981/82. About 35 per cent of the repurchases were related to purchases under the compensatory financing facility. Repurchases in respect of purchases made under the oil facilities of 1974 and 1975 amounted to about 34 per cent. As of May 11, 1983, all repurchases related to purchases under the 1974 and 1975 oil facilities were completed. Of the total repurchases, about 26 per cent was related to purchases in the credit tranches, including those made under extended arrangements and stand-by arrangements, and a small amount (5 per cent) represented buffer stock and gold tranche repurchases (the latter relating to purchases made prior to the Second Amendment, April 1, 1978). Repurchases by industrial countries (SDR 309 million), nearly 20 per cent of the total, included a large repurchase (SDR 155 million) by the United Kingdom in repayment of purchases under the 1975 oil facility. Seven members (Bangladesh, Barbados, Grenada, St. Lucia, Sri Lanka, Tanzania, and Uruguay) repurchased a total "overcompensation" of SDR 84.9 million, that is, the amount by which their purchases under the compensatory financing facility, based on partly estimated export data, had exceeded the actual shortfall.

No outstanding purchases were covered by the guidelines for early repurchase during the financial year.[11] However, in May 1983 China made an early repurchase of SDR 334 million that was calculated in accordance with the guidelines for early repurchase.

Fund Liquidity

The Fund's liquidity position [12] is regularly reviewed by the Executive Board. The latest of these reviews was carried out in April 1983. The Executive Board takes account of all relevant quantitative and qualitative factors, particularly the need to maintain the liquidity of creditors' claims on the Fund and the Fund's ability to meet its responsibilities in financing and adjustment. The Fund must always be in a position to meet possible demands for encashment of reserve tranche positions or creditor's claims and to cover its commitments under

[10] Executive Board Decision No. 7247-(82/147), adopted November 12, 1982 (reproduced in Appendix II), *Selected Decisions*, Tenth Issue, pages 74–75.

[11] Executive Board Decisions Nos. 5704-(78/39), adopted March 22, 1978, and 6172-(79/101), adopted June 28, 1979, *Selected Decisions*, Tenth Issue, pages 101–105.

[12] The Fund's overall liquidity position is the relationship between its immediately usable assets, comprising SDRs and

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stand-by and extended arrangements. Therefore, the Fund must have adequate ordinary and borrowed resources.

The Fund's usable currencies are those of the members whose balance of payments and gross reserves position are considered by the Executive Board to be sufficiently strong in a particular quarter to be sold by the Fund through its operational budget to finance other members' drawings. Consequently, the list of usable currencies varies with changes in the members' external payments and reserve positions. At the end of the financial year 1983, five currencies accounted for over 80 per cent of the Fund's holdings of usable currencies. The SDRs held in the General Resources Account are the most liquid asset of the Fund because they are always usable, whereas the usability of a currency in a particular quarter depends on whether the issuing member's balance of payments and reserve position is sufficiently strong.

The Fund's liquidity position came under increased pressure during the year under review as evidenced by the decline of SDR 4.2 billion in the Fund's holdings of usable currencies and SDRs to SDR 18.7 billion [13] as of April 30, 1983. Concomitantly, there was an increase in undrawn commitments, which resulted in a decline of SDR 10.8 billion in uncommitted loanable funds to SDR 8.0 billion as of the end of April 1983. At the end of the financial year, the Fund's usable resources consisted of SDR 18.7 billion (SDR 14.4 billion of usable currencies and SDR holdings of 4.3 billion in the General Resources Account) compared with claims of SDR 31.5 billion (SDR 10.9 billion of outstanding borrowing and reserve tranche positions of SDR 20.6 billion) and undrawn balances under stand-by and extended arrangements of SDR 5.7 billion.

The Fund's SDR holdings (SDR 4.3 billion) at the end of April 1983 amounted to about 20 per cent of the cumulative allocation of SDR 21 billion, compared with 25 per cent a year ago. But the Fund's SDR holdings could rise to over SDR 10 billion as a result of payments for quota increases under the Eighth General Review of Quotas and other possible inflows. Such a disproportionately large holding of SDRs by any single holder, including the Fund, is not regarded as conducive to a smooth working of the Special Drawing Rights Department. Therefore, the Executive Board decided [14] that the Fund in determining the amounts of SDRs to be transferred to members will be guided by the aim of reducing the Fund's SDR holdings to a level of approximately SDR 1.5 billion by the end of 1983, prior to the expected large inflows resulting from the quota increases. The level of the Fund's SDR holdings will be reviewed again in the light of the progress made in implementing the quota increases authorized under the Eighth General Review of Quotas but not later than the end of December 1983.

Borrowing

Borrowing provides an important temporary supplement to the Fund's ordinary resources. To date the Fund has borrowed from official sources, which include its members, Switzerland, and central banks and other official institutions in these countries. These borrowing arrangements and agreements have been as follows: the General Arrangements to Borrow (GAB), initially established in 1962; the oil facility agreements entered into in 1974 and 1975, with drawings terminating in 1976; the supplementary financing facility, which took effect in 1979 with borrowings to terminate in 1984; and the bilateral borrowing arrangements with the Saudi Arabian Monetary Agency and with the central banks and official agencies of certain industrial countries to finance the Fund's commitments under the policy on enlarged access.

The Fund's guidelines for borrowing [15] provide that the Fund will not allow the total of outstanding borrowing, plus unused credit lines, to exceed the range of 50 to 60 per cent of the total of Fund quotas. Since at present all GAB lines of credit may not be called upon at the same time, the total of outstanding borrowing is defined to include either outstanding borrowing by the Fund under the GAB or one half of the total credit lines under the GAB, whichever is the greater. On April 30, 1983, the Fund's total outstanding borrowing and unused lines of credit, calculated in accordance with these guidelines, amounted to SDR 20.21 billion, equivalent to 33.1 per cent of quotas (34.3 per cent on April 30, 1982). The guidelines for borrowing are to be reviewed in the coming months.

usable currencies in the General Resources Account, and its liquid liabilities, consisting of members' liquid claims on the Fund (reserve positions, undrawn balances of ordinary resources and lenders' claims on the Fund). The Fund's holdings of gold, amounting to 103.440 million ounces (valued at SDR 35 per fine ounce), are not included in the category of immediately usable resources. The sale of this gold for any purpose requires an 85 per cent majority of the total voting power of the Fund.

[13] Taking into account the remuneration for the financial year 1982/83 and quarterly charges paid in May 1983, the usable resources would amount to SDR 18.0 billion.

[14] Executive Board Decision No. 7397-(83/70) S, adopted May 16, 1983 and reproduced in Appendix II.

[15] Executive Board Decision No. 7040-(82/7), adopted January 13, 1982, *Selected Decisions,* Tenth Issue, pages 231–32.

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General Arrangements to Borrow

The General Arrangements to Borrow (GAB), originally concluded between the Fund and ten industrial member countries in 1962 for four years, have been periodically renewed, with some modifications, including an increase in the original amount of the credit line from Japan. Switzerland has been associated with the GAB through separate agreement with the Fund since June 11, 1964. The purpose of the GAB is to provide supplementary resources to the Fund if needed to forestall or cope with an impairment of the international monetary system. To date its use has been limited to financing Fund drawings by participants. The Arrangements have been activated a total of nine times; the last use was in connection with a reserve tranche purchase, equivalent to SDR 777 million, in November 1978 by the United States. This amount is due for repayment in November 1983.

The Arrangements were not due to be renewed until October 23, 1985. However, on January 18, 1983 the Ministers and Governors of the Group of Ten, noting the strains that had developed in the international monetary system, announced, inter alia, their decision, subject to the necessary legislative approval, to increase the aggregate commitments available under the GAB from approximately SDR 6.4 billion to SDR 17 billion. The enlargement and revision (see below) of the GAB were approved by the Executive Board of the Fund on February 24, 1983,[16] and will take effect when all ten original participants—Belgium, Canada, the Deutsche Bundesbank, France, Italy, Japan, the Netherlands, the Sveriges Riksbank, the United Kingdom, and the United States—have notified the Fund in writing by December 31, 1983 of their concurrence in the amendments and in the increased credit commitments. Until that time the existing GAB decision continues in force.

The Ministers and Governors of the Group of Ten also welcomed the intention of Switzerland to become a participant in the GAB and decided that the necessary amendments should be made to permit Switzerland's participation. Subsequently, the Swiss Federal Council endorsed a proposal under which the Swiss National Bank would be the participating institution. It is expected that Swiss parliamentary procedures for approval will be completed by the end of 1983. Under the Executive Board's decision approving the revised GAB, the final date for adherence by the Swiss National Bank is April 30, 1984.

The main revisions to the GAB, apart from the increased commitments (see Table 24) and the authorization for Swiss participation, are as follows:

(i) The Fund will be permitted to enter into borrowing arrangements associated with the GAB with lenders other than GAB participants.

(ii) The Fund will be permitted to borrow to finance transactions with members that are not GAB participants provided that it is established that the Fund's resources are inadequate to meet requests for financing of exceptional balance of payments situations of members that could threaten the stability of the international monetary system. Furthermore, such financing must be under policies of the Fund requiring adjustment programs.

(iii) The interest rate, which was previously based on the Fund's rate of charges, with a minimum of 4 per cent, is amended to equal the combined market interest rate computed by the Fund from time to time to determine the rate at which it pays interest on holdings of SDRs. A change in the method of calculating the

Table 24. General Arrangements to Borrow: Participants and Amounts of Credit Arrangements

I. Prior to effective date of Decision No. 7337-(83/37)

Participant		Amount *(In millions of participant's currency)*
United States of America	US$	2,000
Deutsche Bundesbank	DM	4,000
United Kingdom	£	357
France	F	2,715
Italy	Lit	343,750
Japan	Yen	340,000
Canada	Can$	216
Netherlands	f.	724
Belgium	BF	7,500
Sveriges Riksbank	SKr	517
Total SDR equivalent as at January 31, 1983		6,429

II. From effective date of Decision No. 7337-(83/37)

Participant	Amount *(In millions of SDRs)*
United States of America	4,250
Deutsche Bundesbank	2,380
Japan	2,125
France	1,700
United Kingdom	1,700
Italy	1,105
Canada	893
Netherlands	850
Belgium	595
Sveriges Riksbank	382
Swiss National Bank [1]	1,020
	17,000

[1] With effect from the date on which the Swiss National Bank adheres to Executive Board Decision No. 7337-(83/37) (reproduced in Appendix II) in accordance with Paragraph 22 of that decision. See also *Selected Decisions,* Tenth Issue, pages 131–45.

[16] Executive Board Decision No. 7337-(83/37), adopted February 24, 1983 (reproduced in Appendix II), *Selected Decisions,* Tenth Issue, pages 131–45.

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combined market interest rate will apply only if the Fund and at least two thirds of the participants having three fifths of the total amount of the credit arrangements so agree. But if a participant so requests at the time this agreement is reached, the change shall not apply to the Fund's indebtedness to that participant outstanding at the date the change becomes effective. Interest will accrue daily but will be paid as soon as possible after each July 31, October 31, January 31, and April 30 in SDRs or in the participant's currency or in other actually convertible currencies.

(iv) The credit arrangements of participants, which are now expressed in units of each individual participant's currency in the existing GAB, will in the future be denominated in SDRs.

(v) Under the present GAB, when the Fund has borrowed to finance a reserve tranche purchase by a participant that is not subject to repurchase, repayment by the Fund of the borrowing is not due for five years. The revised Arrangements provide for the Fund to make a repayment following the quarter in which the purchaser is included in an operational budget. The amount of the repayment would be equal to the net amount of the purchaser's currency sold during the quarterly budget period.

The GAB decision will continue in existence for four years from its effective date. The Fund and the participants in the GAB will review the functioning of the decision when considering its renewal for any subsequent periods.

Borrowing Arrangement with Saudi Arabia in Association with the GAB

The associated borrowing arrangement of the Fund with Saudi Arabia for a maximum amount equivalent to SDR 1.5 billion was approved by the Executive Board on May 20, 1983,[17] and later ratified by the Government of Saudi Arabia. It will go into effect as soon as the revised GAB becomes effective. Its main features are as follows.

The arrangement is to assist the Fund in the financing of purchases by members for the same purposes and in the same circumstances as are prescribed in the GAB. The agreement, including the amount, may be amended at any time by agreement between Saudi Arabia and the Fund. The period of the arrangement will be five years from the date the agreement enters into force, unless the Fund's right to make calls is terminated earlier in accordance with the agreement. The Fund and Saudi Arabia will consult regarding the renewal of the arrangement when a renewal of the GAB decision is under consideration or at the conclusion of such other arrangement as may be appropriate at that time. The basis of interest payment is the same as under the GAB, and the nature of payments of interest and repayment will be, as determined by the Fund after consultation with Saudi Arabia, in Saudi Arabian riyals, in SDRs, or in actually convertible currencies.

Oil Facility

The oil facilities of 1974 and 1975 were established to assist members that experienced balance of payments needs attributable to the rise in oil prices. Under the facilities, the Fund entered into borrowing agreements with 16 member countries and Switzerland in 1974 and 1975, for a total amount of SDR 6.9 billion. (See Appendix I, Table I.9.) By May 11, 1983 the Fund had repaid all the indebtedness incurred under the oil facility.

Supplementary Financing Facility

To finance the supplementary financing facility the Fund entered into borrowing agreements totaling SDR 7.8 billion with 13 member countries and Switzerland in 1979. (See Appendix I, Table I.10.)

During the financial year ended April 30, 1982, the Fund borrowed SDR 2.0 billion under the facility, compared with SDR 2.2 billion in the previous year. Of the total borrowed, SDR 0.8 billion was borrowed to finance purchases by four members under the policy of substitution of supplementary financing facility resources for enlarged access resources.[18] On April 30, 1983, SDR 1.6 billion remained undrawn, but commitments under existing stand-by and extended arrangements are expected to utilize this amount fully.

The first scheduled repayment under the supplementary financing facility was made on November 24, 1982, and at April 30, 1983 a total of SDR 33.9 million had been repaid.

Borrowing to Finance Enlarged Access

Medium-Term Borrowing

The Fund's policy on enlarged access became operative with the signing of a medium-term borrowing agree-

[17] Executive Board Decision No. 7403-(83/73), adopted May 20, 1983 and reproduced in Appendix II.

[18] Executive Board Decision No. 7047-(82/13), adopted February 5, 1982, *Selected Decisions,* Tenth Issue, pages 58–61.

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ment with the Saudi Arabian Monetary Agency (SAMA) for SDR 8.0 billion. This became available in two tranches of SDR 4.0 billion in each of the first and second years of the commitment period of six years.[19] During 1982/83, calls totaling SDR 2.3 billion were made on SAMA, raising the total amount borrowed to SDR 3.56 billion and leaving a balance of SDR 4.40 billion as of April 30, 1983. The Fund may not borrow more than SDR 4.0 billion from SAMA in a single agreement year, which runs from May 7 of one year to May 6 of the following year. At the start of the third year of the commitment period SDR 4.0 billion remained undrawn.

Short-Term Borrowing

Under short-term agreements concluded in 1981, the central banks or official agencies of 18 countries agreed to make available to the Fund the equivalent of SDR 1.3 billion over a commitment period of two years. Of this amount, SDR 675 million is available to the Fund under a borrowing agreement with the Bank for International Settlements. The Fund has borrowed a total of SDR 560.1 million under these arrangements, leaving a balance of SDR 744.9 million available. The commitment periods under the agreements expire between May and August of 1983, but it is expected that all available commitments will be utilized.

Borrowed Resources Suspense Accounts

During the last financial year, the Fund established three suspense accounts, with the Bank for International Settlements, the Federal Reserve Bank of New York, and the Saudi Arabian Monetary Agency. Their purpose is to receive funds borrowed under the policy on enlarged access pending their use in purchase transactions, or amounts received in repurchases pending repayment to lenders.[20] Additional suspense accounts were set up in November 1982 with the Bank of England, the Bank of France, the Deutsche Bundesbank, and the Bank of Japan. These accounts were opened in response to a request by SAMA for a change in conversion arrangements for the Saudi Arabian riyals borrowed by the Fund, allowing SAMA to convert the riyals not only for U.S. dollars, as previously, but also, at its option, for deutsche mark, French francs, pounds sterling, or Japanese yen.[21] The borrowed resources held in the suspense account are invested in SDR-denominated assets at prevailing short-term SDR interest rates, in order to protect their capital value in terms of the SDR and to relieve the Fund of an exchange risk. These investments consist of SDR-denominated deposits, and/or marketable obligations with central banks, the Bank for International Settlements, or other international financial organizations. To date, SDR-denominated deposits have been placed with the Federal Reserve Bank of New York and with the Bank for International Settlements. The total investments of the Borrowed Resources Suspense Account as at April 30, 1983, amounted to SDR 1.7 billion, as against SDR 230 million at the end of 1981/82. This comparatively high level reflected the calls under the loan agreement with SAMA noted above.

Financial Position

Current decisions of the Executive Board, as noted in the Annual Report for 1982, aim at maintaining over time a positive income position for the Fund, while at the same time keeping the rate of remuneration for creditor members as high as possible relative to the SDR rate of interest and maintaining the concessionality in the rate of charge on the use of the Fund's ordinary resources. The Rules and Regulations of the Fund provide for a review of the rate of interest on holdings of SDRs and of the rate of remuneration at the conclusion of each financial year. Since May 1, 1981, the SDR rate of interest has been maintained at 100 per cent of the combined market rate of interest and the rate of remuneration at 85 per cent of the SDR rate of interest.

Charges and Remuneration

Under the procedures introduced with effect from May 1, 1981, the Executive Board determines a single rate of charge, applicable to members' use of the Fund's ordinary resources, at the beginning of each financial year. The rate of charge is based on the estimated income and expense of the Fund for the year and takes into account a target amount of net income for the year. For the financial year 1982/83, the rate of charge to be applied to holdings arising from purchases financed from the Fund's ordinary resources was set by the Executive Board at 6.60 per cent per annum. Following the May 1983 review of the Fund's income position, the same rate will also apply for the financial year 1983/84.

The schedules of charges applicable to holdings arising from purchases by members financed with borrowed resources under the oil facility, the supplementary

[19] Executive Board Decision No. 6843-(81/75), adopted May 6, 1981, *Selected Decisions,* Tenth Issue, pages 173–203.
[20] See *Annual Report, 1982,* page 86.
[21] Executive Board Decision No. 7188-(82/114), adopted August 20, 1982 (reproduced in Appendix II), *Selected Decisions,* Tenth Issue, page 203.

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financing facility, and the policy on enlarged access were not changed. These charges reflect the costs incurred by the Fund in borrowing to finance these facilities. The rates of charges applicable to purchases under the oil facilities for 1974 and 1975 progressed to the maximum levels of 7.125 per cent and 7.875 per cent per annum, respectively, during the year under review. The rates of charges applied to the use by members of borrowed resources under the supplementary financing facility and the policy on enlarged access continue to be the same as in the previous financial year. The rate of charge under the supplementary financing facility is the rate of interest paid by the Fund plus 0.2 per cent in the first 3½ years and plus 0.325 per cent after 3½ years. Under the enlarged access policy, the rate of charge is the net cost of borrowing by the Fund plus 0.2 per cent per annum. The average rates of interest per annum on outstanding Fund borrowings for the year ended April 30, 1983 were 4 per cent (General Arrangements to Borrow), 7.25 per cent (oil facility), 11.56 per cent (supplementary financing facility), and 12.25 per cent (enlarged access to resources).

The Fund pays remuneration to those members that hold a remunerated reserve tranche position. Such a position exists whenever the Fund's holdings of a member's currency (after exclusion of currency holdings on which the member is obligated to pay charges to the Fund) are lower than the "norm" for remuneration. The norm for countries that were members of the Fund prior to the Second Amendment of the Articles of Agreement (April 1, 1978) is the sum of 75 per cent of their quotas at the date of the Second Amendment plus the increases in their quotas after that date. For members that joined the Fund after April 1, 1978, the norm is the weighted average of the norms applicable to all other members on the date the member joined the Fund plus any increases in their quotas after that date. At the end of April 1983, the average of the norms for all Fund members was 87.91 per cent of quota.

The SDR rates of interest and the rates of remuneration (Chart 23) applicable over the six quarters beginning April 1, 1982 were as follows:

Calendar quarter beginning	SDR interest rate	Rate of remuneration
April 1, 1982	12.15	10.33
July 1, 1982	12.01	10.21
October 1, 1982	8.90	7.57
January 1, 1983	8.47	7.20
April 1, 1983	8.52	7.24
July 1, 1983	8.65	7.35

Income, Expense, and Reserves

For the financial year ended April 30, 1983, the Fund's net income was SDR 65 million, compared with SDR 92 million in 1981/82. The results reflect an increase in operational income from periodic charges and service charges, while interest on the Fund's SDR holdings decreased because of the decline in the SDR interest rate from the 1981/82 levels. The Fund's SDR holdings were also lower than in the previous year, in accordance with the policy of reducing the SDR holdings in the General Resources Account. The increase of SDR 256 million in the total operational income, to SDR 2,045 million for 1982/83, reflected the substantial increase in the financing provided by the Fund to its members. Net operational income for the financial year ended April 30, 1983 was SDR 257 million, compared with SDR 245 million in 1981/82. The total of members' holdings subject to charges increased from SDR 14,801 million on April 30, 1982 to SDR 23,590 million on April 30, 1983.

The Fund's operational expense, comprising remuneration payable by the Fund on the use of creditor currencies and interest expense on borrowing, also increased, to SDR 1,789 million, an increase of SDR 245 million over the previous year. This increase reflected primarily interest costs resulting from the expansion of outstanding borrowing by the Fund over the year, from SDR 6,773 million to SDR 10,952 million. Except for the borrowing of SDR 796 million outstanding under the General Arrangements to Borrow and the oil facility, the interest paid by the Fund has to reflect current market interest rates. Remuneration expense increased from SDR 909 million to SDR 981 million largely because of the expansion of members' remunerated positions, even though the average rate of remuneration (8.42 per cent) was lower than that of the previous year (12.25 per cent). The increase in administrative and fixed property expense from SDR 153 million in 1981/82 to SDR 191 million in 1982/83 also reflects in part the cost of a change in the accounting practice of the Fund to recognize the value of accumulated annual leave and separation grants earned by the staff. This change, which is more fully described in the financial statements in Appendix VIII, brings that practice into greater accord with generally accepted accounting principles.

A comparative statement of the Fund's operational income and expense is shown in Appendix VII, and comparative details of administrative expenses are shown in Appendix VI.

The Articles of Agreement and the Rules and Regulations of the Fund provide that the Fund shall determine at the end of each financial year the disposition of the Fund's net income for that year. If the net income for the year exceeds the target amount for the year, the Executive Board will consider whether the whole or

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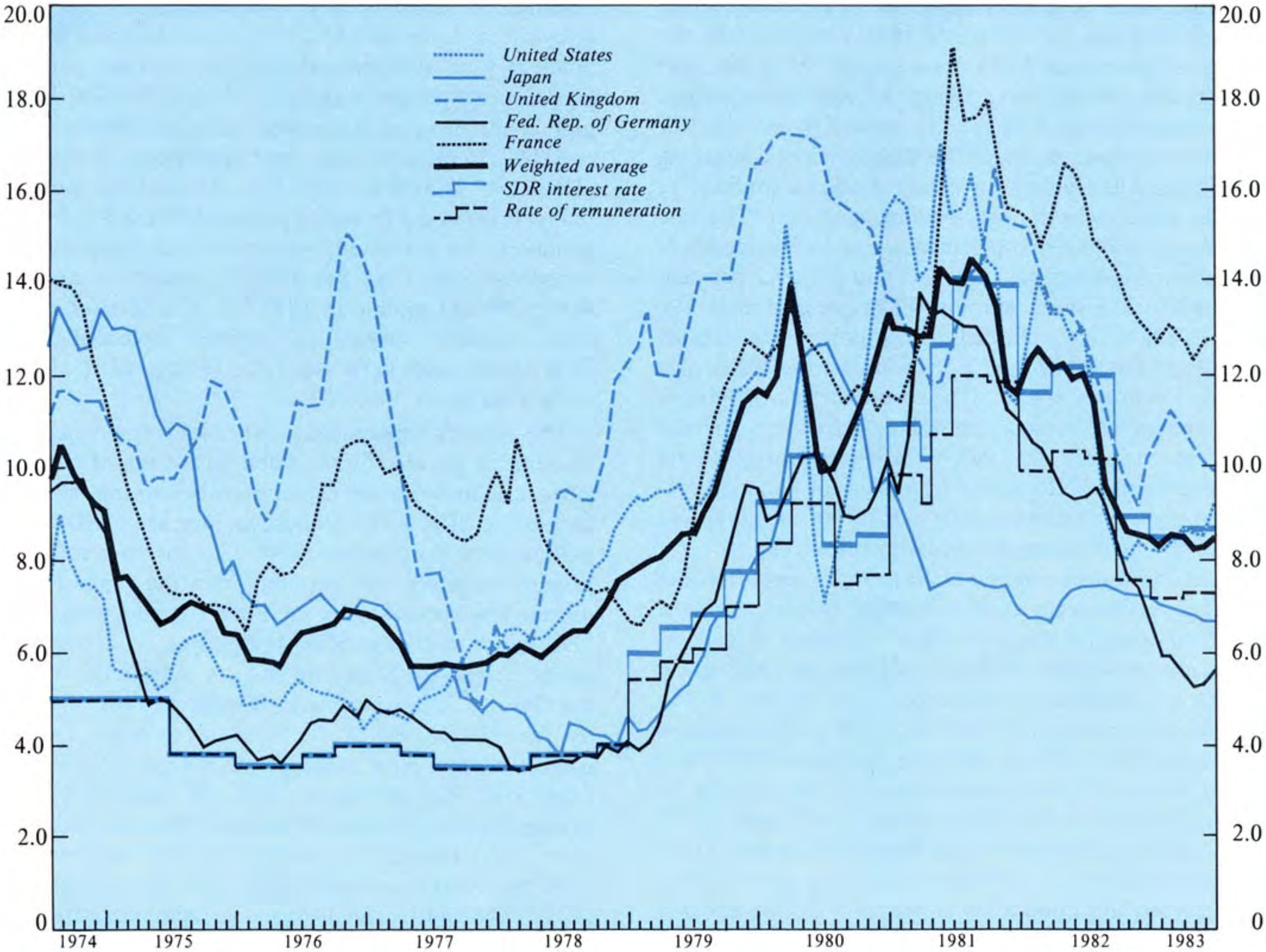
Chart 23. SDR Interest Rate, Rate of Remuneration, and Short-Term Interest Rates, July 1974–June 1983 [1]

(In per cent per annum)



[1] Up to December 1980, short-term domestic interest rates are the yield on three-month treasury bills for the United Kingdom and the United States, the rate on three-month interbank deposits for France and the Federal Republic of Germany, and the call money market rate (unconditional) for Japan. From January 1981, the yield on U.S. Treasury bills was converted to a coupon equivalent basis, and the discount rate on two-month (private) bills was used for Japan. From March 1981, the basis for the interbank rates for France and the Federal Republic of Germany was converted from a 360-day year to a 365-day year.

a part of the excess should be used to reduce the rate of charge, or increase the rate of remuneration to not more than the rate of interest on the SDR, retroactively for the year just ended, or both, or to place all or part of the excess to reserve. The Executive Board determined that the net income for the financial year ended April 30, 1983 shall be placed to special reserve, which can be used for all purposes except a general distribution to members. Total reserves of the Fund, taking into account the net income for 1982/83 amounted to SDR 1,001 million. But the total reserves of the Fund, even with the addition of net income since 1978, have declined steadily in relation to quotas, to members' outstanding use of the Fund's resources, to Fund borrowing, to other liquid claims on the Fund, and to the volume of the Fund's gross income and expense.

Special Drawing Rights Department

Total transfers in the Special Drawing Rights Department during 1982/83 (SDR 11.0 billion) were more than SDR 2 billion higher than last year and only SDR 1.2 billion below the peak volume of 1980/81 which had reflected the extensive one-time use of SDRs to make payments for quota increases under the Seventh General Review. The high level of activity in 1982/83 was reflected both in transactions and operations by

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agreement and in transactions with designation. Transactions and operations by agreement among participants and other holders totaled SDR 1.68 billion, an increase of 20 per cent compared with 1981/82 (SDR 1.40 billion); transactions with designation amounted to SDR 2.71 billion, almost one and one-half times the level of the previous year (SDR 1.88 billion).

Prescribed Holders of SDRs

During the year ended April 30, 1983 the Fund prescribed one more institution (the Asian Development Bank) as a holder of SDRs, bringing the total number of "prescribed holders" to 13. The prescribed holders now comprise four central banks and currency authorities (the Swiss National Bank, Zurich; the Bank of Central African States, Yaoundé; the Central Bank of West African States, Dakar; and the East Caribbean Currency Authority, St. Kitts); three intergovernmental monetary institutions (the Bank for International Settlements, Basle; the Andean Reserve Fund, Bogotá; and the Arab Monetary Fund, Abu Dhabi); and six development institutions (the Asian Development Bank, Manila; the International Bank for Reconstruction and Development, Washington, D.C.; the International Development Association, Washington, D.C.; the Islamic Development Bank, Jeddah; the Nordic Investment Bank, Helsinki; and the International Fund for Agricultural Development, Rome).

Prescribed holders can acquire and use SDRs in transactions and operations by agreement with participants in the Special Drawing Rights Department and prescribed holders under the same terms and conditions as participants. They cannot receive allocations of SDRs nor use SDRs in transactions with designation. During the year transfers involving prescribed holders amounted to SDR 126.36 million, an increase of almost 90 per cent over the previous year (SDR 67.7 million), although their holdings at the end of April 1983 remained small (SDR 16.46 million by five prescribed holders, against SDR 4.3 million held by four prescribed holders at the end of April 1982).

Transactions and Operations in SDRs Among Participants and Prescribed Holders

Transactions by Agreement

SDRs transferred by participants and prescribed holders in transactions by agreement amounted to SDR 1,281 million during 1982/83, which was close to the amount of SDR 1,242 million in the previous year. (See Table 25.) The bulk of transactions by agreement resulted from purchases of SDRs by members that needed to pay charges in the Fund's General Resources Account, net charges on the use of SDRs, and repurchases. The major suppliers of SDRs in these transactions during 1982/83 were Austria, Belgium, the Federal Republic of Germany, Indonesia, and the United Kingdom.

Operations in SDRs

The Fund permits additional uses of SDRs among participants and prescribed holders, and during the financial year 1982/83 these uses amounted to SDR 395.32 million in 17 separate operations.[22] Nine of the operations in SDRs were in settlement of financial obligations and eight were loans. Thus, the accumulated total SDRs transferred in such operations since they were first permitted in 1978 reached SDR 552.93 million.

The settlements of financial obligations in which SDRs were used (SDR 275.09 million) were of three types: repayment of loans originally made in SDRs; settlement of indebtedness incurred in exchange market intervention; and payment of a capital subscription to a regional international institution.

The use of SDRs in loans amounted to SDR 120.23 million, mostly in loans by international organizations to their member countries. Some member countries also made loans in SDRs to other participants in their region. One of the loan operations was a very short-term loan between a regional central bank to one of its members who needed SDRs to pay part of its quota subscription to the Fund, which was settled by the member by drawing on its reserve tranche in the Fund. The maturity periods of the loans ranged from three to seven years, with an average maturity of 4.43 years, and interest rates ranged from 5.2 per cent per annum to 12.15 per cent per annum.

Transactions with Designation

During 1982/83, 42 participants used SDR 2,713 million in 78 transactions with designation (in which the user must represent that it has a balance of payments need) to obtain currency from 25 participants designated by the Fund. (See Table 26.) Transactions in-

[22] The Fund currently permits the following additional uses of SDRs by participants and by prescribed holders, namely: to use SDRs in settlement of financial obligations; to buy and sell SDRs forward; to borrow, lend or pledge SDRs; to use SDRs in swaps; or to make donations (grants) of SDRs. See *Selected Decisions*, Tenth Issue, pages 278–88.

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Table 25. Use and Receipt of SDRs in Transactions by Agreement, Financial Year Ended April 30, 1983

(In thousands of SDRs)

Holder	Receipt	Use
Austria		89,505
Bangladesh	10,500	
Belgium		78,836
Belize	1,318	
Brazil	32,910	47,125
Burma	5,800	
Cameroon	2,550	
Canada	24,000	
Central African Republic	2,200	
Chad	1,250	
Chile	5,500	
Costa Rica	2,720	
Cyprus	2,700	
Dominican Republic	1,000	
Ecuador	1,840	
Egypt	17,100	
Ethiopia	10,500	
Finland	20,000	
France		8,540
Gabon	4,915	
Germany, Federal Republic of		355,124
Ghana	290	
Greece	10,380	
Guatemala	6,590	
Guinea	824	
Guyana	2,113	
Hungary	81,375	
Iceland	2,500	
India		4,500
Indonesia		192,870
Ireland		9,000
Israel	57,000	
Ivory Coast	16,940	
Jamaica	36,836	
Japan		29,500
Kenya	45,000	
Korea	129,000	
Lao People's Democratic Republic	884	
Liberia	1,330	
Madagascar	3,940	
Malawi	2,500	
Mauritania	4,460	
Mauritius	7,200	
Mexico	31,770	40,000
Morocco	38,150	
Nepal	4,500	
New Zealand	13,000	
Nicaragua	350	37,000
Oman		3,500
Panama	12,000	
Papua New Guinea		8,230
Peru	27,500	
Philippines	66,080	
Portugal	3,100	
Romania	23,970	
Senegal	2,200	
Sierra Leone	516	
Somalia	920	
Sri Lanka	23,500	
Sudan	19,772	
Tanzania	1,000	
Thailand	34,045	
Turkey	157,020	
Uganda	8,400	
United Kingdom	37,000	322,865
Uruguay	4,500	
Viet Nam	7,536	
Yugoslavia	132,478	
Zambia	17,890	
Arab Monetary Fund [1]	48,500	48,931
Bank of Central African States [1]	6,000	5,900
East Caribbean Currency Authority [1]	85	
Nordic Investment Bank [1]	3,680	
Total	1,281,428	1,281,428

[1] Prescribed holder.

creased by SDR 838 million compared with 1981/82. As in the previous year, the bulk of the users were non-oil developing countries; only one industrial country and one oil exporting country used SDRs in transactions with designation. Of total transactions, 61 (amounting to SDR 1.72 billion), by 38 countries, represented the immediate use of SDRs acquired from the Fund's General Resources Account in purchases of Fund resources, while the remaining 17 transactions represented the use of participants' existing SDR holdings. Of the 25 countries designated to receive SDRs, 9 were non-oil developing countries, 7 were oil exporting countries, and 9 were industrial countries. The largest amounts of currency in designated transactions, as in the preceding year, were provided by the United States, the United Kingdom, and the Federal Republic of Germany.

Transactions Involving the General Resources Account

Inflows

The bulk of the inflows of SDRs in 1982/83 to the General Resources Account, amounting to SDR 2,150 million (SDR 2,440 million in 1981/82), represented, as in the previous year, payment of charges on the use of Fund resources. A majority of members with low holdings acquired SDRs for this purpose from other participants in transactions by agreement arranged by the Fund, or from the General Resources Account.

Repurchases that were discharged at the member's option with SDRs rather than with a currency specified by the Fund amounted to SDR 566 million, com-

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Table 26. Use and Receipt of SDRs in Transactions with Designation, Financial Year Ended April 30, 1983

(In thousands of SDRs)

Participant	Use	Receipt	Participant	Use	Receipt
Algeria		4,013	Mali	25,238	
Argentina	542,683		Malta		8,241
Australia		89,560	Mauritania	3,250	
Austria		107,549	Mauritius	800	
Bahrain		9,300	Mexico	211,933	
Bangladesh	66,000		Morocco	47,196	
Brazil	449,310	18,000	Netherlands		61,185
Burma	24,600		Norway		50,597
Canada		6,821	Oman		8,957
Central African Republic	2,388		Paraguay		7,577
Colombia		37,300	Qatar		6,196
Dominica	704		Romania	126,159	
Dominican Republic	800		Rwanda		315
Ecuador	30,098		Saudi Arabia		171,624
El Salvador	27,658		Senegal	10,525	
Equatorial Guinea	255		Sierra Leone	200	
Ethiopia	3,000		Somalia	13,227	
Gambia, The	3,287		South Africa	80,000	
Germany, Federal Republic of		539,403	Sri Lanka	5,800	
Guinea	11,260		Sudan	8,612	
Haiti	4,013		Suriname		2,440
Honduras	21,300		Swaziland	1,000	
Hungary	243,882		Trinidad and Tobago		28,118
Iceland	28,000		Uganda	4,500	
India	350,000		United Arab Emirates		14,000
Indonesia	65,100	35,000	United Kingdom		658,908
Iraq	70,000		United States		735,717
Ivory Coast	25,863		Uruguay	35,000	
Jamaica	20,468		Venezuela		42,025
Japan		39,400	Zambia	26,151	
Kenya	35,000		Total	2,713,441	2,713,441
Kuwait		31,195			
Liberia	21,500				
Madagascar	8,180				
Malaysia	58,500				

pared with SDR 838 million in 1981/82. The proportion of repurchases made in SDRs has increased steadily from about 10 per cent in 1978/79 to 36 per cent during 1982/83. The main users of SDRs in repurchases during 1982/83 were the United Kingdom (SDR 154.64 million), Spain (SDR 93.51 million), Peru (SDR 55.50 million), and Israel (SDR 46.36 million).

Outflows

SDRs transferred from the General Resources Account to members amounted to SDR 3,700 million, compared with SDR 2,697 million during 1981/82. The major outflow, as in previous years, was the transfer of SDRs to members in purchases, which amounted to SDR 2,420 million. These transfers accounted for 29 per cent of total purchases financed from the Fund's ordinary resources.

As more countries opt to receive remuneration in the form of SDRs, there has been a continued increase in the amount of remuneration paid in SDRs. Remuneration paid by the Fund to members (75) on their net creditor positions totaled SDR 908.63 million during 1982/83. Of these members, 70 received SDR 861 million in remuneration in SDRs.

The Fund used a total of SDR 240.99 million to pay interest and make repayments of principal to lenders to the Fund. The most important items were repayments to six countries under the oil facility and interest payments of SDR 99.2 million to four countries on Fund borrowing under the supplementary financing facility. The General Resources Account also sold SDR 162.46 million to countries needing to pay charges to the Fund and on the net use of SDRs.

SDR holdings in the General Resources Account declined to SDR 4.33 billion by the end of the financial year from SDR 5.46 billion at the close of 1981/82. Interest receipts on SDR holdings in the General Resources Account, at SDR 444.26 million, were also lower than in the previous year (SDR 657 million),

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reflecting both the lower average SDR holdings and the fall in interest rates in the latter part of the year.

SDR as a Unit of Account Outside the Fund and as a Currency Peg

In addition to its uses as a medium of exchange and settlement between participants in the Special Drawing Rights Department and between participants and prescribed holders, the SDR, which is the unit of account for Fund transactions and operations and for its Administered Accounts, is also used as a unit of account (or as the basis for a unit of account) outside the Fund and as a currency peg.

During 1982/83, the International Telecommunications Union adopted the SDR as its unit of account, thus bringing the number of international and regional organizations which use the SDR as a unit of account (or as the basis for a unit of account) to 15.[23] A number of international conventions also use the SDR to express monetary magnitudes, notably in conventions expressing liability limits in the international transport of goods and services.

In recent years, the SDR has been playing an increasing role both as a denominator and a unit of contract, and in some cases as the basis for a privately issued currency composite. Considerable interest was shown in the private use of SDR-denominated assets in 1981, following the reduction from 16 to 5 in the number of currencies in the SDR valuation basket, effective January 1, 1981. In 1982, however, private recourse to the SDR as a unit of account appears to have slackened. The explanation for the diminished market interest would seem to lie in part in the continued strengthening of the U.S. dollar, which made the preferred portfolio mix diverge from the currency composition of the SDR. A decline in oil revenues during 1982 for a major holder of SDRs also led to a reduction in SDR-denominated deposits based on such revenues.

As of June 30, 1983, 14 countries had pegged their currencies to the SDR. (See Chapter 2, page 66.) When a member pegs its currency to the SDR, the value of its currency is fixed in terms of the SDR and is set in terms of currencies by reference to the SDR value of those currencies as calculated and published daily by the Fund.

[23] These now comprise the African Development Bank, African Development Fund, Arab Monetary Fund, Asian Clearing Union, Asian Development Bank, Development Bank of the Great Lakes Countries, Economic Community of West African States, European Conference of Postal and Telecommunications Administrations, Inter-American Development Bank, International Centre for Settlement of Investment Disputes, International Development Association, International Fund for Agricultural Development, International Telecommunications Union, Islamic Development Bank, and Nordic Investment Bank.

Administered Accounts

The Fund administers as a Trustee, in addition to its Staff Retirement Plan, three accounts for member countries, namely, the Trust Fund, the oil facility subsidy account, and the supplementary financing facility subsidy account. These administered accounts are separate from the Fund's General Department and the Special Drawing Rights Department.

The Trust Fund was terminated as of April 30, 1981,[24] and the responsibilities of the Fund thereafter are confined to the receipt and disposition of interest and loan repayments and the completion of any unfinished business. Two installments of semiannual interest payments for a total amount of SDR 15.0 million were collected in June and December 1982. It was decided that SDR 1,500 million of the loan repayments would be used to provide concessional balance of payments assistance to low-income developing members in need of such assistance under arrangements similar to those set forth in the Trust Fund Instrument. The repayments of Trust Fund loans commenced in July 1982, and by April 1983 repayments of SDR 18.5 million had been made by 24 countries.

Oil Facility Subsidy Account

The oil facility subsidy account was established on August 1, 1975 to assist Fund members most seriously affected by oil price increases to meet part of the cost of using the resources of the 1975 oil facility. Subsidy payments were calculated as a percentage per annum of the average daily balances, subject to charges, of the Fund's holdings of eligible members' currency outstanding under the 1975 oil facility. For the final year of the account (including the first 11 days of May 1983 so as to include the final scheduled repurchases and therefore to conclude the business of the account) the Executive Board approved the subsidy payments at the usual rate of 5 per cent. For 1982/83 (inclusive of May 1983), subsidy payments totaling SDR 2.5 million were made in June 1983 to 16 of the 18 original beneficiaries and to 6 of the 7 additional beneficiaries. (See Table 27.)

The subsidy account was financed by contributions amounting to SDR 160.3 million from 24 members of the Fund and Switzerland. (See Table 28.) The funds received were invested in U.S. Government obligations, which earned investment income, until disbursements were made to the beneficiaries.

[24] Executive Board Decision No. 6704-(80/185) TR, adopted December 17, 1980, *Selected Decisions,* Tenth Issue, pages 318–20.

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Table 27. Oil Facility Subsidy Account: Total Use of 1975 Oil Facility by Beneficiaries, and Cumulative Subsidy Payments on Outstanding Balances Through May 11, 1983 [1]

(In millions of SDRs)

	Total Use of 1975 Oil Facility	Subsidy Payments: Cumulative 1976–82	1983/84 [2]	Total
Original beneficiaries				
Bangladesh	40.47	10.19	0.84	11.03
Cameroon	11.79	2.96	0.25	3.21
Central African Republic	2.66	0.67	0.05	0.72
Egypt	31.68	7.90	0.73	8.62
Haiti	4.14	1.04	0.09	1.13
India	201.34	26.95	1.71	28.66
Ivory Coast	10.35	1.42	0.09	1.51
Kenya	27.93	7.08	0.53	7.61
Mali	3.99	0.99	0.09	1.08
Mauritania	5.32	1.33	0.12	1.45
Pakistan	111.01	28.07	2.15	30.22
Senegal	9.91	2.52	0.18	2.70
Sierra Leone	4.97	1.24	0.11	1.35
Sri Lanka	34.13	8.58	0.71	9.29
Sudan	18.30	4.67	0.36	5.04
Tanzania	20.61	5.25	0.36	5.61
Western Samoa	0.42	0.11	0.01	0.12
Yemen, People's Democratic Republic of	12.02	3.02	0.26	3.28
Subtotal	551.03	113.99	8.63	122.62
Additional beneficiaries				
Grenada	0.49	0.12	0.01	0.13
Malawi	3.73	0.94	0.08	1.02
Morocco	18.00	4.47	0.44	4.91
Papua New Guinea	14.80	2.75	0.17	2.92
Philippines	152.03	38.30	3.09	41.39
Zaïre	32.53	8.07	0.80	8.87
Zambia	29.72	3.89	0.41	4.30
Subtotal	251.30	58.54	5.00	63.54
Total	802.33	172.53	13.63	186.16

[1] Purchases began in July 1975 and continued until May 1976. The subsidy amounts shown were calculated as a percentage per annum of the average daily balances, subject to charges, of the Fund's holdings of each eligible member's currency outstanding under the 1975 oil facility.

[2] Includes a possible additional subsidy which could be paid retroactively from remaining resources.

Supplementary Financing Facility Subsidy Account

The supplementary financing facility subsidy account was established in December 1980 to reduce the cost for low-income developing members of using the supplementary financing facility.[25] Subsidy payments are calculated as a percentage per annum of the average daily balance of the Fund's holdings of a member's currency as a result of all purchases under the supplementary financing facility and under the Fund's policy on exceptional use.

Subsidy payments, totaling SDR 44.3 million, were made on August 10, 1982 to 23 eligible members in respect of holdings over the period July 1, 1981 through June 30, 1982. (See Table 29.) Eligible countries are divided into two groups: those with per capita incomes in 1979 equal to or below the per capita income used to determine eligibility for assistance from the International Development Association (IDA) receive the full rate of subsidy, which does not exceed 3 per cent per annum; those with a per capita income in 1979 above the IDA level, but not more than that of the member that had the highest per capita income of those countries that were eligible to receive assistance from the Trust Fund, receive subsidies at one half the full rate. The payments in August 1982 were made at the maximum rates, that is, 3 per cent and 1.5 per cent.

On the basis of the latest data provided by the World Bank before April 30, 1982, a total of 88 developing members had per capita incomes that made

[25] Executive Board Decision No. 6683-(80/185) G/TR, adopted December 17, 1980, *Selected Decisions,* Tenth Issue, pages 321–28.

Table 28. Oil Facility Subsidy Account: Contributions

(In millions of SDRs)

Contributors	Anticipated Total Contributions	Contributions Received as of April 30, 1983 [1]
Australia	5.700	5.700
Austria	2.300	2.300
Belgium	5.600	5.600
Brazil	1.850	1.850
Canada	9.500	9.500
Denmark	2.200	2.200
Finland	1.600	1.600
France	12.900	12.680
Germany, Federal Republic of	13.700	13.720
Greece	0.600	0.600
Iran, Islamic Rep. of	6.000	6.000
Italy	8.600	8.600
Japan	10.300	10.300
Luxembourg	0.110	0.110
Netherlands	6.000	6.000
New Zealand	1.700	1.700
Norway	2.100	2.100
Saudi Arabia	40.000	40.000
South Africa	1.350	1.350
Spain	3.400	3.400
Sweden	2.800	2.800
Switzerland	3.285	3.300
United Kingdom	12.050	12.000
Venezuela	6.000	6.000
Yugoslavia	0.900	0.900
Total	160.545	160.300

[1] Where contributions were denominated in national currency and were made in installments, SDR amounts were subject to small adjustments because of exchange rate changes.

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them eligible to receive a subsidy. As of April 30, 1983, 23 of these eligible members had purchases outstanding under the supplementary financing facility for a total amount of SDR 2,999 million, and the undrawn supplementary financing facility commitments of three of these members under stand-by and extended arrangements amounted to SDR 330 million. In addition, one eligible member—Sri Lanka—had balances equivalent to SDR 10 million outstanding under the Fund's policy on exceptional use.

The primary source of funds for the account will be SDR 750 million of repayment of, and interest on, Trust Fund loans, which are transferred to the account via the special disbursement account. By April 30, 1983, the account had received SDR 48.80 million from this source. In addition, the account is financed through voluntary contributions in the form of donations and loans and through income on the investment of resources held pending disbursement. Details of expected contributions and loan receipts, together with amounts received by April 30, 1983, are shown in Table 30. Pending a further payment of subsidy, the investments of the account are held in SDR-denominated time deposits with the Bank for International Settlements; on April 30, 1983, they amounted to SDR 31.3 million, with accrued interest of SDR 1.1 million.

Consultations with Member Countries

As noted in Chapter 2, regular Article IV consultations with members are the principal vehicle for the exercise of Fund surveillance over the exchange rate policies of individual member countries. Article IV consultations are required in principle to take place annually and to be completed not later than three months after the termination of discussions between the member and the staff. In practice, it has been impossible to attain the objective of annual consultations with all members, and, as noted in Chapter 2, some procedural changes have been introduced recently to ensure greater regularity of consultations.

In 1982/83, the Fund completed 98 regular Article IV consultations (up from 79 in 1981/82), of which 56 were with countries availing themselves of the transitional arrangements of Article XIV, and 42 with countries that had formally accepted the obligations of Article VIII. Of these consultations completed in the financial year, 32 had been initiated in the previous year, whereas 41 of those initiated in 1982/83 remained outstanding at the end of the year.

In addition to the regular Article IV consultations, special consultations were held with major industrial countries in connection with the World Economic Outlook review by the Executive Board, and the staff has informally visited some countries to keep informed of important developments and to ascertain the member's reasons for particular policy actions. A special consultation was also held with Sweden in connection with the Swedish devaluation in October 1982.

During 1982/83, two countries, New Zealand (August 5, 1982) and Vanuatu (December 1, 1982) accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement, raising to 56 the number of members that have formally accepted these

Table 29. Supplementary Financing Facility Subsidy Account: Drawings Under Supplementary Financing Facility by Eligible Members, and Subsidy Payments

(In millions of SDRs)

	Total Drawings to June 30, 1982	Subsidy Payment August 10, 1982	Total Subsidy Payments to Date
Recipients of Subsidy at 3 per cent			
Bangladesh	110.0	3.30	4.57
Bolivia	25.2	0.77	1.63
Dominica	2.1	0.04	0.04
Guyana	30.9	0.92	1.75
Kenya	94.8	1.92	2.68
Liberia	42.9	0.88	1.18
Madagascar	22.2	0.67	0.89
Malawi	28.1	0.83	1.21
Mauritania	16.0	0.31	0.43
Pakistan	394.6	7.57	8.97
Philippines	333.0	8.93	12.71
Senegal	36.9	0.79	1.18
Sierra Leone	17.2	0.52	0.62
Sri Lanka	—[1]	0.16	0.16
Sudan	171.4	4.29	6.75
Tanzania	16.2	0.49	0.85
Togo	7.3	0.22	0.28
Zambia	—[2]	0.11	3.52
Subtotal		32.67	49.42
Recipients of Subsidy at 1.5 per cent			
Ivory Coast	107.6	1.09	1.19
Jamaica	206.4	4.67[3]	4.67
Mauritius	56.0	0.83	1.52
Morocco	137.5	2.06	2.96
Peru	195.1	2.93	7.43
Subtotal		11.59	17.77
Total		44.27	67.19

[1] Subsidy paid in respect of Fund holdings in excess of 140 per cent of quota under the Fund's policy on exceptional use, which amounted to SDR 10.4 million on June 30, 1982.
[2] Subsidy paid in respect of Fund holdings in excess of 200 per cent of quota under the Fund's policy on exceptional use, all of which had been repurchased by June 30, 1982.
[3] Includes SDR 2.3 million in respect of holdings from June 1979 to June 1981.

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Table 30. Supplementary Financing Facility Subsidy Account: Contributions
(In millions of SDRs)

Contributor	Commitment	Received to April 30, 1983
Donations		
Australia	2.0	2.0
Austria	1.2	1.2
Denmark	1.5	0.8
Finland	1.3	0.4
France	9.3	9.3
Netherlands	4.1	4.1
Norway	1.4	1.4
Saudi Arabia	48.1[1]	17.4
Sweden	2.2	2.2
Switzerland	2.4	2.4
Subtotal	73.5	41.1
Loans		
Belgium	4.4	4.4
Gabon	1.0	—
Luxembourg	0.2	0.2
Subtotal	5.6	4.6
Total	79.1	45.7

[1] US$52 million valued at the exchange rate of SDR 1 equals US$0.924527 as of April 29, 1983.

obligations. Eighty-nine members were availing themselves of the transitional arrangements under Article XIV, Section 2 at the end of the financial year. Since the end of the financial year, Belize, on June 14, 1983, has also accepted the obligations of Article VIII. One member, Antigua and Barbuda, has yet to complete formal procedures to establish Article VIII or Article XIV status.

Training and Technical Assistance

Technical assistance, always an important part of the Fund's work, assumed greater significance in 1982/83 as the Fund became involved in helping to devise stabilization programs for an increasing number of countries and the need for the effective implementation of fiscal and monetary policies became more pressing. During the year, in the face of a growing problem of international indebtedness, the Fund expanded its technical assistance in the area of external debt management and in the collection of external debt statistics. Technical assistance again took the form of training at headquarters, staff missions, seminars at headquarters and in member countries, and the stationing of members of the Fund staff and outside experts in member countries, as well as the assistance customarily provided through the Fund's consultation procedures under Article IV.

During 1982/83 the IMF Institute continued the high level of operations begun in the previous year. The seminar on Balance of Payments Management was held for a second time, and two new seminars—one on the role of the Fund in the international monetary system and the other (in conjunction with the Central Banking Department) on central banking—were introduced in response to perceived needs in member countries. The number of participants attending seminars increased from 22 in 1981/82 to 84 in 1982/83, while the number of participants in the regular training courses presented by the Institute declined by 59, to 284, making the total attendance at both courses and seminars similar to that in the previous year. Altogether, some 3,500 officials from 144 member countries have participated in the programs of the IMF Institute since its inception in 1964.

The 18-week course on Financial Analysis and Policy, conducted separately in English, French, and Spanish, explained the Fund's procedures and policies, and examined the tools of economic analysis and forecasting. It devoted special attention to the instruments of monetary, fiscal, and balance of payments policies that are being employed under changing national and international conditions. Special facilities were provided to permit a few Arabic-speaking participants to follow the English course in their own language. The course on Techniques of Economic Analysis, conducted in English over an 8-week period, described the principal macroeconomic accounts, the tools of economic analysis, and the Fund's policies and procedures. Special arrangements for Arabic-speaking participants were also made for this course. The 10-week course on Public Finance, offered in Spanish and French, and in cooperation with the Fiscal Affairs Department, dealt with the objectives, instruments, and procedures of public finance, emphasizing the fiscal problems of developing countries. The 8-week course on Balance of Payments Methodology, offered in English and French in cooperation with the Bureau of Statistics, focused on the concepts and definitions that are used in the Fund's *Balance of Payments Manual.* The 8-week course on Government Finance Statistics, offered in Spanish also in cooperation with the Bureau of Statistics, applied the concepts, definitions, and procedures in the *Draft Manual on Government Finance Statistics* to the compilation of statistics from accounts in the public sector.

The Institute's external training activities, which began at the close of the previous financial year, were substantially expanded during 1982/83 and placed under the supervision of a newly created External Training Division. A seminar conducted in Zimbabwe focused on the economic problems and policy issues of that member country. Lecturing assistance was also provided to seven regional organizations and national training institutions.

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Technical assistance continued to be provided by the Central Banking Department through the assignment of resident experts to member countries and through advisory services. During the financial year, experts and consultants served in assignments in executive or advisory positions with central monetary institutions and provided about 78 man-years of assistance, most of which was in the fields of research and statistics, accounting, bank supervision, and banking and foreign exchange operations. Departmental staff carried out nine advisory and assessment missions and participated in eight missions led by area departments or in conjunction with the World Bank. Advice was given on topics that include central banking and financial system legislation (in cooperation with the Legal Department), mobilization of savings, organization and operation of central banks, structure and development of financial systems, and the use of alternative policy instruments.

The emergence of serious external debt-servicing problems in many developing countries created an urgent need for the Fund to expand its technical assistance in the area of external debt. A program was instituted in the Central Banking Department to provide assistance in the establishment of a permanent national machinery for the reporting, control, and management of external debt operations on a continuing basis and in the collection of debt statistics. The first external debt expert was assigned to a member country in May 1983 and a further seven experts were in the process of being recruited to meet the needs of another six countries. Several additional requests are expected before the end of 1983.

A seminar on central banking—the first to be held in the Fund—attended by senior officials of central banks of member countries, was conducted jointly by the Central Banking Department and the IMF Institute in July 1982. During the year further progress was made in expanding the Department's computerized data base of central banking legislation, which now contains information on 40 member countries.

Technical assistance in the areas of fiscal policy, tax and customs administration, budget systems and procedures, accounting, auditing, and financial reporting continued to be provided by the Fiscal Affairs Department in response to requests from member countries. This assistance is provided through staff missions, staff assignments in the field, and the services of the members of the panel of experts. In 1982/83 technical assistance was given to 45 countries, compared with 52 in 1981/82, 38 in 1980/81, and 40 in 1979/80. The number of countries receiving technical assistance reflects the Department's continuing aim of trying to assist member countries in the design and implementation of appropriate fiscal policies. During 1982/83 there were 38 long-term and 26 short-term assignments in the field, totaling 64 individual assignments and 377 man-months; 50 panel members, and 16 staff members undertook technical assistance work; and 3 countries received assistance for the first time. Staff members continuously visit countries to review progress and to advise on requests for further assistance. Support and guidance to experts in the field is provided from headquarters.

Technical assistance in statistics continues to be an important part of the work of the Bureau of Statistics, which makes such assistance available through missions to member countries and visits by national technicians to Fund headquarters for training. The bulk of the assistance is provided through missions that are undertaken in response to requests from member countries and is concentrated on statistical assistance in money and banking, balance of payments, government finance, general economic data, and, more recently, international banking. In recent years, a number of countries have requested and received assistance in the development of computerized data bases—an expanding segment of the Fund's technical assistance services that will now become the responsibility of the new Bureau of Computing Services. During 1982/83, the staff of the Bureau of Statistics participated in 72 technical assistance missions to 63 countries, assisted in a statistical seminar organized by the Arab Monetary Fund, and gave lectures on balance of payments methodology, government finance statistics, and other statistics. In addition, eight officials from countries or regional organizations visited the Bureau for training in the various fields of statistics.

Relations with Other International Organizations

The emerging strains in the international financial system and heightened difficulties in arriving at suitable agreements with respect to international trade policy lent added importance and value to the Fund's relationships with other international and regional organizations with expertise in the areas of economics and trade. The Fund continued its close association with the World Bank through exchanges of information and the inclusion of its staff, on occasion, in each others' missions to member countries. Close collaboration was also maintained with the United Nations (UN) and its relevant organs, the Organization for Economic Cooperation and Development (OECD), the General Agreement on Tariffs and Trade (GATT), the Commission

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of the European Communities (CEC), the Bank for International Settlements (BIS), the Organization of American States (OAS), especially the Inter-American Economic and Social Council and its Permanent Executive Committee, and with regional development and financial institutions in Africa, Asia and the Pacific area, Latin America and the Caribbean, and the Middle East.

Ongoing liaison responsibilities are centered in the Fund's European Office in Paris, particularly with regard to the BIS, the CEC, and the OECD; the Geneva Office with regard to the UN Conference on Trade and Development (UNCTAD) and the GATT; and the Special Representative to the United Nations. In this regard staff attend meetings, participate in seminars, conduct informal exchanges of views, and exchange mutually relevant information and documentation with concerned organizations. Their efforts are supplemented by specific assignments of senior officials and technical specialists from headquarters, as well as resident representatives in the field, as required.

The Managing Director delivered his annual address to the UN Economic and Social Council in Geneva on July 13, 1982, and addressed the ministerial meeting of the Thirty-Eighth Session of the CONTRACTING PARTIES to the GATT, also in Geneva, on November 24. He attended official meetings of the BIS in Basle, Switzerland, on July 12, 1982, and spoke at meetings of the UN's Administrative Coordination Committee in New York on November 1, 1982, and in Paris on March 30, 1983. He participated in the Group of Ten ministerial meetings in Helsinki and Toronto, held at the time of the meetings of the Interim and Development Committees, as well as similar sessions in Paris on January 18, 1983, and in Washington on February 10. He also attended the ministerial meetings of the UNCTAD Intergovernmental Group of Twenty-Four on International Monetary Affairs which took place in Helsinki and Toronto at the time of the Interim and Development Committee meetings, and also those held in Washington, D.C. on February 9 and April 27, 1983.

With a view to making the organization's expertise more readily available, and to encourage the cross-fertilization of ideas, the Fund undertook a technical assistance assignment with the East Caribbean Currency Authority (ECCA). Staff attended two technical meetings, in July and December 1982, in preparation for a conference of Finance Ministers of the ECCA member countries to consider a proposed central banking agreement that would permit expansion of the ECCA's central banking functions. The agreement was drafted with the assistance of Fund staff. The Fund also collaborated with the Inter-Agency Resident Mission in the East Caribbean headed by the World Bank. The Fund Resident Advisor to the five member countries in the ECCA region was attached to the mission for purposes of assisting in coordinating the macroeconomic policies with the development programs of the seven ECCA countries.

The recession in the world economy and the debt problems of a number of countries have emphasized recently the Fund's role in debt renegotiation and rescheduling, as well as in the coordination of international aid. During the year, Fund representatives attended Paris Club meetings on the rescheduling of the external debt of Costa Rica, Madagascar, Malawi, Romania, Senegal, Sudan, Togo, and Uganda. At the invitation of the World Bank, staff members also participated in meetings of the Aid Groups for Bangladesh and Burma, and in the meetings of the India and Pakistan Consortia, all held in Paris. Other meetings concerning aid coordination which were attended by Fund staff included the Sri Lanka Aid Group meeting, held in Tokyo; the meetings of the World Bank Consultative Groups on Aid Coordination for Korea, Madagascar, Sudan, and Uganda, held in Paris; the Tokyo meeting of the World Bank Consultative Group for the Philippines; and the meeting on agriculture of the World Bank Consultative Group for Zaïre, held in Paris. As in previous years, a staff representative attended the Amsterdam meeting of the Inter-Governmental Group on Indonesia convened by the Government of the Netherlands, and relevant documentation was provided.

Notwithstanding the strong cooperative relationship the Fund has maintained with the GATT over the years, today's trade and payments situation suggest that even closer ties be developed between the Fund and the GATT. To this end, closer contacts have been established between the secretariats of the two organizations over the past year in order to discuss the possible forms of increased cooperation. The Fund continues to provide information and background documentation for the consultations of the GATT with common member countries on trade restrictions imposed for balance of payments purposes. Fund staff were invited to participate in such consultations held in Geneva with Bangladesh, Ghana, Hungary, India, Israel, Pakistan, the Philippines, and Portugal. A Fund observer was present at the Thirty-Eighth Session of the CONTRACTING PARTIES to the GATT, and, as noted above, the Managing Director addressed the ministerial meeting of that session. The meetings of the Council of Representatives were also attended by a Fund observer, and other GATT meetings on a wide variety of topics were attended by staff members of the Fund's Geneva Office.

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Executive Directors and Staff

In the year ended April 30, 1983, there were 131 appointments to the Fund's regular staff and 78 separations. At the end of the financial year, the staff numbered 1,578 and was drawn from 96 countries.

Publications

The publications issued by the Fund during 1982/83 are listed in Appendix I, Table I.16.

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Appendices

List of Tables

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Appendix I
The Fund in 1982/83

The tables in this appendix supplement the information given in Chapter 3 on the activities of the Fund during the financial year ended April 30, 1983. In three tables in this appendix, however, data covering longer periods are included, viz., Table I.1 on exchange rates and exchange arrangements, Table I.11 setting forth the charges on the use of the Fund's resources, and Table I.15 on present and proposed Fund quotas.

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Table I.1. Exchange Rates and Exchange Arrangements, June 30, 1983 [1]

		Pegged to					Limited Flexibility		More Flexibility [3]		
Member	Currency	U.S. dollar [2]	French franc [2]	Other single currency [2]	Special drawing right [2]	Currency composite other than SDR [3]	Vis-à-vis single currency [3, 4]	Under cooperative arrange-ments [3, 5]	Adjusted according to a set of indicators	Other managed floating	Floating independently
Afghanistan	Afghani	—	—	—	—	—	50.60	—	—	—	—
Algeria	dinar	—	—	—	—	4.7935	—	—	—	—	—
Antigua and Barbuda	East Caribbean dollar	2.70	—	—	—	—	—	—	—	—	—
Argentina	peso argentino	—	—	—	—	—	—	—	—	8.881	—
Australia	dollar	—	—	—	—	—	—	—	—	1.14351	—
Austria	schilling	—	—	—	—	17.925	—	—	—	—	—
Bahamas	dollar	1.00	—	—	—	—	—	—	—	—	—
Bahrain	dinar	—	—	—	—	—	0.376	—	—	—	—
Bangladesh	taka	—	—	—	—	24.50	—	—	—	—	—
Barbados	dollar	2.0113	—	—	—	—	—	—	—	—	—
Belgium	franc	—	—	—	—	—	—	50.935	—	—	—
Belize	dollar	2.00	—	—	—	—	—	—	—	—	—
Benin	franc	—	50.00	—	—	—	—	—	—	—	—
Bhutan	ngultrum	—	—	1.00 [6]	—	—	—	—	—	—	—
Bolivia	peso	196.0	—	—	—	—	—	—	—	—	—
Botswana	pula	—	—	—	—	1.0891	—	—	—	—	—
Brazil	cruzeiro	—	—	—	—	—	—	—	540.27	—	—
Burma	kyat	—	—	—	8.50847	—	—	—	—	—	—
Burundi	franc	90.00	—	—	—	—	—	—	—	—	—
Cameroon	franc	—	50.00	—	—	—	—	—	—	—	—
Canada	dollar	—	—	—	—	—	—	—	—	—	1.2273
Cape Verde	escudo	—	—	—	—	72.6744	—	—	—	—	—
Central African Republic	franc	—	50.00	—	—	—	—	—	—	—	—
Chad	franc	—	50.00	—	—	—	—	—	—	—	—
Chile	peso	—	—	—	—	—	—	—	77.71	—	—
China	yuan	—	—	—	—	1.9838	—	—	—	—	—
Colombia	peso	—	—	—	—	—	—	—	78.51	—	—
Comoros	franc	—	50.00	—	—	—	—	—	—	—	—
Congo	franc	—	50.00	—	—	—	—	—	—	—	—
Costa Rica	colón	—	—	—	—	—	—	—	—	40.25	—
Cyprus	pound	—	—	—	—	0.52627	—	—	—	—	—
Denmark	krone	—	—	—	—	—	—	9.1365	—	—	—
Djibouti	franc	177.721	—	—	—	—	—	—	—	—	—
Dominica	East Caribbean dollar	2.70	—	—	—	—	—	—	—	—	—
Dominican Republic	peso	1.00	—	—	—	—	—	—	—	—	—
Ecuador	sucre	—	—	—	—	—	—	—	—	44.90	—
Egypt	pound	0.70	—	—	—	—	—	—	—	—	—
El Salvador	colón	2.50	—	—	—	—	—	—	—	—	—
Equatorial Guinea	ekwele	—	—	2.00 [7]	—	—	—	—	—	—	—
Ethiopia	birr	2.07	—	—	—	—	—	—	—	—	—
Fiji	dollar	—	—	—	—	1.0350	—	—	—	—	—
Finland	markka	—	—	—	—	5.541	—	—	—	—	—
France	franc	—	—	—	—	—	—	7.6375	—	—	—
Gabon	franc	—	50.00	—	—	—	—	—	—	—	—
Gambia, The	dalasi	—	—	4.00 [8]	—	—	—	—	—	—	—

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Germany, Federal Republic of	deutsche mark	—	—	—	—	—	—	2.5419	—	—	—
Ghana	cedi	—	—	—	—	—	2.75	—	—	—	—
Greece	drachma	—	—	—	—	—	—	—	—	84.51	—
Grenada	East Caribbean dollar	2.70	—	—	—	—	—	—	—	—	—
Guatemala	quetzal	1.00	—	—	—	—	—	—	—	—	—
Guinea	syli	—	—	—	24.6853	—	—	—	—	—	—
Guinea-Bissau	peso	—	—	—	44.00	—	—	—	—	—	—
Guyana	dollar	—	—	—	—	—	3.00	—	—	—	—
Haiti	gourde	5.00	—	—	—	—	—	—	—	—	—
Honduras	lempira	2.00	—	—	—	—	—	—	—	—	—
Hungary	forint	—	—	—	—	42.5446	—	—	—	—	—
Iceland	króna	—	—	—	—	—	—	—	—	27.49	—
India	rupee	—	—	—	—	—	—	—	—	10.1066	—
Indonesia	rupiah	—	—	—	—	—	—	—	—	974.0	—
Iran, Islamic Republic of	rial	—	—	—	92.30	—	—	—	—	—	—
Iraq	dinar	0.310857	—	—	—	—	—	—	—	—	—
Ireland	pound	—	—	—	—	—	—	0.807754	—	—	—
Israel	shekel	—	—	—	—	—	—	—	—	—	47.5202
Italy	lira	—	—	—	—	—	—	1,508.25	—	—	—
Ivory Coast	franc	—	50.00	—	—	—	—	—	—	—	—
Jamaica	dollar	1.78142	—	—	—	—	—	—	—	—	—
Japan	yen	—	—	—	—	—	—	—	—	—	239.7
Jordan	dinar	—	—	—	0.387	—	—	—	—	—	—
Kampuchea, Democratic [9]	riel	—	—	—	—	—	—	—	—	—	—
Kenya	shilling	—	—	—	14.06	—	—	—	—	—	—
Korea	won	—	—	—	—	—	—	—	—	776.7	—
Kuwait	dinar	—	—	—	—	0.29285	—	—	—	—	—
Lao People's Democratic Republic	kip	35.00	—	—	—	—	—	—	—	—	—
Lebanon	pound	—	—	—	—	—	—	—	—	—	4.2415
Lesotho	maloti	—	—	1.00 [10]	—	—	—	—	—	—	—
Liberia	dollar	1.00	—	—	—	—	—	—	—	—	—
Libyan Arab Jamahiriya	dinar	0.296053	—	—	—	—	—	—	—	—	—
Luxembourg	franc	—	—	—	—	—	—	50.935	—	—	—
Madagascar	franc	—	—	—	—	416.91	—	—	—	—	—
Malawi	kwacha	—	—	—	1.2122	—	—	—	—	—	—
Malaysia	ringgit	—	—	—	—	2.3313	—	—	—	—	—
Maldives	rufiyaa	—	—	—	—	—	7.05	—	—	—	—
Mali	franc	—	100.00	—	—	—	—	—	—	—	—
Malta	lira	—	—	—	—	0.432133	—	—	—	—	—
Mauritania	ouguiya	—	—	—	—	54.82	—	—	—	—	—
Mauritius	rupee	—	—	—	—	11.612	—	—	—	—	—
Mexico	peso	—	—	—	—	—	—	—	—	120.01	—
Morocco	dirham	—	—	—	—	—	—	—	—	6.85925	—
Nepal	rupee	—	—	—	—	14.5	—	—	—	—	—
Netherlands	guilder	—	—	—	—	—	—	2.8485	—	—	—
New Zealand	dollar	—	—	—	—	—	—	—	—	1.52695	—
Nicaragua	córdoba	10.00	—	—	—	—	—	—	—	—	—
Niger	franc	—	50.00	—	—	—	—	—	—	—	—
Nigeria [1]	naira	—	—	—	—	—	—	—	—	0.704771	—
Norway	krone	—	—	—	—	7.295	—	—	—	—	—

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Table I.1 *(concluded).* Exchange Rates and Exchange Arrangements, June 30, 1983 [1]

		Pegged to					Limited Flexibility		More Flexibility [3]		
Member	Currency	U.S. dollar [2]	French franc [2]	Other single currency [2]	Special drawing right [2]	Currency composite other than SDR [3]	Vis-à-vis single currency [3, 4]	Under cooperative arrangements [3, 5]	Adjusted according to a set of indicators	Other managed floating	Floating independently
Oman	rial Omani	0.3454	—	—	—	—	—	—	—	—	—
Pakistan	rupee	—	—	—	—	—	—	—	—	13.1778	—
Panama	balboa	1.00	—	—	—	—	—	—	—	—	—
Papua New Guinea	kina	—	—	—	—	0.860511	—	—	—	—	—
Paraguay	guaraní	126.00	—	—	—	—	—	—	—	—	—
Peru	sol	—	—	—	—	—	—	—	1,527.68	—	—
Philippines	peso	—	—	—	—	—	—	—	—	11.0015	—
Portugal	escudo	—	—	—	—	—	—	—	116.98	—	—
Qatar	riyal	—	—	—	—	—	3.64	—	—	—	—
Romania	leu	16.5	—	—	—	—	—	—	—	—	—
Rwanda	franc	92.84	—	—	—	—	—	—	—	—	—
St. Lucia	East Caribbean dollar	2.70	—	—	—	—	—	—	—	—	—
St. Vincent	East Caribbean dollar	2.70	—	—	—	—	—	—	—	—	—
São Tomé and Principe	dobra	—	—	—	41.415	—	—	—	—	—	—
Saudi Arabia	riyal	—	—	—	—	—	3.445	—	—	—	—
Senegal	franc	—	50.00	—	—	—	—	—	—	—	—
Seychelles	rupee	—	—	—	7.2345	—	—	—	—	—	—
Sierra Leone	leone	—	—	—	—	—	—	—	—	1.28024	—
Singapore	dollar	—	—	—	—	2.1320	—	—	—	—	—
Solomon Islands	dollar	—	—	—	—	1.15567	—	—	—	—	—
Somalia	shilling	—	—	—	16.50	—	—	—	—	—	—
South Africa	rand	—	—	—	—	—	—	—	—	—	1.09302
Spain	peseta	—	—	—	—	—	—	—	—	145.35	—
Sri Lanka	rupee	—	—	—	—	—	—	—	—	23.03	—
Sudan	pound	1.30	—	—	—	—	—	—	—	—	—
Suriname	guilder	1.785	—	—	—	—	—	—	—	—	—
Swaziland	lilangeni	—	—	1.00 [10]	—	—	—	—	—	—	—
Sweden	krona	—	—	—	—	7.6425	—	—	—	—	—
Syrian Arab Republic	pound	3.925	—	—	—	—	—	—	—	—	—
Tanzania	shilling	—	—	—	—	12.2413	—	—	—	—	—
Thailand	baht	—	—	—	—	—	23.00	—	—	—	—
Togo	franc	—	50.00	—	—	—	—	—	—	—	—
Trinidad and Tobago	dollar	2.4090	—	—	—	—	—	—	—	—	—
Tunisia	dinar	—	—	—	—	0.67987	—	—	—	—	—
Turkey	lira	—	—	—	—	—	—	—	—	221.85	—
Uganda [1]	shilling	—	—	—	—	—	—	—	—	124.5	—
United Arab Emirates	dirham	—	—	—	—	—	3.671	—	—	—	—
United Kingdom	pound	—	—	—	—	—	—	—	—	—	0.653424
United States	dollar	—	—	—	—	—	—	—	—	—	1.00
Upper Volta	franc	—	50.00	—	—	—	—	—	—	—	—

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Uruguay	new peso	—	—	—	—	—	—	—	—	—	32.275
Vanuatu	vatu	—	—	—	106.20	—	—	—	—	—	—
Venezuela	bolívar	4.30	—	—	—	—	—	—	—	—	—
Viet Nam	dong	—	—	—	10.37883	—	—	—	—	—	—
Western Samoa	tala	—	—	—	—	—	—	—	—	1.61857	—
Yemen Arab Republic	rial	4.5625	—	—	—	—	—	—	—	—	—
Yemen, People's Democratic Republic of	dinar	0.345399	—	—	—	—	—	—	—	—	—
Yugoslavia	dinar	—	—	—	—	—	—	—	—	89.2081	—
Zaïre	zaïre	—	—	—	6.34921	—	—	—	—	—	—
Zambia	kwacha	—	—	—	1.2803	—	—	—	—	—	—
Zimbabwe	dollar	—	—	—	—	0.99433	—	—	—	—	—

[1] For further explanation of the classification of exchange rate arrangements, in particular for members that maintain dual exchange markets involving multiple exchange rate arrangements, see Table 13. The effective date of the exchange rate is May 31, 1983 for Nigeria and April 30, 1983 for Uganda.

[2] Rates as notified to the Fund and in terms of domestic currency units per unit listed.

[3] Market rates in domestic currency units per U.S. dollar.

[4] All exchange rates have shown limited flexibility against the U.S. dollar.

[5] Belgium, Denmark, France, the Federal Republic of Germany, Ireland, Italy, Luxembourg, and the Netherlands are participating in the European Monetary System and maintain maximum margins of 2.25 per cent (for the Italian lira, 6 per cent) for exchange rates in transactions in the official markets between their currencies and those of the other countries in this group.

[6] Per Indian rupee.

[7] Per Spanish peseta.

[8] Per pound sterling.

[9] Information not available.

[10] Per South African rand.

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Table I.2. Fund Stand-By Arrangements for Members, Financial Year Ended April 30, 1983

(In millions of SDRs)

Member	Total Number of Stand-Bys Approved for Member Since 1953	Date of Inception	Date of Expiration	Amount Approved 1981/82	Amount Not Purchased at Expiration or Cancellation	Amount Approved 1982/83	Amount Not Purchased April 30, 1983
Argentina	10	Jan. 24, 1983	Apr. 23, 1984	—	—	1,500.00[1]	1,199.26
Bangladesh	4	Mar. 28, 1983	Aug. 31, 1983	—	—	68.40	45.60
Barbados	1	Oct. 1, 1982	May 31, 1984	—	—	31.88[1]	19.51
Burma	6	June 12, 1981	June 11, 1982	27.00	—	—	—
Central African Republic	3	Apr. 22, 1983	Apr. 21, 1984	—	—	18.00[1]	18.00
Chile	13	Jan. 10, 1983	Jan. 9, 1985	—	—	500.00[1]	378.00
Costa Rica	8	Dec. 20, 1982	Dec. 19, 1983	—	—	92.25[1]	73.80
El Salvador	13	July 16, 1982	July 15, 1983	—	—	43.00	15.50
Ethiopia	1	May 8, 1981	June 30, 1982	67.50[2]	—	—	—
Gambia, The	3	Feb. 22, 1982	Feb. 21, 1983	16.90[2]	—	—	—
Grenada	4	May 11, 1981	May 10, 1982	3.43	0.53	—	—
Guatemala	9	Nov. 13, 1981	Nov. 12, 1982	19.10	—	—	—
Guinea	1	Dec. 1, 1982	Nov. 30, 1983	—	—	25.00	13.50
Haiti	18	Aug. 9, 1982	Sept. 30, 1983	—	—	34.50[1]	17.50
Honduras	13	Nov. 5, 1982	Dec. 31, 1983	—	—	76.50[1]	45.90
Hungary	1	Dec. 8, 1982	Jan. 7, 1984	—	—	475.00[1]	249.40
Kenya	5	Jan. 8, 1982	Jan. 7, 1983	151.50[3]	61.50	—	—
		Mar. 21, 1983	Sept. 20, 1984	—	—	175.95[1]	130.75
Liberia	16	Aug. 26, 1981	Sept. 15, 1982	55.00[2, 3]	—	—	—
		Sept. 29, 1982	Sept. 28, 1983	—	—	55.00[1]	20.00
Madagascar	4	Apr. 13, 1981	June 26, 1982	32.30[2, 4]	70.00	—	—
		July 9, 1982	July 8, 1983	—	—	51.00[1]	10.20
Malawi	3	Aug. 6, 1982	Aug. 5, 1983	—	—	22.00[1]	6.00
Mali	6	May 21, 1982	May 20, 1983	—	—	30.38	—
Mauritania	3	June 1, 1981	Mar. 31, 1982	25.80[3]	—	—	—
Mauritius	4	Dec. 21, 1981	Dec. 20, 1982	30.00[2]	—	—	—
Morocco	8	Apr. 26, 1982	Apr. 25, 1983	281.25[2]	—	—	—
Panama	15	Apr. 28, 1982	Apr. 27, 1983	29.70	29.70	—	—
Philippines	16	Feb. 25, 1983	Feb. 28, 1984	—	—	315.00[1]	265.00
Romania	3	June 15, 1981	June 14, 1984	1,102.50[2]	—	—	560.50
Senegal	3	Sept. 11, 1981	Sept. 10, 1982	63.00[3]	—	—	—
		Nov. 24, 1982	Nov. 23, 1983	—	—	47.25[1]	41.34
Solomon Islands	1	May 29, 1981	May 28, 1982	1.60	0.80	—	—
Somalia	10	July 15, 1981	July 14, 1982	43.13[2]	—	—	—
		July 15, 1982	Jan. 14, 1984	—	—	60.00[1]	26.25
South Africa	5	Nov. 3, 1982	Dec. 31, 1983	—	—	364.00	205.00
Sudan	8	Feb. 22, 1982	Feb. 21, 1983	198.00[3]	128.00	—	—
		Feb. 23, 1983	Feb. 22, 1984	—	—	170.00[1]	102.00
Tanzania	2	Sept. 15, 1980	June 30, 1982	(179.60)[5]	154.60	—	—
Thailand	3	June 3, 1981	Mar. 31, 1983	814.50[2, 6]	469.50	—	—
		Nov. 17, 1982	Dec. 31, 1983	—	—	271.50[1]	176.70
Togo	3	Feb. 13, 1981	Feb. 12, 1983	(47.50)[5]	40.25	—	—
		Mar. 4, 1983	Apr. 3, 1984	—	—	21.37[1]	19.37
Turkey	13	June 18, 1980	June 17, 1983	(1,250.00)[5]	—	—	90.00
Uganda	4	June 5, 1981	June 30, 1982	112.50[2]	—	—	—
		Aug. 11, 1982	Aug. 10, 1983	—	—	112.50[1]	37.50
Uruguay	13	July 15, 1981	July 14, 1982	31.50	—	—	—
		Apr. 22, 1983	Apr. 21, 1985	—	—	378.00[1]	378.00
Yugoslavia	8	Jan. 30, 1981	Dec. 31, 1983	(1,662.00)[5]	—	—	379.00
Zambia	4	Apr. 18, 1983	Apr. 17, 1984	—	—	211.50[1]	180.00
Zimbabwe	2	Mar. 23, 1983	Sept. 22, 1984	—	—	300.00[1]	240.00
Total				3,106.21	954.88	5,449.98	4,943.58

[1] Enlarged access resources totaling SDR 2,885.39 million approved in 1982/83 are as follows: Argentina, SDR 754.35 million; Barbados, SDR 15.36 million; Central African Republic, SDR 14.66 million; Chile, SDR 246.84 million; Costa Rica, SDR 45.88 million; Haiti, SDR 17.64 million; Honduras, SDR 44.62 million; Hungary, SDR 229.26 million; Kenya, SDR 166.21 million; Liberia, SDR 44.11 million; Madagascar, SDR 26.05 million; Malawi, SDR 8.56 million; Philippines, SDR 150.28 million; Senegal, SDR 23.91 million; Somalia, SDR 49.38 million; Sudan, SDR 134.81 million; Thailand, SDR 189.16 million; Togo, SDR 12.02 million; Uganda, SDR 97.56 million; Uruguay, SDR 283.50 million; Zambia, SDR 143.73 million; and Zimbabwe, SDR 187.50 million.

[2] Enlarged access resources approved in 1981/82 are as follows: Ethiopia, SDR 32.52 million; The Gambia, SDR 8.88 million; Liberia, SDR 6.92 million; Madagascar, SDR 32.30 million; Mauritius, SDR 13.28 million; Morocco, SDR 166.18 million; Romania, SDR 746.18 million; Somalia, SDR 22.64 million; Thailand, SDR 566.59 million; and Uganda, SDR 58.97 million.

[3] Supplementary financing facility resources approved in 1981/82 are as follows: Kenya, SDR 96.84 million; Liberia, SDR 18.00 million; Mauritania, SDR 9.88 million; Senegal, SDR 33.57 million; and Sudan, SDR 136.40 million.

[4] Amount by which arrangement, of SDR 76.70 million approved in April 1981, was augmented in June 1981.

[5] Arrangement approved in the financial year 1980/81.

[6] Arrangement canceled on November 16, 1982.

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Table I.3. Summary of Members' Purchases and Repurchases, Financial Years Ended April 30, 1948–83

(In millions of SDRs)

Year	Total Purchases by Members	Total Repurchases by Members
1948	606.04	—
1949	119.44	—
1950	51.80	24.21
1951	28.00	19.09
1952	46.25	36.58
1953	66.12	184.96
1954	231.29	145.11
1955	48.75	276.28
1956	38.75	271.66
1957	1,114.05	75.04
1958	665.73	86.81
1959	263.52	537.32
1960	165.53	522.41
1961	577.00	658.60
1962	2,243.20	1,260.00
1963	579.97	807.25
1964	625.90	380.41
1965	1,897.44	516.97
1966	2,817.29	406.00
1967	1,061.28	340.12
1968	1,348.25	1,115.51
1969	2,838.85	1,542.33
1970	2,995.65	1,670.69
1971	1,167.41	1,656.86
1972	2,028.49	3,122.33
1973	1,175.43	540.30
1974	1,057.72	672.49
1975	5,102.45	518.08
1976	6,591.42	960.10
1977	4,910.33	868.19
1978	2,503.01	4,485.01
1979	3,719.58	4,859.18
1980	2,433.26	3,775.83
1981	4,860.01	2,852.93
1982	8,040.62	2,009.88
1983	11,391.89	1,555.12
Total	75,411.72[1]	38,753.65[2]

[1] Includes purchases that are not subject to repurchase.
[2] Excludes sales of currency and adjustments that have the effect of repurchase.

Table I.4. Summary of Stand-By Arrangements That Became Effective During the Financial Years Ended April 30, 1953–83 [1]

(In millions of SDRs)

Year	Number	Amount
1953	2	55.00
1954	2	62.50
1955	2	40.00
1956	2	47.50
1957	9	1,162.28
1958	11	1,043.78
1959	15	1,056.63
1960	14	363.88
1961	15	459.88
1962	24	1,633.13
1963	19	1,531.10
1964	19	2,159.85
1965	24	2,159.05
1966	24	575.35
1967	25	591.15
1968	32	2,352.36
1969	26	541.15
1970	23	2,381.28
1971	18	501.70
1972	13	313.75
1973	13	321.85
1974	15	1,394.00
1975	14	389.75
1976	18	1,188.02
1977	19	4,679.64
1978	18	1,285.09
1979	14	507.85
1980	24	2,479.36
1981	21	5,197.93
1982	19	3,106.21
1983	27	5,449.98
Total	521	45,031.00

[1] Includes renewals and extensions for one year or less, except the renewals each six months of the stand-by arrangement for Belgium granted in June 1952 until that member purchased the full amount of the equivalent of SDR 50 million in April 1957.

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Table I.5. Purchases of Currencies and Special Drawing Rights from the Fund, Financial Year Ended April 30, 1983

(In millions of SDRs)

Member Purchasing	Within Reserve Tranche	Within Credit Tranche: Under stand-by arrangements: Ordinary resources	Within Credit Tranche: Under stand-by arrangements: Supplementary financing facility	Within Credit Tranche: Under stand-by arrangements: Enlarged access resources	Within Credit Tranche: Other	Under Decision on: Extended Fund facility: Ordinary resources	Under Decision on: Extended Fund facility: Supplementary financing facility	Under Decision on: Extended Fund facility: Enlarged access resources	Under Decision on: Compensatory financing	Under Decision on: Buffer stock	Total Purchases	Purchases Financed with: Ordinary resources: Currencies	Purchases Financed with: Ordinary resources: Special drawing rights	Purchases Financed with: Supplementary financing facility	Purchases Financed with: Enlarged access resources
Antigua and Barbuda	0.68	—	—	—	—	—	—	—	—	—	0.68	—	0.68	—	—
Argentina	228.42	200.49	—	100.25	—	—	—	—	520.10	—	1,049.26	736.61	212.40	—	100.25
Australia	—	—	—	—	—	—	—	—	—	32.46	32.46	—	32.46	—	—
Bangladesh	—	22.80	—	—	—	—	—	—	71.20[1]	—	94.00	13.90	80.10	—	—
Barbados	—	7.65	—	4.72	—	—	—	—	12.60	—	24.98	17.98	2.28	—	4.72
Bolivia	—	—	—	—	—	—	—	—	17.90	24.47	42.37	39.97	2.40	—	—
Brazil	259.79	—	—	—	249.38	62.44	—	62.43	965.00	—	1,599.04	1,456.13	80.48	—	62.43
Burma	15.00	—	—	—	—	—	—	—	25.60	—	40.60	13.00	27.60	—	—
Central African Republic	—	—	—	—	2.40	—	—	—	—	—	2.40	—	2.40	—	—
Chile	70.54	81.33	—	40.67	—	—	—	—	295.00	—	487.54	446.87	—	—	40.67
Costa Rica	—	12.83	—	5.62	—	—	—	—	—	—	18.45	—	12.83	—	5.62
Dominica	—	—	—	—	—	1.42	1.43	—	—	—	2.85	—	1.42	1.43	—
Dominican Republic	—	—	—	—	—	37.12	—	37.13	78.75	10.55	163.55	119.10	7.32	—	37.13
Ecuador	24.79	—	—	—	—	—	—	—	—	—	24.79	24.79	—	—	—
El Salvador	—	27.50	—	—	—	—	—	—	32.25	—	59.75	41.25	18.50	—	—
Equatorial Guinea	1.52	—	—	—	—	—	—	—	—	—	1.52	—	1.52	—	—
Ethiopia	—	5.34	—	6.41	—	—	—	—	—	—	11.75	2.90	2.44	—	6.41
Gambia, The	—	3.99	4.79[2]	—	—	—	—	—	—	—	8.78	—	3.99	4.79[2]	—
Ghana	8.47	—	—	—	—	—	—	—	—	—	8.47	—	8.47	—	—
Grenada	—[3]	—	—	—	—	—	—	—	—	—	—	—	—[3]	—	—
Guinea	—	11.50	—	—	—	—	—	—	—	—	11.50	—	11.50	—	—
Guyana	—	—	—	—	—	—	—	—	5.93	—	5.93	2.25	3.68	—	—
Haiti	—	8.90	—	8.10	—	—	—	—	—	—	17.00	3.77	5.13	—	8.10
Honduras	—	11.01	—	19.59	—	—	—	—	23.10	—	53.70	7.81	26.30	—	19.59
Hungary	81.38	132.37	—	93.23	—	—	—	—	72.00	—	378.98	34.87	250.88	—	93.23
Iceland	9.05	—	—	—	—	—	—	—	21.50	—	30.55	—	30.55	—	—
India	—	—	—	—	—	750.00	750.00[2]	—	—	—	1,500.00	400.00	350.00	750.00[2]	—
Indonesia	218.36	—	—	—	—	—	—	—	—	65.10	283.46	218.36	65.10	—	—
Iraq	111.92	—	—	—	—	—	—	—	—	—	111.92	111.92	—	—	—
Ivory Coast	—	—	—	—	—	71.25	82.65	—	—	—	153.90	25.22	46.03	82.65	—
Jamaica	6.22	—	—	—	—	—	20.70	91.60	19.40	—	137.92	1.00	24.62	20.70	91.60
Kenya	—	23.38	16.36	35.46	—	—	—	—	60.38[1]	—	135.58	44.72	39.04	16.36	35.46
Lesotho	2.02	—	—	—	—	—	—	—	—	—	2.02	2.02	—	—	—
Liberia	—	15.89	6.00[2]	24.11	—	—	—	—	34.70	—	80.70	28.59	22.00	6.00[2]	24.11
Madagascar	2.36	20.32	—	20.48	—	—	—	—	21.80	—	64.96	28.84	15.64	—	20.48
Malawi	—	13.44	—	2.56	—	—	—	—	12.20[1]	0.92	29.12	20.59	5.98	—	2.56
Malaysia	—	—	—	—	—	—	—	—	—	171.50	171.50	67.80	103.70	—	—
Mali	—	30.38	—	—	—	—	—	—	—	—	30.38	5.00	25.38	—	—
Mauritania	3.26	—	—	—	—	—	—	—	—	—	3.26	—	3.26	—	—
Mauritius	—	1.72	13.28[2]	—	—	—	—	—	—	3.61	18.61	—	5.33	13.28[2]	—
Mexico	1.16	—	—	—	200.63	50.15	—	50.15	—	—	302.09	—	251.94	—	50.15
Morocco	—	102.27	—	122.73	—	—	—	—	—	—	225.00	52.85	49.42	—	122.73
Pakistan	—	—	—	—	—	147.50	147.50	—	180.20	—	475.20	242.82	84.88	147.50	—
Peru	—	—	—	—	—	100.00	—	—	199.90	—	299.90	224.00	75.90	—	—
Philippines	—	50.00	—	—	—	—	—	—	188.55	—	238.55	215.43	23.12	—	—
Romania	5.01	182.73	—	219.27	—	—	—	—	—	—	407.01	41.82	145.92	—	219.27
Senegal	—	26.03	25.78	1.36	—	—	—	—	—	—	53.17	7.39	18.64	25.78	1.36
Sierra Leone	4.01	—	—	—	—	—	—	—	20.70	—	24.71	17.70	7.01	—	—
Solomon Islands	—	—	—	—	—	—	—	—	1.60	—	1.60	1.60	—	—	—
Somalia	4.75	13.56	—	26.66	—	—	—	—	—	—	44.97	8.94	9.37	—	26.66
South Africa	—	159.00	—	—	—	—	—	—	636.00	—	795.00	695.00	100.00	—	—
Sri Lanka	—	—	—	—	—	—	—	—	39.20	5.80	45.00	33.20	11.80	—	—
Sudan	1.85	30.48	—	37.52	—	—	—	—	39.10	—	108.95	68.65	2.78	—	37.52
Swaziland	—	—	—	—	—	—	—	—	—	0.98	0.98	—	0.98	—	—
Syrian Arab Republic	19.63	—	—	—	—	—	—	—	—	—	19.63	19.63	—	—	—

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Table I.5 *(concluded)*. Purchases of Currencies and Special Drawing Rights from the Fund, Financial Year Ended April 30, 1983

(In millions of SDRs)

		Within Credit Tranche				Under Decision on						Purchases Financed with			
		Under stand-by arrangements				Extended Fund facility						Ordinary resources			
Member Purchasing	Within Reserve Tranche	Ordinary resources	Supplementary financing facility	Enlarged access resources	Other	Ordinary resources	Supplementary financing facility	Enlarged access resources	Compensatory financing	Buffer stock	Total Purchases	Currencies	Special drawing rights	Supplementary financing facility	Enlarged access resources
Tanzania	1.74	—	—	—	—	—	—	—	—	—	1.74	—	1.74	—	—
Thailand	—	43.08	—	51.72	—	—	—	—	—	36.60	131.40	58.15	21.53	—	51.72
Togo	—	0.54	—	1.46	—	—	—	—	—	—	2.00	0.54	—	—	1.46
Turkey	—	—	300.00	—	—	—	—	—	—	—	300.00	—	—	300.00	—
Uganda	—	19.48	—	65.52	—	—	—	—	—	—	85.00	—	19.48	—	65.52
Uruguay	28.07	31.50	—	—	—	—	—	—	55.30	—	114.87	114.87	—	—	—
Yemen Arab Republic	—	—	—	—	9.75	—	—	—	—	—	9.75	9.75	—	—	—
Yemen, People's Democratic Republic of	2.52	—	—	—	15.38	—	—	—	—	—	17.89	17.89	—	—	—
Yugoslavia	—	—	590.50	—	—	—	—	—	—	—	590.50	—	—	590.50	—
Zaïre	13.68	—	—	—	—	—	—	—	—	—	13.68	—	13.68	—	—
Zambia	7.50	19.11	—	12.39	—	—	—	—	34.00	—	73.00	11.61	49.00	—	12.39
Zimbabwe	—	18.75	—	41.25	—	—	—	—	56.10	—	116.10	74.85	—	—	41.25
Total	1,133.68	1,327.37	956.71	941.08	477.53	1,219.89	1,002.28	241.30	3,740.06	351.99	11,391.89	5,831.96	2,418.57	1,958.99	1,182.37

[1] In accordance with the decision on compensatory financing of fluctuations in the cost of cereal imports, Executive Board Decision No. 6860-(81/81), adopted May 13, 1981. (See *Selected Decisions of the International Monetary Fund and Selected Documents*, Tenth Issue (Washington, 1983), pages 65–70.)

[2] Purchase financed from supplementary financing facility resources in substitution for enlarged access resources, Executive Board Decision No. 7047-(82/13), adopted February 5, 1982. (See *Selected Decisions of the International Monetary Fund and Selected Documents*, Tenth Issue (Washington, 1983), page 58.)

[3] Less than SDR 50,000.

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Table I.6. Repurchases of Currencies from the Fund, Financial Year Ended April 30, 1983

(In millions of SDRs)

Member Repurchasing	Repurchases in Respect of Purchases of							
	Borrowed Resources		Ordinary Resources					
	Oil facility	Supplementary financing facility	Compensatory financing	Stand-by arrangements	Extended Fund facility	Other credit tranche	Other	Total
Bangladesh	6.9	—	42.4	—	—	—	—	49.3
Barbados	—	—	1.7	—	—	—	—	1.7
Bolivia	—	—	7.5	—	—	—	—[1, 2]	7.5
Burma	—	—	—	11.7	—	—	—	11.7
Burundi	—	—	2.0	—	—	—	—	2.0
Cameroon	2.5	—	—	—	—	—	—	2.5
Central African Republic	0.5	—	—	—	—	—	—	0.5
Chile	26.3	—	—	—	—	—	—	26.3
Costa Rica	3.2	—	5.1	—	—	—	—	8.3
Cyprus	4.6	—	5.0	—	—	—	—	9.6
Dominica	—	—	0.1	—	—	—	—	0.1
Dominican Republic	—	—	3.0	—	—	—	—	3.0
Egypt	7.9	—	—	21.0	—	—	—	28.9
Equatorial Guinea	—	—	—	—	—	—	0.5[3]	0.5
Ethiopia	—	—	9.0	—	—	—	—	9.0
Finland	33.2	—	—	—	—	—	—	33.2
Gabon	—	—	—	3.9	—	—	—	3.9
Gambia, The	—	—	2.3	—	—	—	—	2.3
Ghana	2.4	—	—	3.4	—	—	8.5[2]	14.3
Greece	6.5	—	—	—	—	—	—	6.5
Grenada	0.1	—	0.7	—	—	—	—	0.8
Guinea	—	—	—	—	—	1.5	—	1.5
Guinea-Bissau	—	—	0.4	—	—	—	—	0.4
Guyana	—	1.1	3.3	—	—	—	—	4.4
Haiti	0.7	—	—	—	—	—	—	0.7
Iceland	3.9	—	—	—	—	—	—	3.9
Israel	10.2	—	36.2	—	—	—	—	46.4
Jamaica	7.3	7.8	15.8	4.8	—	—	—	35.7
Kenya	3.8	—	17.3	2.5	1.3	—	—	24.9
Korea	24.8	—	—	—	—	—	—	24.8
Liberia	—	—	2.6	—	—	—	—	2.6
Madagascar	—	—	—	3.5	—	—	—	3.5
Malawi	0.7	—	3.6	—	—	—	—	4.3
Malaysia	—	—	—	—	—	—	45.2[4]	45.2
Mali	1.0	—	—	—	—	—	—	1.0
Mauritania	1.1	—	1.3	2.4	—	—	—	4.8
Mauritius	—	—	—	2.6	—	—	—	2.6
Morocco	4.5	—	28.0	—	—	—	—	32.5
Nepal	—	—	4.8	—	—	—	—	4.8
New Zealand	24.1	—	—	—	—	—	—	24.1
Nicaragua	—	—	2.1	—	—	—	—	2.1
Pakistan	18.2	—	—	80.0	—	—	—	98.2
Panama	3.7	—	—	—	—	—	—	3.7
Peru	13.2	12.5	30.7	—	—	—	—	56.4
Philippines	25.9	—	16.6	29.4	18.1	—	—	90.0
Portugal	24.1	—	—	—	—	—	—	24.1
Romania	—	—	44.2	9.6	—	—	—	53.8
St. Lucia	—	—	1.5	—	—	—	—	1.5
Senegal	1.2	—	10.5	—	—	—	—	11.7
Sierra Leone	1.2	—	—	4.0	—	—	—	5.2
Somalia	—	—	—	—	—	—	4.7[3]	4.7
Spain	56.5	—	37.0	—	—	—	—	93.5
Sri Lanka	7.2	—	26.2	35.0	—	—	—	68.4
Sudan	3.4	1.9	15.1	—	—	—	—	20.4
Syrian Arab Republic	—	—	—	—	—	—	12.5[3]	12.5
Tanzania	2.6	—	12.1	—	—	—	—	14.7
Thailand	—	—	34.4	6.6	—	—	—	41.0
Turkey	30.0	8.7	37.3	45.0	—	—	—	121.0
Uganda	—	—	4.4	—	—	—	—	4.4
United Kingdom	154.6	—	—	—	—	—	—	154.6

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Table I.6 *(concluded).* Repurchases of Currencies from the Fund, Financial Year Ended April 30, 1983

(In millions of SDRs)

	Repurchases in Respect of Purchases of							
	Borrowed Resources		Ordinary Resources					
Member Repurchasing	Oil facility	Supplementary financing facility	Compensatory financing	Stand-by arrangements	Extended Fund facility	Other credit tranche	Other	Total
Uruguay	—	—	11.2	—	—	—	—	11.2
Viet Nam	—	—	0.4	—	—	—	—	0.4
Western Samoa	0.1	—	0.5	—[1]	—	—	—	0.6
Yemen, People's Democratic Republic of	2.1	—	—	—	—	—	—	2.1
Yugoslavia	0.3	—	51.9	—	—	—	—	52.2
Zaïre	10.9	—	—	—	—	—	—	10.9
Zambia	6.2	—	18.3	81.3	—	—	—	105.8
Total	537.6	32.0	546.5	346.7	19.4	1.5	71.4	1,555.1

[1] Less than SDR 50,000.
[2] Repurchase under the Fund's Articles of Agreement, Schedule B, paragraph 4(ii).
[3] Gold tranche repurchase.
[4] Buffer stock repurchase.

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Table I.7. Extended Fund Facility Arrangements for Members, July 7, 1975–April 30, 1983

(In millions of SDRs)

Member	Date of Inception	Date of Expiration	Total Amount of Arrangement	Amount Not Purchased at Expiration or Cancellation	Of Total Amount Approved, Amount Not Purchased as of April 30, 1983
Approved in previous financial years					
Bangladesh	12/8/80	12/7/83	800.00[1]	580.00	—
Costa Rica	6/17/81	6/16/84	276.75[2]	254.25	—
Dominica	2/6/81	2/5/84	8.55[3]	—	2.14
Egypt	7/28/78	7/27/81	600.00	525.00	—
Gabon	6/27/80	12/31/82	34.00	34.00	—
Guyana	6/25/79	6/24/82	62.75[4]	52.75	—
	7/25/80	7/24/83	150.00[5]	98.27	—
Haiti	10/25/78	10/24/81	32.20	21.40	—
Honduras	6/28/79	6/27/82	47.60	23.70	—
India	11/9/81	11/8/84	5,000.00[6]	—	2,600.00
Ivory Coast	2/27/81	2/22/84	484.50[7]	—	153.90
Jamaica	6/9/78	6/8/81	200.00[8]	130.00	—
	6/11/79	6/10/81	260.00[9]	175.00	—
	4/13/81	4/12/84	477.70[10]	—	149.70
Kenya	7/7/75	7/6/78	67.20	59.50	—
Mexico	1/1/77	12/31/79	518.00[11]	518.00	—
Morocco	10/8/80	10/7/83	810.00[12]	663.00	—
	3/9/81	10/7/83	817.05[13]	680.55	—
Pakistan	11/24/80	11/23/83	1,268.00[14]	919.00	—
	12/2/81	11/23/83	919.00[15]	—	284.00
Philippines	4/2/76	4/1/79	217.00[16]	—	—
Senegal	8/8/80	8/7/83	184.80[17]	143.70	—
Sierra Leone	3/30/81	2/22/84	186.00[18]	152.50	—
Sri Lanka	1/1/79	12/31/81	260.30	—	—
Sudan	5/4/79	5/3/82	427.00[19]	—	—
Zaïre	6/22/81	6/21/84	912.00[20]	737.00	—
Zambia	5/8/81	5/7/84	800.00[21]	500.00	—
Subtotal			15,820.40	6,267.62	3,189.74
Approved during financial year 1982/83					
Brazil	3/1/83	2/28/86	4,239.38[22]	—	4,114.50
Dominican Republic	1/21/83	1/20/86	371.25[23]	—	297.00
Mexico	1/1/83	12/31/85	3,410.63[24]	—	3,310.32
Peru	6/7/82	6/6/85	650.00[25]	—	550.00
Subtotal			8,671.26	—	8,271.82
Total			24,491.66	6,267.62	11,461.56

[1] Arrangement canceled as of June 21, 1982.
[2] Canceled as of December 20, 1982 and replaced by a stand-by arrangement.
[3] Of which, SDR 4.49 million is provided under the supplementary financing facility.
[4] Canceled as of June 24, 1980.
[5] Arrangement augmented by SDR 50.00 million in July 1981 to a total of SDR 150.00 million. Arrangement canceled as of July 22, 1982.
[6] Of which, SDR 2,595.50 million is financed from enlarged access resources.
[7] Of which, SDR 324.90 million is provided under the supplementary financing facility.
[8] Canceled as of June 10, 1979.
[9] Canceled as of April 12, 1981.
[10] Arrangement augmented by SDR 241.30 million in June 1981 to a total of SDR 477.70 million, of which SDR 149.25 million is provided under the supplementary financing facility and SDR 241.30 million from enlarged access resources.
[11] Includes augmentation by repurchase equivalent to SDR 100.00 million.
[12] Canceled as of March 8, 1981.
[13] Arrangement canceled as of April 25, 1982 and replaced by a stand-by arrangement.
[14] Canceled as of December 1, 1981.
[15] Of which, SDR 490.12 million is financed under the supplementary financing facility.
[16] Includes augmentation by repurchase equivalent to SDR 38.75 million.
[17] Canceled as of September 10, 1981 and replaced by a stand-by arrangement.
[18] Arrangement augmented by SDR 22.30 million in June 1981 to a total of SDR 186.00 million. Arrangement canceled as of April 6, 1982.
[19] Arrangement augmented by SDR 227.00 million in November 1980, canceled on February 17, 1982, and replaced by a stand-by arrangement.
[20] Arrangement canceled as of June 22, 1982.
[21] Arrangement canceled as of July 3, 1982.
[22] Of which, SDR 2,842.88 million is financed from enlarged access resources.
[23] Of which, SDR 255.75 million is financed from enlarged access resources.
[24] Of which, SDR 2,287.13 million is financed from enlarged access resources.
[25] Of which, SDR 311.56 million is financed from enlarged access resources.

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Table I.8. Status of General Arrangements to Borrow (GAB) [1] on April 30, 1983

(In millions of SDRs)

Participants	Maximum Amounts of Credit Arrangements	Fund Indebtedness
Belgium	141.5	—
Canada	163.0	—
Deutsche Bundesbank	1,504.5	582.9
France	340.3	—
Italy	217.5	—
Japan	1,326.3	194.3
Netherlands	241.8	—
Sveriges Riksbank	63.8	—
United Kingdom	515.6	—
United States	1,849.1	—
Total	6,363.3	777.3

[1] See the Balance Sheet of the General Department as at April 30, 1983, Note 7, reproduced in Appendix VIII.

Table I.9. Borrowing in Connection with Purchases Under the Oil Facility and Repayments to Lenders, September 4, 1974–April 30, 1983

(In millions of SDRs)

Lender	Amount Borrowed	Amount Repaid up to April 30, 1982	Amount Repaid May 1, 1982—April 30, 1983	Amount Repaid in May 1983
Abu Dhabi	100.00	99.05	0.95	—
Austrian National Bank	100.00	79.40	18.64	1.96
National Bank of Belgium	200.00	153.12	40.63	6.25
Canada	246.93	246.93	—	—
Deutsche Bundesbank	600.00	374.95	—	—
Central Bank of Iran	990.00	947.98	42.02	—
Central Bank of Kuwait	685.00	625.92	56.69	2.39
Netherlands	350.00	327.80	22.21	—
Nigeria	300.00	300.00	—	—
Bank of Norway	100.00	74.73	23.08	2.19
Central Bank of Oman	20.50	19.91	0.59	—
Saudi Arabian Monetary Agency (SAMA)	2,250.00	2,261.04	214.01 [1]	—
Sveriges Riksbank	50.00	35.69	12.50	1.81
Swiss National Bank	100.00	71.35	25.00	3.65
Switzerland	150.00	128.99	21.01	—
Central Bank of Trinidad and Tobago	10.00	7.91	2.09	—
Central Bank of Venezuela	650.00	621.66	28.34	—
Total	6,902.43	6,376.44	507.74	18.25

[1] Includes claims transferred to SAMA from the Deutsche Bundesbank on November 13, 1980.

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Table I.10. Borrowing in Connection with Purchases Under the Supplementary Financing Facility and Repayments to Lenders, May 29, 1980–April 30, 1983

(In millions of SDRs)

Lender	Total Amount of Agreement	Amount Borrowed up to April 30, 1983	Balance Available as of April 30, 1983	Amount Repaid [1] up to April 30, 1983
Abu Dhabi	150.00	104.98	45.02	—
Austrian National Bank	50.00	35.12	14.88	—
Banque Nationale de Belgique	150.00	12.34	137.66	—
Canada	200.00	12.68	187.32	0.94
Deutsche Bundesbank	1,050.00	894.17 [2]	155.83	—
Banco de Guatemala	30.00	8.36 [3]	21.64	8.36 [3]
Japan	900.00	731.96	168.04	5.27
Central Bank of Kuwait	400.00	327.35	72.65	2.25
De Nederlandsche Bank, N.V.	100.00	85.93	14.07	—
Central Bank of Nigeria	220.00	69.85 [4]	150.15	69.85 [4]
Saudi Arabian Monetary Agency	1,934.00	1,496.91 [2]	437.09	19.23
Swiss National Bank	650.00	549.94	100.06	3.75
United States	1,450.00	1,450.00	—	—
Central Bank of Venezuela	500.00	369.42	130.58	2.50
Total	7,784.00	6,149.01 [5]	1,634.99	112.14

[1] Repayments began on November 24, 1982.
[2] Claims totaling SDR 172.011 million under the supplementary financing facility were transferred by the Deutsche Bundesbank to the Saudi Arabian Monetary Agency against U.S. dollars on November 13, 1980.
[3] Claims totaling SDR 8.356 million were repaid in advance to the Banco de Guatemala on February 8, 1982. This encashment was refinanced by a call on the Swiss National Bank.
[4] Claims totaling SDR 69.850 million were repaid in advance to the Central Bank of Nigeria on April 8 and 9, 1982. This encashment was financed by calls in equal amounts under the supplementary financing facility borrowing agreements with Japan and the United States, in agreement with these lenders.
[5] Of which, SDR 1,958.99 million was borrowed in the financial year 1982/83.

Table I.11. Schedule of Fund Charges

Charges in per cent per annum [1] payable on holdings for the periods stated:

Purchases in the Credit Tranches and Under the Compensatory Financing, Buffer Stock Financing, and Extended Fund Facilities		
	May 1, 1981 through April 30, 1982	From May 1, 1982
Service charge	0.5	0.5
Periodic charge	6.25	6.60
Oil Facility		
	For 1974	For 1975
Periodic charge	7.125	7.875
Supplementary Financing Facility		
Service charge	0.5	
Up to 3½ years	Rate of interest paid by the Fund plus 0.2 per cent	
Over 3½ years	Rate of interest paid by the Fund plus 0.325 per cent	
Enlarged Access Policy		
Service charge	0.5	
Periodic charge	Net cost of borrowing by the Fund plus 0.2 per cent	

[1] Except for service charge, which is payable once per transaction and is stated as a per cent of the amount of the transaction.

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Table I.12. Transfers of Special Drawing Rights, January 1, 1970–April 30, 1983

(In millions of SDRs)

	Annual Average Jan. 1, 1970– Apr. 30, 1977	Financial Years Ended April 30						Total Jan. 1, 1970– Apr. 30, 1983
		1978	1979	1980	1981	1982	1983	
Transfers among participants and prescribed holders								
Transactions by agreement	372	927	1,533	362	418	1,242	1,282	8,491
Prescribed operations	—	—	—	—	—	158	396	554
Transactions with designation								
From holdings	245	54	74	346	392	489	996	4,149
From purchases of SDRs from Fund	—	344	1,006	1,025	1,490	1,386	1,717	6,969
Net interest on SDRs	39	57	71	190	223	245	273	1,348
	656	1,382	2,684	1,923	2,524	3,520	4,664	21,511
General Resources Account								
Transfers from participants								
Repurchases	232	850	502	994	930	838	566	6,380
Charges	184	809	717	557	587	968	1,497	6,483
Quota payments	—	201	19	1	5,091	266	84	5,661
Assessments	1	1	2	1	2	2	2	18
Interest received on General Resources Account holdings	13	40	57	82	266	657	444	1,641
	430	1,901	1,297	1,635	6,876	2,732	2,593	20,184
Transfers to participants and prescribed holders								
Purchases	105	662	1,106	1,283	2,033	2,035	2,419	10,309
Reconstitution [1]	174	474	75	5	20	—	—	1,851
Replenishment of participants' currencies	20	—	—	—	—	—	—	145
Remuneration	13	122	136	140	220	348	861	1,923
Distribution of net income	2	—	—	—	—	—	—	15
Interest on Fund borrowings and transfer charges	1	29	12	21	50	143	224	488
Repayments of Fund borrowings	—	—	38	64	161	144	28	436
Other	12	13	12 [2]	4	349 [3]	27 [2]	186 [2]	680
	327	1,300	1,379	1,517	2,833	2,697	3,728	15,847
Total transfers	1,413	4,583	5,360	5,071	12,233	8,949	10,985	57,542
General Resources Account holdings at end of period	610	1,371	1,290	1,407	5,445	5,456	4,335	4,335

[1] Including amounts acquired as part of purchases.
[2] Transfers to enable participants to pay charges in the General Resources Account and Special Drawing Rights Department.
[3] Transfers to enable participants to pay quota increases.

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Table I.13. Summary of Transactions and Operations in Special Drawing Rights, Financial Year Ended April 30, 1983

(In thousands of SDRs)

Holders	Total Holdings April 30, 1982	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, 1983		
		Designated	Other					Holdings	Net cumulative allocations	Holdings as per cent of net cumulative allocations
PARTICIPANTS										
Afghanistan	14,929	—	—	—	646	—	−1,126	14,450	26,703	54.1
Algeria	126,759	4,013	—	—	9,252	—	+991	141,016	128,640	109.6
Antigua and Barbuda	—	—	675	675	675	675	—	0	0	0.0
Argentina	350,799	—	—	542,683	227,867	8,361	−15,009	12,614	318,370	4.0
Australia	136	89,560	—	—	40,084	650	−43,117	86,014	470,545	18.3
Austria	175,311	107,549	—	89,505	21,698	—	+1,161	216,215	179,045	120.8
Bahamas	5,536	—	—	—	211	—	−454	5,293	10,230	51.7
Bahrain	6,952	9,300	—	—	—	—	+450	16,702	6,200	269.4
Bangladesh	13,424	—	10,500	66,000	81,591	30,629	−4,302	4,584	47,120	9.7
Barbados	642	—	—	—	2,471	2,353	−743	17	8,039	0.2
Belgium	654,973	—	—	78,836	19,984	—	+18,219	614,340	485,246	126.6
Belize	—	—	1,318	—	—	1,318	—	0	0	0.0
Benin	2,030	—	—	—	—	—	−746	1,285	9,409	13.7
Bhutan	—	—	—	—	2	—	—	2	0	0.0
Bolivia	685	—	—	—	9,761	6,645	−2,686	1,114	26,703	4.2
Botswana	5,371	—	—	—	818	—	+184	6,373	4,359	146.2
Brazil	398,012	18,000	32,910	496,434	93,705	12,970	−16,993	16,230	358,670	4.5
Burma	1,213	—	5,800	24,600	28,404	5,382	−4,351	1,083	43,474	2.5
Burundi	4,326	—	—	—	290	1,806	−977	1,833	13,697	13.4
Cameroon	374	—	2,550	—	382	885	−2,332	88	24,463	0.4
Canada	56,969	6,821	24,000	—	7,996	—	−71,681	24,105	779,290	3.1
Cape Verde	126	—	—	—	22	—	−48	100	620	16.2
Central African Republic	448	—	2,200	2,388	2,800	1,709	−915	436	9,325	4.7
Chad	282	—	1,250	—	77	463	−926	220	9,409	2.3
Chile	36,694	—	5,500	—	3,352	29,364	−10,008	6,173	121,924	5.1
China	215,713	—	—	—	—	29,316	−3,817	182,580	236,800	77.1
Colombia	128,137	37,300	—	—	11,954	—	+4,327	181,719	114,271	159.0
Comoros	0	—	—	—	—	—	—	0	716	0.0
Congo	956	—	—	—	—	—	−885	71	9,719	0.7
Costa Rica	175	—	2,720	—	15,682	13,478	−2,145	2,954	23,726	12.5
Cyprus	831	—	2,700	—	50	1,070	−1,931	580	19,438	3.0
Denmark	171,717	—	—	—	4,638	—	−274	176,080	178,864	98.4
Djibouti	407	—	—	—	58	—	−72	393	1,178	33.3
Dominica	103	—	—	704	1,552	785	−46	121	592	20.4
Dominican Republic	2,010	—	1,000	800	7,503	4,493	−3,057	2,163	31,585	6.8
Ecuador	28,302	—	1,840	30,098	1,796	—	−1,829	11	32,929	0.0
Egypt	1,920	—	17,100	—	—	4,397	−13,661	962	135,924	0.7
El Salvador	862	—	13,000	27,658	22,499	4,645	−2,462	1,596	24,985	6.4
Equatorial Guinea	0	—	—	255	1,912	960	−697	0	5,812	0.0
Ethiopia	2,601	—	10,500	3,000	2,448	9,356	−884	2,310	11,160	20.7
Fiji	4,128	—	—	—	234	863	−311	3,187	6,958	45.8
Finland	108,871	—	20,000	—	3,318	35,406	−3,929	92,853	142,690	65.1
France	950,031	—	—	211,856	55,839	—	−16,953	777,061	1,079,870	72.0

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Gabon	1,204	—	4,915	—	—	4,622	−1,298	200	14,091	1.4
Gambia, The	454	—	—	3,287	5,915	2,231	−507	344	5,121	6.7
Germany, Federal Republic of	1,468,407	539,403	111,607	355,125	82,617	—	+46,445	1,893,354	1,210,760	156.4
Ghana	0	—	290	—	15,517	1,345	−13,649	813	62,983	1.3
Greece	868	—	10,380	—	2,334	3,198	−10,355	29	103,544	0.0
Grenada	186	—	—	—	128	308	−5	0	930	0.0
Guatemala	2,108	—	6,590	—	329	6,228	−2,755	44	27,678	0.2
Guinea	0	—	824	11,260	11,529	239	−854	0	17,604	0.0
Guinea-Bissau	107	—	—	—	90	187	−9	0	1,212	0.0
Guyana	2	—	2,113	—	8,498	9,173	−1,407	33	14,530	0.2
Haiti	744	—	—	4,013	7,886	2.615	−1,353	648	13,697	4.7
Honduras	2,864	—	—	21,300	26,396	4,673	−1,779	1,507	19,057	7.9
Hungary	—	—	81,375	243,882	251,566	85,803	+68	3,324	0	0.0
Iceland	1,450	—	2,500	28,000	30,912	4,424	−1,529	909	16,409	5.5
India	396,408	—	—	354,500	364,826	141,015	−33,896	231,824	681,170	34.0
Indonesia	238,913	35,000	—	257,970	79,211	561	+1,599	96,191	238,956	40.3
Iran, Islamic Republic of	297,261	—	—	—	2,522	—	+5,594	305,378	244,056	125.1
Iraq	119,549	—	—	124,720	9,380	—	+80	4,289	68,464	6.3
Ireland	91,397	—	—	9,000	5,039	—	+763	88,199	87,263	101.1
Israel	4,836	—	57,000	—	—	49,864	−10,566	1,407	106,360	1.3
Italy	668,894	—	—	—	42,497	—	+825	712,216	702,400	101.4
Ivory Coast	3,735	—	16,940	25,863	46,441	32,713	−3,652	4,889	37,828	12.9
Jamaica	4,175	—	36,836	20,468	29,096	49,633	−7	0	40,613	0.0
Japan	1,791,837	39,400	—	29,500	130,605	—	+100,601	2,032,943	891,690	228.0
Jordan	15,281	—	—	—	1,198	—	−43	16,436	16,887	97.3
Kampuchea, Democratic	3,119	—	—	—	—	—	−1,243	1,876	15,417	12.2
Kenya	8,194	—	45,000	35,000	39,265	50,353	−2,884	4,221	36,990	11.4
Korea	35,767	—	129,000	—	—	141,777	−4,763	18,226	72,911	25.0
Kuwait	42,318	31,195	—	—	—	—	+2,766	76,279	26,744	285.2
Lao People's Democratic Republic	0	—	884	—	421	843	−462	0	9,409	0.0
Lebanon	1,611	—	—	—	429	—	−238	1,802	4,393	41.0
Lesotho	1,102	—	—	—	—	—	−267	835	3,739	22.3
Liberia	1,107	—	1,330	21,500	30,059	10,871	−125	0	21,007	0.0
Libyan Arab Jamahiriya	109,917	—	—	—	19,442	—	+7,115	136,474	58,771	232.2
Luxembourg	14,612	—	—	—	798	—	−158	15,252	16,955	90.0
Madagascar	2	—	3,940	8,180	17,345	9,710	−1,900	1,498	19,270	7.8
Malawi	1,367	—	2,500	—	6,017	7,960	−941	983	10,975	9.0
Malaysia	121,142	—	—	58,500	111,456	60,725	−1,856	111,516	139,048	80.2
Maldives	141	—	—	—	14	—	−13	142	282	50.1
Mali	319	—	—	25,238	28,689	1,661	−1,573	535	15,912	3.4
Malta	15,005	8,241	—	—	1,973	—	+886	26,105	11,288	231.3
Mauritania	700	—	4,460	3,250	3,261	3,716	−959	497	9,719	5.1
Mauritius	1,618	—	7,200	800	7,861	12,816	−1,488	1,575	15,744	10.0
Mexico	131	—	31,770	251,933	258,393	5,509	−28,776	4,077	290,020	1.4
Morocco	21,787	—	64,671	47,196	49,983	54,340	−8,117	26,788	85,689	31.3
Nepal	448	—	4,500	—	287	3,869	−718	649	8,105	8.0
Netherlands	611,960	61,185	91,709	—	27,001	—	+19,478	811,333	530,340	153.0
New Zealand	2,792	—	13,000	—	—	1,202	−14,076	514	141,322	0.4
Nicaragua	622	—	40,350	37,000	1,700	3,402	−1,919	351	19,483	1.8
Niger	7,147	—	—	—	307	—	−198	7,256	9,409	77.1
Nigeria	8,490	—	—	—	31,882	—	−11,862	28,510	157,155	18.1
Norway	213,474	50,597	3,680	—	18,162	—	+8,597	294,511	167,770	175.5

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Table I.13 *(concluded)*. Summary of Transactions and Operations in Special Drawing Rights, Financial Year Ended April 30, 1983

(In thousands of SDRs)

Holders	Total Holdings April 30, 1982	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, 1983		
		Designated	Other					Holdings	Net cumulative allocations	Holdings as per cent of net cumulative allocations
PARTICIPANTS										
Oman	6,405	8,957	—	3,500	—	—	+228	12,090	6,262	193.1
Pakistan	28,778	—	—	—	85,705	88,159	−13,192	13,132	169,989	7.7
Panama	1,063	—	12,000	—	—	10,106	−2,393	564	26,322	2.1
Papua New Guinea	33,187	—	—	8,230	—	2,932	+2,077	24,103	9,300	259.2
Paraguay	17,082	7,577	—	—	2,089	—	+814	27,561	13,697	201.2
Peru	3,465	—	27,500	—	79,650	102,094	−8,387	134	91,319	0.1
Philippines	8,218	—	66,080	—	23,245	76,205	−11,340	9,998	116,595	8.6
Portugal	1,471	—	3,100	—	2,161	1,541	−5,127	65	53,320	0.1
Qatar	8,021	6,196	—	—	1,455	—	−37	15,635	12,822	121.9
Romania	7,272	—	23,970	126,159	158,187	46,660	−7,535	9,075	75,950	11.9
Rwanda	10,227	315	—	—	292	—	−309	10,525	13,697	76.8
St. Lucia	103	—	—	—	135	238	−7,976	0	742	0.0
St. Vincent	107	—	—	—	70	98	−6,946	49	354	13.9
São Tomé and Principe	337	—	—	—	28	—	—	339	620	54.7
Saudi Arabia	318,754	171,624	—	—	93,335	—	−30	615,421	195,527	314.8
Senegal	1,848	—	2,200	10,525	18,778	12,256	−26	0	24,462	0.0
Seychelles	142	—	—	—	21	—	+31,707	139	406	34.1
Sierra Leone	1	—	516	200	8,564	6,495	−45	674	17,455	3.9
Singapore	43,864	—	—	—	5,497	—	−25	52,677	16,475	319.7
Solomon Islands	1,279	—	—	—	5	88	−1,712	1,255	654	191.8
Somalia	1,661	—	10,407	14,425	9,501	5,080	+3,316	823	13,697	6.0
South Africa	81,031	—	—	80,000	102,926	17,104	+60	69,853	220,360	31.7
Spain	266,893	—	—	—	11,833	97,963	−1,240	172,787	298,805	57.8
Sri Lanka	5,459	—	23,500	5,800	12,160	23,138	−17,000	5,235	70,868	7.4
Sudan	4,781	—	39,711	20,113	28,648	42,681	−5,230	5,116	52,192	9.8
Suriname	5,799	2,440	—	—	244	—	−94	8,388	7,750	108.2
Swaziland	5,757	—	—	1,000	1,203	9	−65	5,884	6,432	91.5
Sweden	223,081	—	—	—	12,131	—	−1,460	233,753	246,525	94.8
Syrian Arab Republic	11,856	—	—	—	—	—	−2,497	9,358	36,564	25.6
Tanzania	1,372	—	1,000	—	10,189	8,061	−3,142	1,358	31,372	4.3
Thailand	8,059	—	34,045	—	35,732	53,010	−7,850	16,976	84,652	20.1
Togo	4,906	—	—	—	6	1,732	−705	2,474	10,975	22.5
Trinidad and Tobago	54,962	28,118	—	—	378	—	+2,103	85,560	46,231	185.1
Tunisia	15,225	—	—	—	796	—	−1,843	14,179	34,243	41.4
Turkey	6,066	—	157,020	—	895	148,325	−10,993	4,664	112,307	4.2
Uganda	2,226	—	8,400	4,500	20,044	20,754	−2,333	3,084	29,396	10.5
United Arab Emirates	36,305	14,000	—	—	—	—	+438	50,743	38,737	131.0
United Kingdom	669,025	658,908	37,000	322,865	55,448	164,930	−108,720	823,866	1,913,070	43.1
United States	3,801,066	735,717	—	—	310,753	—	−47,215	4,800,321	4,899,530	98.0
Upper Volta	7,248	—	—	—	264	—	−192	7,320	9,409	77.8
Uruguay	37,436	—	4,500	35,000	1,217	3,428	−4,493	233	49,977	0.5
Vanuatu	0	—	—	—	3	—	—	3	0	0.0
Venezuela	396,125	42,025	—	53,000	6,906	—	+8,521	400,578	316,890	126.4

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Viet Nam	0	—	7,536	—	995	2,345	−6,186	0	47,658	0.0
Western Samoa	138	—	—	—	364	322	−113	67	1,142	5.9
Yemen Arab Republic	13,767	—	—	—	323	49	+799	14,839	6,160	240.9
Yemen, People's Democratic Republic of	3,130	—	11,701	—	—	2,468	−1,743	10,620	22,583	47.0
Yugoslavia	16,893	—	132,478	—	3,968	137,760	−15,523	55	155,161	0.0
Zaïre	4	—	—	—	36,105	36,109	—	0	86,309	0.0
Zambia	94	—	17,890	26,155	69,437	54,391	−6,788	92	68,298	0.1
Zimbabwe	8,094	—	—	—	209	3,773	−362	4,168	10,200	40.9
Total Participants	15,988,411	2,713,441	1,551,481	4,264,447	3,702,740	2,145,866	−438,218	17,107,542	21,433,330	79.8
GENERAL RESOURCES ACCOUNT	5,456,084	—	2,145,866	3,713,794	—	—	+446,752	4,334,909	0	0.0
PRESCRIBED HOLDERS										
Arab Monetary Fund	2,500	—	115,919	116,578	—	—	+74	2,879	0	0.0
Bank of Central African States	—	—	6,000	5,900	—	—	+26	186	0	0.0
East Caribbean Currency Authority	591	—	760	675	—	—	+4	735	0	0.0
Nordic Investment Bank	77	—	3,680	3,680	—	—	+1	84	0	0.0
Swiss National Bank	1,086	—	—	—	11,055	—	+85	12,575	0	0.0
Total Prescribed Holders	4,254	—	126,359	126,834	11,055	—	+1,625	16,459	0	0.0
Total	21,448,750	2,713,441	3,823,706	8,105,075	3,713,794	2,145,866	+10,160	21,458,910	21,433,330	

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Table I.14. Members That Have Accepted the Obligations of Article VIII, April 30, 1983

Member	Effective Date of Acceptance
Argentina	May 14, 1968
Australia	July 1, 1965
Austria	August 1, 1962
Bahamas	December 5, 1973
Bahrain	March 20, 1973
Belgium	February 15, 1961
Bolivia	June 5, 1967
Canada	March 25, 1952
Chile	July 27, 1977
Costa Rica	February 1, 1965
Denmark	May 1, 1967
Djibouti	September 19, 1980
Dominica	December 13, 1979
Dominican Republic	August 1, 1953
Ecuador	August 31, 1970
El Salvador	November 6, 1946
Fiji	August 4, 1972
Finland	September 25, 1979
France	February 15, 1961
Germany, Fed. Rep. of	February 15, 1961
Guatemala	January 27, 1947
Guyana	December 27, 1966
Haiti	December 22, 1953
Honduras	July 1, 1950
Ireland	February 15, 1961
Italy	February 15, 1961
Jamaica	February 22, 1963
Japan	April 1, 1964
Kuwait	April 5, 1963
Luxembourg	February 15, 1961
Malaysia	November 11, 1968
Mexico	November 12, 1946
Netherlands	February 15, 1961
New Zealand	August 5, 1982
Nicaragua	July 20, 1964
Norway	May 11, 1967
Oman	June 19, 1974
Panama	November 26, 1946
Papua New Guinea	December 4, 1975
Peru	February 15, 1961
Qatar	June 4, 1973
St. Lucia	May 30, 1980
St. Vincent	August 24, 1981
Saudi Arabia	March 22, 1961
Seychelles	January 3, 1978
Singapore	November 9, 1968
Solomon Islands	July 24, 1979
South Africa	September 15, 1973
Suriname	June 29, 1978
Sweden	February 15, 1961
United Arab Emirates	February 13, 1974
United Kingdom	February 15, 1961
United States	December 10, 1946
Uruguay	May 2, 1980
Vanuatu	December 1, 1982
Venezuela	July 1, 1976

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Table I.15. Fund Quotas, Present and Proposed

Member	Quotas (In millions of SDRs)		Quota Shares (As per cent of total)	
	Present	Proposed	Present	Proposed
Afghanistan	67.5	86.7	0.111	0.096
Algeria	427.5	623.1	0.700	0.692
Antigua and Barbuda	3.6	5.0	0.006	0.006
Argentina	802.5	1,113.0	1.314	1.236
Australia	1,185.0	1,619.2	1.941	1.798
Austria	495.0	775.6	0.811	0.861
Bahamas	49.5	66.4	0.081	0.074
Bahrain	30.0	48.9	0.049	0.054
Bangladesh	228.0	287.5	0.373	0.319
Barbados	25.5	34.1	0.042	0.038
Belgium	1,335.0	2,080.4	2.186	2.311
Belize	7.2	9.5	0.012	0.011
Benin	24.0	31.3	0.039	0.035
Bhutan	1.7	2.5	0.003	0.003
Bolivia	67.5	90.7	0.111	0.101
Botswana	13.5	22.1	0.022	0.025
Brazil	997.5	1,461.3	1.634	1.623
Burma	109.5	137.0	0.179	0.152
Burundi	34.5	42.7	0.057	0.047
Cameroon	67.5	92.7	0.111	0.103
Canada	2,035.5	2,941.0	3.334	3.267
Cape Verde	3.0	4.5	0.005	0.005
Central African Republic	24.0	30.4	0.039	0.034
Chad	24.0	30.6	0.039	0.034
Chile	325.5	440.5	0.533	0.489
China	1,800.0	2,390.9	2.948	2.656
Colombia	289.5	394.2	0.474	0.438
Comoros	3.5	4.5	0.006	0.005
Congo	25.5	37.3	0.042	0.041
Costa Rica	61.5	84.1	0.101	0.093
Cyprus	51.0	69.7	0.084	0.077
Denmark	465.0	711.0	0.762	0.790
Djibouti	5.7	8.0	0.009	0.009
Dominica	2.9	4.0	0.005	0.004
Dominican Republic	82.5	112.1	0.135	0.125
Ecuador	105.0	150.7	0.172	0.167
Egypt	342.0	463.4	0.560	0.515
El Salvador	64.5	89.0	0.106	0.099
Equatorial Guinea	15.0	18.4	0.025	0.020
Ethiopia	54.0	70.6	0.088	0.078
Fiji	27.0	36.5	0.044	0.041
Finland	393.0	574.9	0.644	0.639
France	2,878.5	4,482.8	4.714	4.979
Gabon	45.0	73.1	0.074	0.081
Gambia, The	13.5	17.1	0.022	0.019
Germany, Federal Republic of	3,234.0	5,403.7	5.296	6.002
Ghana	159.0	204.5	0.260	0.227
Greece	277.5	399.9	0.454	0.444
Grenada	4.5	6.0	0.007	0.007
Guatemala	76.5	108.0	0.125	0.120
Guinea	45.0	57.9	0.074	0.064
Guinea-Bissau	5.9	7.5	0.010	0.008
Guyana	37.5	49.2	0.061	0.055
Haiti	34.5	44.1	0.057	0.049
Honduras	51.0	67.8	0.084	0.075
Hungary	375.0	530.7	0.614	0.589
Iceland	43.5	59.6	0.071	0.066
India	1,717.5	2,207.7	2.813	2.452
Indonesia	720.0	1,009.7	1.179	1.121
Iran, Islamic Republic of	660.0	1,117.4	1.081	1.241
Iraq	234.1	504.0	0.383	0.560
Ireland	232.5	343.4	0.381	0.381
Israel	307.5	446.6	0.504	0.496
Italy	1,860.0	2,909.1	3.046	3.231
Ivory Coast	114.0	165.5	0.187	0.184

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Table I.15 *(continued).* Fund Quotas, Present and Proposed

	Quotas (In millions of SDRs)		Quota Shares (As per cent of total)	
Member	Present	Proposed	Present	Proposed
Jamaica	111.0	145.5	0.182	0.162
Japan	2,488.5	4,223.3	4.076	4.691
Jordan	45.0	73.9	0.074	0.082
Kampuchea, Democratic	25.0	25.0	0.041	0.028
Kenya	103.5	142.0	0.170	0.158
Korea	255.9	462.8	0.419	0.514
Kuwait	393.3	635.3	0.644	0.706
Lao People's Democratic Republic	24.0	29.3	0.039	0.033
Lebanon	27.9	78.7	0.046	0.087
Lesotho	10.5	15.1	0.017	0.017
Liberia	55.5	71.3	0.091	0.079
Libyan Arab Jamahiriya	298.4	515.7	0.489	0.573
Luxembourg	46.5	77.0	0.076	0.086
Madagascar	51.0	66.4	0.084	0.074
Malawi	28.5	37.2	0.047	0.041
Malaysia	379.5	550.6	0.622	0.612
Maldives	1.4	2.0	0.002	0.002
Mali	40.5	50.8	0.066	0.056
Malta	30.0	45.1	0.049	0.050
Mauritania	25.5	33.9	0.042	0.038
Mauritius	40.5	53.6	0.066	0.060
Mexico	802.5	1,165.5	1.314	1.294
Morocco	225.0	306.6	0.368	0.341
Nepal	28.5	37.3	0.047	0.041
Netherlands	1,422.0	2,264.8	2.329	2.515
New Zealand	348.0	461.6	0.570	0.513
Nicaragua	51.0	68.2	0.084	0.076
Niger	24.0	33.7	0.039	0.037
Nigeria	540.0	849.5	0.884	0.944
Norway	442.5	699.0	0.725	0.776
Oman	30.0	63.1	0.049	0.070
Pakistan	427.5	546.3	0.700	0.607
Panama	67.5	102.2	0.111	0.114
Papua New Guinea	45.0	65.9	0.074	0.073
Paraguay	34.5	48.4	0.057	0.054
Peru	246.0	330.9	0.403	0.368
Philippines	315.0	440.4	0.516	0.489
Portugal	258.0	376.6	0.423	0.418
Qatar	66.2	114.9	0.108	0.128
Romania	367.5	523.4	0.602	0.581
Rwanda	34.5	43.8	0.057	0.049
St. Lucia	5.4	7.5	0.009	0.008
St. Vincent	2.6	4.0	0.004	0.004
São Tomé and Principe	3.0	4.0	0.005	0.004
Saudi Arabia	2,100.0	3,202.4	3.439	3.557
Senegal	63.0	85.1	0.103	0.095
Seychelles	2.0	3.0	0.003	0.003
Sierra Leone	46.5	57.9	0.076	0.064
Singapore	92.4	250.2	0.151	0.278
Solomon Islands	3.2	5.0	0.005	0.006
Somalia	34.5	44.2	0.057	0.049
South Africa	636.0	915.7	1.042	1.017
Spain	835.5	1,286.0	1.368	1.428
Sri Lanka	178.5	223.1	0.292	0.248
Sudan	132.0	169.7	0.216	0.188
Suriname	37.5	49.3	0.061	0.055
Swaziland	18.0	24.7	0.029	0.027
Sweden	675.0	1,064.3	1.105	1.182
Syrian Arab Republic	94.5	139.1	0.155	0.154
Tanzania	82.5	107.0	0.135	0.119
Thailand	271.5	386.6	0.445	0.429
Togo	28.5	38.4	0.047	0.043
Trinidad and Tobago	123.0	170.1	0.201	0.189
Tunisia	94.5	138.2	0.155	0.153
Turkey	300.0	429.1	0.491	0.477

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Table I.15 *(concluded).* Fund Quotas, Present and Proposed

Member	Quotas (In millions of SDRs)		Quota Shares (As per cent of total)	
	Present	Proposed	Present	Proposed
Uganda	75.0	99.6	0.123	0.111
United Arab Emirates	202.6	385.9	0.332	0.429
United Kingdom	4,387.5	6,194.0	7.186	6.880
United States	12,607.5	17,918.3	20.648	19.902
Upper Volta	24.0	31.6	0.039	0.035
Uruguay	126.0	163.8	0.206	0.182
Vanuatu	6.9	9.0	0.011	0.010
Venezuela	990.0	1,371.5	1.621	1.523
Viet Nam	135.0	176.8	0.221	0.196
Western Samoa	4.5	6.0	0.007	0.007
Yemen Arab Republic	19.5	43.3	0.032	0.048
Yemen, People's Democratic Republic of	61.5	77.2	0.101	0.086
Yugoslavia	415.5	613.0	0.680	0.681
Zaïre	228.0	291.0	0.373	0.323
Zambia	211.5	270.3	0.346	0.300
Zimbabwe	150.0	191.0	0.246	0.212
Total	61,059.8	90,034.8	100.002[1]	100.001[1]

[1] The sum of the individual percentage shares differs from 100.000 because of rounding.

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Table I.16. Publications Issued, Financial Year Ended April 30, 1983

Reports and Other Documents

Annual Report of the Executive Board for the Financial Year Ended April 30, 1982
(English, French, German, and Spanish). Free

Annual Report on Exchange Arrangements and Exchange Restrictions, 1982
One copy free; additional copies US$12.00 each.

By-Laws, Rules and Regulations
Thirty-Ninth Issue (English, French, and Spanish). Free

Summary Proceedings of the Thirty-Seventh Annual Meeting of the Board of Governors Free

Subscription Publications

Balance of Payments Statistics
Vol. 34. A two-part yearbook and 12 monthly booklets.
US$33.00 a year. US$16.50 to university libraries, faculty members, and students. US$10.00 for yearbook only.

Direction of Trade Statistics
Monthly, with yearbook.
US$30.00 a year. US$15.00 to university libraries, faculty members, and students.

Government Finance Statistics Yearbook
Vol. VI, 1982. (Introduction and title of lines in English, French, and Spanish). US$13.00 a year. US$6.50 to university libraries, faculty members, and students.

International Financial Statistics
Monthly, with yearbook and two supplements (English, French, and Spanish). US$75.00 a year. US$37.50 to university libraries, faculty members, and students.

Staff Papers
Four times a year. US$12.00 a year. US$6.00 to university libraries, faculty members, and students.

University libraries, faculty members, and students may obtain the five publications listed above at a special rate of US$60.00 for all five publications.

For users of Fund publications that have access to a computer, tape subscriptions to *Balance of Payments Statistics, Direction of Trade Statistics, Government Finance Statistics Yearbook,* and *International Financial Statistics* are available at US$1,500.00 a year each. This price includes the book version. The price to universities is US$500.00 a year for each publication.

Occasional Papers

No. 11 *Payments Arrangements and the Expansion of Trade in Eastern and Southern Africa*
By Shailendra J. Anjaria, Sena Eken, and John F. Laker

No. 12 *Effects of Slowdown in Industrial Countries on Growth in Non-Oil Developing Countries*
By Morris Goldstein and Mohsin S. Khan

No. 13 *Currency Convertibility in the Economic Community of West African States*
By John B. McLenaghan, Saleh M. Nsouli, and Klaus-Walter Riechel

No. 14 *International Capital Markets: Developments and Prospects, 1982*
By a staff team headed by Richard C. Williams, with G.G. Johnson

No. 15 *Hungary: An Economic Survey*
By a staff team headed by Patrick de Fontenay

No. 16 *Developments in International Trade Policy*
By S.J. Anjaria, Z. Iqbal, N. Kirmani, and L.L. Perez

No. 17 *Aspects of the International Banking Safety Net*
By G.G. Johnson, with Richard K. Abrams

No. 18 *Oil Exporters' Economic Development in an Interdependent World*
By Jahangir Amuzegar

US$5.00 each. US$3.00 each for university libraries, faculty members, and students.

Books

Adjustment and Financing in the Developing World: The Role of the International Monetary Fund
Cloth, US$12.00 Paper, US$8.00

Emerging Financial Centers: Legal and Institutional Framework
Edited by Robert C. Effros. US$35.00.

The Fund Agreement in the Courts: Vol. II—Further Jurisprudence Involving the Articles of Agreement of the International Monetary Fund
By Joseph Gold. US$17.50.

IMF Glossary: English-French-Spanish, 1982
By Fund's Bureau of Language Services. US$10.00

Pamphlet Series

No. 32 *The Rule of Law in the International Monetary Fund*
By Joseph Gold (Spanish). Free

No. 36 *SDRs, Currencies, and Gold: Fifth Survey of New Legal Developments*
By Joseph Gold (French). Free

No. 37 *The International Monetary Fund: Its Evolution, Organization, and Activities*
By A.W. Hooke (French and Spanish). Free

No. 37 *The International Monetary Fund: Its Evolution, Organization, and Activities* (second edition)
By A.W. Hooke (English, French, and Spanish). Free

No. 38 *Fund Conditionality: Evolution of Principles and Practices*
By Manuel Guitián (French and Spanish). Free

No. 39 *Order in International Finance, the Promotion of IMF Stand-By Arrangements, and the Drafting of Private Loan Agreements*
By Joseph Gold (English and French). Free

Other

Finance & Development
Issued jointly with IBRD; quarterly (English, Arabic, French, German, Portuguese, and Spanish). Free

IMF Survey
Twice monthly but only once in December (English, French, and Spanish). Private firms and individuals are charged for delivery at an annual rate of US$25.00.

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Appendix II
Principal Decisions of the Executive Board and Report to the Board of Governors

A. Increases in Quotas of Members—Eighth General Review

Report of the Executive Board to the Board of Governors

1. Article III, Section 2(*a*) of the Articles of Agreement provides that "The 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. It may also, if it thinks fit, consider at any other time the adjustment of any particular quota at the request of the member concerned." This report and the attached Resolution on increases in quotas under the current, i.e., Eighth, General Review are submitted to the Board of Governors in accordance with Article III, Section 2.

2. The Seventh General Review of Quotas was completed by Board of Governors Resolution No. 34-2, adopted December 11, 1978. To comply with the five-year interval prescribed by Article III, Section 2(*a*), the Eighth General Review has to be completed not later than December 11, 1983. In the Report of the Executive Board to the Board of Governors on *Increases in Quotas of Fund Members—Seventh General Review,* it was stated that:

> The Executive Board will review the customary method of calculating quotas after the Seventh Review of Quotas has been completed. In the context of the next general review of quotas, the Executive Board will examine the quota shares of members in relation to their positions in the world economy with a view to adjusting those shares better to reflect members' relative economic positions while having regard to the desirability of an appropriate balance in the composition of the Executive Board.

3. At its meeting in Helsinki, Finland, in May 1982, the Interim Committee urged the Executive Board to pursue its work on the Eighth General Review as a matter of high priority. At that meeting the Committee also ". . . noting that the present quotas of a significant number of members do not reflect their relative positions in the world economy, . . . reaffirmed its view that the occasion of an enlargement of the Fund under the Eighth General Review should be used to bring the quotas of these members more in line with their relative positions, taking account of the case for maintaining a proper balance between the different groups of countries." At its meeting in Toronto, Canada, in September 1982, the Committee noted that "there was widespread support in the Committee on the urgent need for a substantial increase in quotas under the Eighth General Review" and "urged the Executive Board to pursue its work on the issues of the Review as a matter of high priority, so that the remaining issues on the size and distribution of the quota increase could be resolved by the time of the Committee's next meeting in April 1983."

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4. In its discussions on the Eighth General Review, the Executive Board has considered, inter alia, (i) the method of calculating quotas; (ii) the size of the overall increase in quotas; (iii) the distribution of the overall increase; (iv) the position of countries with very small quotas in the Fund; and (v) the mode of payment for the increase in quotas.

5. As regards the Executive Board's review of the method of calculating quotas, the Executive Board agreed to certain changes regarding the quota formulas used for calculating quotas in connection with the Eighth General Review. The Executive Board accepted the quota calculations based on the revised quota formulas as reasonable indicators of the relative positions of countries in the world economy, though some Directors felt that they do not provide a wholly satisfactory measure of relative economic positions. It is understood that the changes that have been made do not preclude further appropriate changes in connection with future reviews.

6. At the meeting of the Interim Committee held in Washington in February 1983, which had been advanced from April 1983, agreement was reached on all major issues of the Eighth Review, as reflected in the relevant passages from the Committee's communiqué of February 11, 1983, as follows:

> (a) The total of Fund quotas should be increased under the Eighth General Review from approximately SDR 61.03 billion to SDR 90 billion (equivalent to about US$98.5 billion).
>
> (b) Forty per cent of the overall increase should be distributed to all members in proportion to their present individual quotas, and the balance of sixty per cent should be distributed in the form of selective adjustments in proportion to each member's share in the total of the calculated quotas, i.e., the quotas that broadly reflect members' relative positions in the world economy.
>
> (c) Twenty-five per cent of the increase in each member's quota should be paid in SDRs or in usable currencies of other members.

The Committee also considered the possibility of a special adjustment of very small quotas, i.e., those quotas that are currently less than SDR 10 million, and agreed to refer this matter to the Executive Board for urgent consideration in connection with the implementation of the main decision.

7. As requested by the Interim Committee at its meeting on February 11, 1983, the Executive Board has considered the position of the 17 members with very small quotas—i.e., those with quotas that at present are less than SDR 10 million. The Executive Board proposes that the quotas of these members should, after being increased in accordance with (b) quoted in paragraph 6 above, be further adjusted to the next higher multiple of SDR 0.5 million. The Executive Board proposes that all other quotas be rounded to the next higher multiple of SDR 0.1 million. The rounding to SDR 0.5 million would provide for larger quota increases relative to present quotas for most of the members with very small quotas.

8. In accordance with the agreement reached by the Interim Committee at its meeting on February 11, 1983, on items (a) and (b) quoted in paragraph 6 above and with rounding adjustments indicated in paragraph 7 above, the Executive Board proposes to the Board of Governors that the new quotas of members be as set out in the Annex to the proposed Resolution. These increases would raise Fund quotas from approximately SDR 61 billion to approximately SDR 90 billion.

9. Article III, Section 3*(a)* provides that 25 per cent of any increase shall be paid in special drawing rights, but permits the Board of Governors to prescribe, inter alia, that this payment may be made on the same basis for all members, in whole or in part in the currencies of other members specified by the Fund, subject to their concurrence. Paragraph 5 of the Resolution provides that 25 per cent of the increase in quotas proposed as a result of the current review should be paid in SDRs or in currencies of other members selected by the Fund, subject to their concurrence, or in any combination of SDRs and such currencies. The balance of

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the increase shall be paid in a member's own currency. A reserve asset payment will help strengthen the liquidity of the Fund and will not impose an undue burden on members because under the existing decisions of the Fund a reserve asset payment will either enlarge or create a reserve tranche position of an equivalent amount. In addition, the Fund stands ready to assist members that do not hold sufficient reserves to make their reserve asset payments to the Fund to borrow SDRs from other members willing to cooperate; these loans would be made on the condition that such members would repay on the same day the loans from the SDR proceeds of drawings of reserve tranches which had been established by the payment of SDRs.

10. Under the proposed Resolution, a member will be able to consent only to the amount of quota proposed for it in the Annex. A member will be able to consent to the increase in its quota at any time before 6:00 p.m., Washington time, November 30, 1983. In order to meet this time, members will have until the end of November 1983 to complete whatever action may be necessary under their laws to enable them to give their consents.

11. A member's quota cannot be increased until it has consented to the increase and paid the subscription. Under the proposed Resolution, the increase in a member's quota will take effect only after the Fund has received the member's consent to the increase in quota and a member has paid the increase in subscription, provided that the quota cannot become effective before the date on which the Fund determines that the participation requirement in paragraph 2 of the proposed Resolution has been satisfied. The Executive Board is authorized by paragraph 3 of the proposed Resolution to extend the period of consent.

12. The participation requirement in paragraph 2 will be reached when the Fund determines that members having not less than seventy per cent of the total of quotas on February 28, 1983 have consented to the increases in their respective quotas as set out in the Annex.

13. The proposed Resolution provides that a member must pay the increase in its subscription within 30 days after (a) the date on which the member notifies the Fund of its consent, or (b) the date on which the participation requirement is met, whichever is the later.

14. The Executive Board recommends that the Board of Governors adopt the attached Resolution that covers all the matters on which the Governors are requested to act. The adoption of the Resolution requires positive responses from Governors having an 85 per cent majority of the total voting power.

February 25, 1983

Proposed Resolution Submitted to the Board of Governors

Increases in Quotas of Members—Eighth General Review

WHEREAS the Executive Board has submitted to the Board of Governors a report entitled "Increases in Quotas of Fund Members—Eighth General Review" containing recommendations on increases in the quotas of individual members of the Fund; and

WHEREAS the Executive Board has recommended the adoption of the following Resolution of the Board of Governors, which Resolution proposes increases in the quotas of members of the Fund as a result of the Eighth General Review of Quotas and deals with certain related matters, by vote without meeting pursuant to Section 13 of the By-Laws of the Fund;

NOW, THEREFORE, the Board of Governors hereby RESOLVES that:

1. The International Monetary Fund proposes that, subject to the provisions

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of this Resolution, the quotas of members of the Fund shall be increased to the amounts shown against their names in the Annex to this Resolution.

2. A member's increase in quota as proposed by this Resolution shall not become effective unless the member has notified the Fund of its consent to the increase not later than the date prescribed by or under paragraph 3 below and has paid the increase in quota in full, provided that no increase in quota shall become effective before the date of the Fund's determination that members having not less than 70 per cent of the total of quotas on February 28, 1983 have consented to the increases in their quotas.

3. Notices in accordance with paragraph 2 above shall be executed by a duly authorized official of the member and must be received in the Fund before 6:00 p.m., Washington time, November 30, 1983, provided that the Executive Board may extend this period as it may determine.

4. Each member shall pay to the Fund the increase in its quota within 30 days after the later of (a) the date on which it notifies the Fund of its consent, or (b) the date of the Fund's determination under paragraph 2 above.

5. Each member shall pay twenty-five per cent of its increase either in special drawing rights or in the currencies of other members specified, with their concurrence, by the Fund, or in any combination of special drawing rights and such currencies. The balance of the increase shall be paid by the member in its own currency.

ANNEX

	Member	Proposed Quota (*In millions of SDRs*)
1.	Afghanistan	86.7
2.	Algeria	623.1
3.	Antigua and Barbuda	5.0
4.	Argentina	1,113.0
5.	Australia	1,619.2
6.	Austria	775.6
7.	Bahamas	66.4
8.	Bahrain	48.9
9.	Bangladesh	287.5
10.	Barbados	34.1
11.	Belgium	2,080.4
12.	Belize	9.5
13.	Benin	31.3
14.	Bhutan	2.5
15.	Bolivia	90.7
16.	Botswana	22.1
17.	Brazil	1,461.3
18.	Burma	137.0
19.	Burundi	42.7
20.	Cameroon	92.7
21.	Canada	2,941.0
22.	Cape Verde	4.5
23.	Central African Republic	30.4
24.	Chad	30.6
25.	Chile	440.5
26.	China	2,390.9
27.	Colombia	394.2
28.	Comoros	4.5
29.	Congo, People's Republic	37.3
30.	Costa Rica	84.1
31.	Cyprus	69.7
32.	Denmark	711.0
33.	Djibouti	8.0
34.	Dominica	4.0
35.	Dominican Republic	112.1
36.	Ecuador	150.7
37.	Egypt	463.4
38.	El Salvador	89.0
39.	Equatorial Guinea	18.4
40.	Ethiopia	70.6
41.	Fiji	36.5
42.	Finland	574.9
43.	France	4,482.8
44.	Gabon	73.1
45.	Gambia, The	17.1
46.	Germany	5,403.7
47.	Ghana	204.5
48.	Greece	399.9
49.	Grenada	6.0
50.	Guatemala	108.0

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	Proposed Quota (*In millions of SDRs*)
51. Guinea	57.9
52. Guinea-Bissau	7.5
53. Guyana	49.2
54. Haiti	44.1
55. Honduras	67.8
56. Hungary	530.7
57. Iceland	59.6
58. India	2,207.7
59. Indonesia	1,009.7
60. Iran, Islamic Republic of	1,117.4
61. Iraq	504.0
62. Ireland	343.4
63. Israel	446.6
64. Italy	2,909.1
65. Ivory Coast	165.5
66. Jamaica	145.5
67. Japan	4,223.3
68. Jordan	73.9
69. Kampuchea, Democratic	25.0
70. Kenya	142.0
71. Korea	462.8
72. Kuwait	635.3
73. Lao People's Democratic Republic	29.3
74. Lebanon	78.7
75. Lesotho	15.1
76. Liberia	71.3
77. Libya	515.7
78. Luxembourg	77.0
79. Madagascar	66.4
80. Malawi	37.2
81. Malaysia	550.6
82. Maldives	2.0
83. Mali	50.8
84. Malta	45.1
85. Mauritania	33.9
86. Mauritius	53.6
87. Mexico	1,165.5
88. Morocco	306.6
89. Nepal	37.3
90. Netherlands	2,264.8
91. New Zealand	461.6
92. Nicaragua	68.2
93. Niger	33.7
94. Nigeria	849.5
95. Norway	699.0

	Proposed Quota (*In millions of SDRs*)
96. Oman	63.1
97. Pakistan	546.3
98. Panama	102.2
99. Papua New Guinea	65.9
100. Paraguay	48.4
101. Peru	330.9
102. Philippines	440.4
103. Portugal	376.6
104. Qatar	114.9
105. Romania	523.4
106. Rwanda	43.8
107. St. Lucia	7.5
108. St. Vincent	4.0
109. São Tomé & Principe	4.0
110. Saudi Arabia	3,202.4
111. Senegal	85.1
112. Seychelles	3.0
113. Sierra Leone	57.9
114. Singapore	250.2
115. Solomon Islands	5.0
116. Somalia	44.2
117. South Africa	915.7
118. Spain	1,286.0
119. Sri Lanka	223.1
120. Sudan	169.7
121. Suriname	49.3
122. Swaziland	24.7
123. Sweden	1,064.3
124. Syrian Arab Republic	139.1
125. Tanzania	107.0
126. Thailand	386.6
127. Togo	38.4
128. Trinidad and Tobago	170.1
129. Tunisia	138.2
130. Turkey	429.1
131. Uganda	99.6
132. United Arab Emirates	385.9
133. United Kingdom	6,194.0
134. United States	17,918.3
135. Upper Volta	31.6
136. Uruguay	163.8
137. Vanuatu	9.0
138. Venezuela	1,371.5
139. Viet Nam	176.8
140. Western Samoa	6.0

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	Proposed Quota *(In millions of SDRs)*		Proposed Quota *(In millions of SDRs)*
141. Yemen Arab Republic	43.3	144. Zaïre	291.0
142. Yemen, People's Democratic Republic of	77.2	145. Zambia	270.3
143. Yugoslavia	613.0	146. Zimbabwe	191.0

Board of Governors Resolution No. 38-1
Adopted March 31, 1983

B. Surveillance over Exchange Rate Policies

The Executive Board has reviewed the general implementation of the Fund's surveillance over members' exchange rate policies, as required by paragraph VI of *Procedures for Surveillance* attached to Decision No. 5392-(77/63), adopted April 29, 1977,[1] including the procedures for the conduct of consultations under Article IV, which consultations shall comprehend the consultations under Article VIII and Article XIV, and approves the continuation of the procedures as described in SM/83/43, in the light of the Managing Director's summing up, until the next annual review, which shall be conducted not later than April 1, 1984.

Decision No. 7374-(83/55)
March 28, 1983

Attachment to Decision No. 7374-(83/55)
Managing Director's Summing Up

General remarks

Directors considered that Article IV consultation reports should continue to deal with exchange rate questions in a forthright fashion while taking into account the sensitivities involved; several Directors felt that more attention should be paid to exchange rate issues outside the regular consultation process.

A number of Directors observed that Fund surveillance was not sufficiently symmetrical. They noted that precise prescriptions regarding exchange rate movements or changes are often given to small countries or countries making use of Fund resources; at the same time, quite large discrepancies between exchange rates and fundamental underlying conditions draw little attention from the Fund staff when they relate to major currencies, despite the fact that those currencies play a greater role in the working of the international monetary and financial system. In this context, several Directors stressed the importance of more frequent and more analytical Board discussions on exchange rate developments generally, and on the interrelationship and implication of policies and prospects in the major currency countries in particular. A number of Directors also called for a discussion in the Executive Board on the recent EMS realignment.

Important questions regarding the setting of financial policies and the relationship of exchange rates to underlying economic and financial conditions remain to be answered. Also to be considered is the need to develop a medium-term framework for the assessment of balance of payments developments. Directors welcomed the work in progress in the Fund in these areas, including the forthcoming paper

[1] *Selected Decisions of the International Monetary Fund and Selected Documents*, Tenth Issue (Washington, 1983), page 10.

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on "Issues in the Assessment of Exchange Rates of the Industrial Countries in the Context of their Economic Policies." Such studies are expected to provide useful background for the biennial review of the principles of surveillance, which is to take place by April 1, 1984.

Many Directors emphasized the need for the Fund clearly to address the dangers associated with the growth of protectionism, and they encouraged the staff to expand the coverage and analysis of trade policy matters in Article IV consultation reports, while avoiding overlap into the areas of responsibility of other institutions, particularly the GATT. In this regard, they said, the focus should be on the impact of trade measures on domestic adjustment and the exchange rate of the relevant country and on its trading partners.

It was noted that, during 1982, debt service difficulties had become a focal point for concern. Most Directors considered it to be extremely important for the staff to do its utmost to improve the coverage of external debt developments—particularly their short-term aspects—and policies related to external debt in Article IV consultation reports. More specific proposals on that matter would be discussed in the Board meeting on external debt issues, scheduled for April 6. Some Directors also indicated that the Fund should be in a position to provide better coverage of the "liability" side of the banking sectors in member countries and their reserve management policies.

Frequency of Article IV consultations

Directors agreed that the consultation process is at the heart of surveillance and that, in view of the problems experienced by members in 1982 and the speed with which these problems have spread, a very determined effort needs to be made to ensure more regular scheduling of Article IV consultations. There have been cases, Directors noted, where members have run into serious external and internal imbalances during periods in which the Executive Board has not had an opportunity to analyze the issues and to offer the member the benefit of its advice. Directors indicated that such cases were unfortunate and should not be repeated in the future.

There was general agreement among Directors that some procedural changes would help to guarantee a stricter approach to the scheduling of consultations. Most agreed that the approach of establishing, at the conclusion of each consultation, a final date for the discussion of the next consultation with the member would be helpful, although specification of the cycle in this fashion should not be so rigid as to detract from management's prerogative, in consultation with the member country and the Executive Director concerned, to change the scheduling. To the extent that stricter scheduling was desirable, however, it could be enhanced by periodic reports to the Board on the status of members with respect to the observation of the consultation schedule and with an indication of any problems that might have been encountered in adhering to it. In that regard, there was no intention to lay blame on the country concerned; the purpose of the report would be to inform the Board of the causes for the delay, such as insufficient staff, a problem in local political conditions, and so on.

The criteria for determining the countries under a strict cycle was agreed, i.e., economies having a substantial impact on other countries, members with Fund-supported programs, and situations where there are substantial doubts about medium-term viability. For the large majority of members for which a stricter cycle should apply, most Directors considered that the objective should be to limit the interval between consultations to no more than 12 months, with a grace period of, say, three months beyond the specified date. For members not on a strict cycle, the permissible outer limit would be two years. Management was encouraged to

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experiment with six-month reviews or miniconsultations—as had been done recently in some cases—where the economic situation of the member was changing rapidly.

In considering the circumstances that might justify delays in consultations, Directors noted that military hostilities, for example, would warrant a delay; however, it was to be understood that, once the special circumstances had passed, the consultation should be held quickly. Delays for political reasons, such as elections, or delays because the member was engaged in a process of reformulating its economic policies were less clear cut. Most Directors judged that consultations should not be delayed because of the political timetable in member countries; indeed, they observed that it was precisely in such periods of uncertainty that financial problems could emerge or become more acute. Moreover, as pointed out in the staff paper, consultations would be particularly useful and timely when a member was in the process of developing new policies. Delays should, where possible, be fitted into the grace period of three months; if that meant that the policies envisaged by the authorities could not be fully specified in the staff report, however, it might be appropriate to hold follow-up discussions at an early date, when the policies had been formulated.

Directors agreed that a number of adaptations to existing procedures might be necessary to maintain the higher average frequency of consultations that was implied by adherence to strict annual consultation cycles for most members, at least in current circumstances. Given the large number of requests for use of Fund resources expected in the coming year, it was accepted that consultation missions might sometimes be combined with negotiations of the use of Fund resources. However, a number of Directors considered that, where an annual consultation was due, its discussion in the Board should precede the Board discussion of a program. Some believed that combining consultations with requests for use of Fund resources should be the exception rather than the rule, but a number of Directors considered that consultations could appropriately be combined with reviews of existing Fund programs.

Directors stressed the importance of REDs [reports on Recent Economic Developments], which they considered to be a valuable and often unique source of economic and financial information on member countries. Directors agreed that, if necessary for logistical reasons, REDs might be shortened on a selective basis and perhaps merely updated in each second year; however, they stressed that changes of substance in economic policies and institutional settings should always be incorporated in the yearly report. In practice, therefore, it was likely that most REDs would have to be prepared annually.

Methods of surveillance over exchange rate changes, and notification procedures

All Directors asked for an evenhanded approach to surveillance and indicated that the Fund needed to play a more active role with respect to exchange rate changes. Some stressed the importance of more detailed and forthright discussions on exchange rate issues in Article IV consultations and in discussions on the world economic outlook, particularly when a stricter consultation schedule was being observed. In those exceptional circumstances where additional discussions with members seemed warranted, the existing procedures for dealing with such questions could be invoked.

To give effect to a more active role for the Fund and to help to ensure uniformity of treatment, most Directors saw merit in the "threshold" approach described in the staff paper, and there was broad support for implementing the approach on an experimental basis. Directors made a number of interesting and penetrating observations about the approach in the course of the discussion, and

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some indicated that they would be providing further, more detailed observations later. On the technical issue of the size of the numerical threshold, some Directors felt that a 5 per cent threshold would result in too large a number of information notices for such notices to be meaningful. Others felt that any change as large as 5 per cent in real effective terms was important and should be subject to an information notice. On balance, particularly since the approach is to be adopted on an experimental basis, I would propose that we initially use a threshold of 10 per cent.

Another technical issue concerns the appropriate starting point for the measurement of cumulative changes. Most Directors, while noting that there were weaknesses in the recommended approach, indicated a willingness to experiment with a starting point that was the latest occasion on which the Board had had an opportunity to discuss the member's exchange rate policy, which in most cases would be the most recent Article IV consultation.

On another matter, there was general agreement that, during the trial period, the staff should use its best judgment on the indicator of competitiveness to be employed and should incorporate a description of that indicator, with relevant data, in the Article IV consultation reports. The views of member countries on the measurement to be used would, of course, be taken into account.

On the content of information notices, Directors recommended a flexible approach and invited management to exercise discretion in deciding when to provide analysis and an appraisal. They agreed that the existing practice of notifying the Board of large discrete changes in nominal exchange rates should be continued, because it was important both for surveillance and for the general information of other members.

The management and staff will carefully examine and attempt to implement the proposal made by [Executive Director] for a periodic—perhaps quarterly—staff paper containing an indication of real effective exchange rates of members, flagging those cases where changes in the rate are particularly large. While it will be necessary to address a number of questions on the appropriate time perspective to be used, an effort will be made to provide a permanent flow of figures in a periodic brochure. Again, Directors indicated a willingness to rely on management's judgment of whether or not comments on those indicators should be provided or whether particular cases should be discussed in the Board.

C. Special Drawing Rights: Level of Fund's Holdings

In determining the amounts of SDRs to be transferred to members, the Fund will be guided by the aim of reducing the Fund's SDR holdings to a level of approximately SDR 1.5 billion by the end of 1983. The level of the Fund's SDR holdings shall be reviewed again in the light of the progress made in implementing the increases in quotas authorized under the Eighth General Review of Quotas but not later than the end of December 1983.

Decision No. 7397-(83/70) S
May 16, 1983

D. General Arrangements to Borrow: Revision

1. The Fund approves the amendments to Decision No. 1289-(62/1)[2] on the General Arrangements to Borrow (GAB), as previously amended, and the increased amounts of participants' credit arrangements, incorporated in the revised text attached to the present Decision (Attachment).

[2] *Selected Decisions of the International Monetary Fund and Selected Documents,* Tenth Issue (Washington, 1983), pages 117–28.

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2. The amendments to the GAB Decision and the increases in participants' credit arrangements under that Decision shall become effective when all ten participants have notified the Fund in writing, not later than December 31, 1983 or such later date as may be prescribed by the Executive Board, that they concur in these amendments and increases.

3. The Swiss National Bank may become a participant in accordance with the provisions of the GAB Decision when the amendments to that Decision have become effective in accordance with 2 above, provided that the Bank deposits its instrument of adherence not later than April 30, 1984 or such later date as may be prescribed by the Executive Board.

Decision No. 7337-(83/37)
February 24, 1983

Attachment

General Arrangements to Borrow: Revised Text

Preamble

In order to enable the International Monetary Fund to fulfill more effectively its role in the international monetary system, the main industrial countries have agreed that they will, in a spirit of broad and willing cooperation, strengthen the Fund by general arrangements under which they will stand ready to make loans to the Fund up to specified amounts under Article VII, Section 1 of the Articles of Agreement when supplementary resources are needed to forestall or cope with an impairment of the international monetary system. In order to give effect to these intentions, the following terms and conditions are adopted under Article VII, Section 1 of the Articles of Agreement.

Paragraph 1. *Definitions*

As used in this Decision the term:

(i) "Articles" means the Articles of Agreement of the International Monetary Fund;

(ii) "credit arrangement" means an undertaking to lend to the Fund on the terms and conditions of this Decision;

(iii) "participant" means a participating member or a participating institution;

(iv) "participating institution" means an official institution of a member that has entered into a credit arrangement with the Fund with the consent of the member;

(v) "participating member" means a member of the Fund that has entered into a credit arrangement with the Fund;

(vi) "amount of a credit arrangement" means the maximum amount expressed in special drawing rights that a participant undertakes to lend to the Fund under a credit arrangement;

(vii) "call" means a notice by the Fund to a participant to make a transfer under its credit arrangement to the Fund's account;

(viii) "borrowed currency" means currency transferred to the Fund's account under a credit arrangement;

(ix) "drawer" means a member that purchases borrowed currency from the Fund in an exchange transaction or in an exchange transaction under a stand-by or extended arrangement;

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(x) "indebtedness" of the Fund means the amount it is committed to repay under a credit arrangement.

Paragraph 2. *Credit Arrangements*

A member or institution that adheres to this Decision undertakes to lend its currency to the Fund on the terms and conditions of this Decision up to the amount in special drawing rights set forth in the Annex to this Decision or established in accordance with Paragraph 3(b).

Paragraph 3. *Adherence*

(a) Any member or institution specified in the Annex may adhere to this Decision in accordance with Paragraph 3(c).

(b) Any member or institution not specified in the Annex that wishes to become a participant may at any time, after consultation with the Fund, give notice of its willingness to adhere to this Decision, and, if the Fund shall so agree and no participant object, the member or institution may adhere in accordance with Paragraph 3(c). When giving notice of its willingness to adhere under this Paragraph 3(b) a member or institution shall specify the amount, expressed in terms of the special drawing right, of the credit arrangement which it is willing to enter into, provided that the amount shall not be less than the amount of the credit arrangement of the participant with the smallest credit arrangement.

(c) A member or institution shall adhere to this Decision by depositing with the Fund an instrument setting forth that it has adhered in accordance with its law and has taken all steps necessary to enable it to carry out the terms and conditions of this Decision. On the deposit of the instrument the member or institution shall be a participant as of the date of the deposit or of the effective date of this Decision, whichever shall be later.

Paragraph 4. *Entry into Force*

This Decision shall become effective when it has been adhered to by at least seven of the members or institutions included in the Annex with credit arrangements amounting in all to not less than the equivalent of five and one-half billion United States dollars of the weight and fineness in effect on July 1, 1944.

Paragraph 5. *Changes in Amounts of Credit Arrangements*

The amounts of participants' credit arrangements may be reviewed from time to time in the light of developing circumstances and changed with the agreement of the Fund and all participants.

Paragraph 6. *Initial Procedure*

When a participating member or a member whose institution is a participant approaches the Fund on an exchange transaction or stand-by or extended arrangement and the Managing Director, after consultation, considers that the exchange transaction or stand-by or extended arrangement is necessary in order to forestall or cope with an impairment of the international monetary system, and that the Fund's resources need to be supplemented for this purpose, he shall initiate the procedure for making calls under Paragraph 7.

Paragraph 7. *Calls*

(a) The Managing Director shall make a proposal for calls for an exchange

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transaction or for future calls for exchange transactions under a stand-by or extended arrangement only after consultation with Executive Directors and participants. A proposal shall become effective only if it is accepted by participants and the proposal is then approved by the Executive Board. Each participant shall notify the Fund of the acceptance of a proposal involving a call under its credit arrangement.

(b) The currencies and amounts to be called under one or more of the credit arrangements shall be based on the present and prospective balance of payments and reserve position of participating members or members whose institutions are participants and on the Fund's holdings of currencies.

(c) Unless otherwise provided in a proposal for future calls approved under Paragraph 7(a), purchases of borrowed currency under a stand-by or extended arrangement shall be made in the currencies of participants in proportion to the amounts in the proposal.

(d) If a participant on which calls may be made pursuant to Paragraph 7(a) for a drawer's purchases under a stand-by or extended arrangement gives notice to the Fund that in the participant's opinion, based on the present and prospective balance of payments and reserve position, calls should no longer be made on the participant or that calls should be for a smaller amount, the Managing Director may propose to other participants that substitute amounts be made available under their credit arrangements, and this proposal shall be subject to the procedure of Paragraph 7(a). The proposal as originally approved under Paragraph 7(a) shall remain effective unless and until a proposal for substitute amounts is approved in accordance with Paragraph 7(a).

(e) When the Fund makes a call pursuant to this Paragraph 7, the participant shall promptly make the transfer in accordance with the call.

Paragraph 8. *Evidence of Indebtedness*

(a) The Fund shall issue to a participant, on its request, nonnegotiable instruments evidencing the Fund's indebtedness to the participant. The form of the instruments shall be agreed between the Fund and the participant.

(b) Upon repayment of the amount of any instrument issued under Paragraph 8(a) and all accrued interest, the instrument shall be returned to the Fund for cancellation. If less than the amount of any such instrument is repaid, the instrument shall be returned to the Fund and a new instrument for the remainder of the amount shall be substituted with the same maturity date as in the old instrument.

Paragraph 9. *Interest*

(a) The Fund shall pay interest on its indebtedness at a rate equal to the combined market interest rate computed by the Fund from time to time for the purpose of determining the rate at which it pays interest on holdings of special drawing rights. A change in the method of calculating the combined market interest rate shall apply only if the Fund and at least two thirds of the participants having three fifths of the total amount of the credit arrangements so agree; provided that if a participant so requests at the time this agreement is reached, the change shall not apply to the Fund's indebtedness to that participant outstanding at the date the change becomes effective.

(b) Interest shall accrue daily and shall be paid as soon as possible after each July 31, October 31, January 31, and April 30.

(c) Interest due to a participant shall be paid, as determined by the Fund, in special drawing rights, or in the participant's currency, or in other currencies that are actually convertible.

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Paragraph 10. *Use of Borrowed Currency*

The Fund's policies and practices under Article V, Sections 3 and 7 on the use of its general resources and stand-by and extended arrangements, including those relating to the period of use, shall apply to purchases of currency borrowed by the Fund. Nothing in this Decision shall affect the authority of the Fund with respect to requests for the use of its resources by individual members, and access to these resources by members shall be determined by the Fund's policies and practices, and shall not depend on whether the Fund can borrow under this Decision.

Paragraph 11. *Repayment by the Fund*

(a) Subject to the other provisions of this Paragraph 11, the Fund, five years after a transfer by a participant, shall repay the participant an amount equivalent to the transfer calculated in accordance with Paragraph 12. If the drawer for whose purchase participants make transfers is committed to repurchase at a fixed date earlier than five years after its purchase, the Fund shall repay the participants at that date. Repayment under this Paragraph 11(a) or under Paragraph 11(c) shall be, as determined by the Fund, in the participant's currency whenever feasible, or in special drawing rights, or, after consultation with the participant, in other currencies that are actually convertible. Repayments to a participant under Paragraph 11(b) and (e) shall be credited against transfers by the participant for a drawer's purchases in the order in which repayment must be made under this Paragraph 11(a).

(b) Before the date prescribed in Paragraph 11(a), the Fund, after consultation with a participant, may make repayment to the participant in part or in full. The Fund shall have the option to make repayment under this Paragraph 11(b) in the participant's currency, or in special drawing rights in an amount that does not increase the participant's holdings of special drawing rights above the limit under Article XIX, Section 4, of the Articles of Agreement unless the participant agrees to accept special drawing rights above that limit in such repayment, or, with the agreement of the participant, in other currencies that are actually convertible.

(c) Whenever a reduction in the Fund's holdings of a drawer's currency is attributed to a purchase of borrowed currency, the Fund shall promptly repay an equivalent amount. If the Fund is indebted to a participant as a result of transfers to finance a reserve tranche purchase by a drawer and the Fund's holdings of the drawer's currency that are not subject to repurchase are reduced as a result of net sales of that currency during a quarterly period covered by an operational budget, the Fund shall repay at the beginning of the next quarterly period an amount equivalent to that reduction, up to the amount of the indebtedness to the participant.

(d) Repayment under Paragraph 11(c) shall be made in proportion to the Fund's indebtedness to the participants that made transfers in respect of which repayment is being made.

(e) Before the date prescribed in Paragraph 11(a) a participant may give notice representing that there is a balance of payments need for repayment of part or all of the Fund's indebtedness and requesting such repayment. The Fund shall give the overwhelming benefit of any doubt to the participant's representation. Repayment shall be made after consultation with the participant in the currencies of other members that are actually convertible, or made in special drawing rights, as determined by the Fund. If the Fund's holdings of currencies in which repayment should be made are not wholly adequate, individual participants shall be requested, and will be expected, to provide the necessary balance under their credit arrangements. If, notwithstanding the expectation that the participants will provide the necessary balance, they fail to do so, repayment shall be made to the extent necessary in the

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currency of the drawer for whose purchases the participant requesting repayment made transfers. For all of the purposes of this Paragraph 11 transfers under this Paragraph 11(e) shall be deemed to have been made at the same time and for the same purchases as the transfers by the participant obtaining repayment under this Paragraph 11(e).

(f) All repayments to a participant in a currency other than its own shall be guided, to the maximum extent practicable, by the present and prospective balance of payments and reserve position of the members whose currencies are to be used in repayment.

(g) The Fund shall at no time reduce its holdings of a drawer's currency below an amount equal to the Fund's indebtedness to the participants resulting from transfers for the drawer's purchases.

(h) When any repayment is made to a participant, the amount that can be called for under its credit arrangement in accordance with this Decision shall be restored pro tanto.

(i) The Fund shall be deemed to have discharged its obligations to a participating institution to make repayment in accordance with the provisions of this Paragraph or to pay interest in accordance with the provisions of Paragraph 9 if the Fund transfers an equivalent amount in special drawing rights to the member in which the institution is established.

Paragraph 12. *Rates of Exchange*

(a) The value of any transfer shall be calculated as of the date of the dispatch of the instructions for the transfer. The calculation shall be made in terms of the special drawing right in accordance with Article XIX, Section 7(*a*) of the Articles, and the Fund shall be obliged to repay an equivalent value.

(b) For all of the purposes of this Decision, the value of a currency in terms of the special drawing right shall be calculated by the Fund in accordance with Rule O-2 of the Fund's Rules and Regulations.

Paragraph 13. *Transferability*

A participant may not transfer all or part of its claim to repayment under a credit arrangement except with the prior consent of the Fund and on such terms and conditions as the Fund may approve.

Paragraph 14. *Notices*

Notice to or by a participating member under this Decision shall be in writing or by rapid means of communication and shall be given to or by the fiscal agency of the participating member designated in accordance with Article V, Section 1 of the Articles and Rule G-1 of the Rules and Regulations of the Fund. Notice to or by a participating institution shall be in writing or by rapid means of communication and shall be given to or by the participating institution.

Paragraph 15. *Amendment*

This Decision may be amended during the period prescribed in Paragraph 19(a) only by a decision of the Fund and with the concurrence of all participants. Such concurrence shall not be necessary for the modification of the Decision on its renewal pursuant to Paragraph 19(b).

Paragraph 16. *Withdrawal of Adherence*

A participant may withdraw its adherence to this Decision in accordance with

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Paragraph 19(b) but may not withdraw within the period prescribed in Paragraph 19(a) except with the agreement of the Fund and all participants.

Paragraph 17. *Withdrawal from Membership*

If a participating member or a member whose institution is a participant withdraws from membership in the Fund, the participant's credit arrangement shall cease at the same time as the withdrawal takes effect. The Fund's indebtedness under the credit arrangement shall be treated as an amount due from the Fund for the purpose of Article XXVI, Section 3, and Schedule J of the Articles.

Paragraph 18. *Suspension of Exchange Transactions and Liquidation*

(a) The right of the Fund to make calls under Paragraph 7 and the obligation to make repayments under Paragraph 11 shall be suspended during any suspension of exchange transactions under Article XXVII of the Articles.

(b) In the event of liquidation of the Fund, credit arrangements shall cease and the Fund's indebtedness shall constitute liabilities under Schedule K of the Articles. For the purpose of Paragraph 1(a) of Schedule K, the currency in which the liability of the Fund shall be payable shall be first the participant's currency and then the currency of the drawer for whose purchases transfers were made by the participants.

Paragraph 19. *Period and Renewal*

(a) This Decision shall continue in existence for four years from its effective date. A new period of five years shall begin on the effective date of Decision No. 7337-(83/37), adopted February 24, 1983. References in Paragraph 19(b) to the period prescribed in Paragraph 19(a) shall refer to this new period and to any subsequent renewal periods that may be decided pursuant to Paragraph 19(b). When considering a renewal of this Decision for the period following the five-year period referred to in this Paragraph 19(a), the Fund and the participants shall review the functioning of this Decision, including the provisions of Paragraph 21.

(b) This Decision may be renewed for such period or periods and with such modifications, subject to Paragraph 5, as the Fund may decide. The Fund shall adopt a decision on renewal and modification, if any, not later than twelve months before the end of the period prescribed in Paragraph 19(a). Any participant may advise the Fund not less than six months before the end of the period prescribed in Paragraph 19(a) that it will withdraw its adherence to the Decision as renewed. In the absence of such notice, a participant shall be deemed to continue to adhere to the Decision as renewed. Withdrawal of adherence in accordance with this Paragraph 19(b) by a participant, whether or not included in the Annex, shall not preclude its subsequent adherence in accordance with Paragraph 3(b).

(c) If this Decision is terminated or not renewed, Paragraphs 8 through 14, 17 and 18(b) shall nevertheless continue to apply in connection with any indebtedness of the Fund under credit arrangements in existence at the date of the termination or expiration of the Decision until repayment is completed. If a participant withdraws its adherence to this Decision in accordance with Paragraph 16 or Paragraph 19(b), it shall cease to be a participant under the Decision, but Paragraphs 8 through 14, 17 and 18(b) of the Decision as of the date of the withdrawal shall nevertheless continue to apply to any indebtedness of the Fund under the former credit arrangement until repayment has been completed.

Paragraph 20. *Interpretation*

Any question of interpretation raised in connection with this Decision which does not fall within the purview of Article XXIX of the Articles shall be settled to the

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mutual satisfaction of the Fund, the participant raising the question, and all other participants. For the purpose of this Paragraph 20 participants shall be deemed to include those former participants to which Paragraphs 8 through 14, 17 and 18(b) continue to apply pursuant to Paragraph 19(c) to the extent that any such former participant is affected by a question of interpretation that is raised.

Paragraph 21. *Use of Credit Arrangements for Nonparticipants*

(a) The Fund may make calls in accordance with Paragraphs 6 and 7 for exchange transactions requested by members that are not participants if the exchange transactions are (i) transactions in the upper credit tranches, (ii) transactions under stand-by arrangements extending beyond the first credit tranche, (iii) transactions under extended arrangements, or (iv) transactions in the first credit tranche in conjunction with a stand-by or an extended arrangement. All the provisions of this Decision relating to calls shall apply, except as otherwise provided in Paragraph 21(b).

(b) The Managing Director may initiate the procedure for making calls under Paragraph 7 in connection with requests referred to in Paragraph 21(a) if, after consultation, he considers that the Fund faces an inadequacy of resources to meet actual and expected requests for financing that reflect the existence of an exceptional situation associated with balance of payments problems of members of a character or aggregate size that could threaten the stability of the international monetary system. In making proposals for calls pursuant to Paragraph 21(a) and (b), the Managing Director shall pay due regard to potential calls pursuant to other provisions of this Decision.

Paragraph 22. *Participation of the Swiss National Bank*

(a) Notwithstanding any other provision of this Decision, the Swiss National Bank (hereinafter called the Bank) may become a participant by adhering to this Decision in accordance with Paragraph 3(c) and accepting, by its adherence, a credit arrangement in an amount equivalent to one thousand and twenty million special drawing rights. Upon adherence, the Bank shall be deemed to be a participating institution, and all the provisions of this Decision relating to participating institutions shall apply in respect of the Bank, subject to, and as supplemented by, Paragraph 22(b), (c), (d), (e), and (f).

(b) Under its credit arrangement, the Bank undertakes to lend any currency, specified by the Managing Director after consultation with the Bank at the time of a call, that the Fund has determined to be a freely usable currency pursuant to Article XXX(*f*) of the Articles.

(c) In relation to the Bank, the references to the balance of payments and reserve position in Paragraph 7(b) and (d), and Paragraph 11(e), shall be understood to refer to the position of the Swiss Confederation.

(d) In relation to the Bank, the references to a participant's currency in Paragraph 9(c), Paragraph 11(a) and (b), and Paragraph 18(b) shall be understood to refer to any currency, specified by the Managing Director after consultation with the Bank at the time of payment by the Fund, that the Fund has determined to be a freely usable currency pursuant to Article XXX(*f*) of the Articles.

(e) Payment of special drawing rights to the Bank pursuant to Paragraph 9(c) and Paragraph 11 shall be made only while the Bank is a prescribed holder pursuant to Article XVII of the Articles.

(f) The Bank shall accept as binding a decision of the Fund on any question of interpretation raised in connection with this Decision which falls within the purview of Article XXIX of the Articles, to the same extent as that decision is binding on other participants.

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Paragraph 23. *Associated Borrowing Arrangements*

(a) A borrowing arrangement between the Fund and a member that is not a participant, or an official institution of such a member, under which the member or the official institution undertakes to make loans to the Fund for the same purposes as, and on terms comparable to, those made by participants under this Decision, may, with the concurrence of all participants, authorize the Fund to make calls on participants in accordance with Paragraphs 6 and 7 for exchange transactions with that member, or to make requests under Paragraph 11(e) in connection with an early repayment of a claim under the borrowing arrangement, or both. For the purposes of this Decision such calls or requests shall be treated as if they were calls or requests in respect of a participant.

(b) Nothing in this Decision shall preclude the Fund from entering into any other types of borrowing arrangements, including an arrangement between the Fund and a lender, involving an association with participants, that does not contain the authorizations referred to in Paragraph 23(a).

ANNEX

Participants and Amounts of Credit Arrangements

I. Prior to the Effective Date of Decision No. 7337-(83/37)

			Amount in Units of Participant's Currency
1.	United States of America	US$	2,000,000,000
2.	Deutsche Bundesbank	DM	4,000,000,000
3.	United Kingdom	£	357,142,857
4.	France	F	2,715,381,428
5.	Italy	Lit	343,750,000,000
6.	Japan	Yen	340,000,000,000
7.	Canada	Can$	216,216,000
8.	Netherlands	f.	724,000,000
9.	Belgium	BF	7,500,000,000
10.	Sveriges Riksbank	SKr	517,320,000

II. From the Effective Date of Decision No. 7337-(83/37)

		Amount in Special Drawing Rights
1.	United States of America	4,250,000,000
2.	Deutsche Bundesbank	2,380,000,000
3.	Japan	2,125,000,000
4.	France	1,700,000,000
5.	United Kingdom	1,700,000,000
6.	Italy	1,105,000,000
7.	Canada	892,500,000
8.	Netherlands	850,000,000
9.	Belgium	595,000,000
10.	Sveriges Riksbank	382,500,000
11.	Swiss National Bank *	1,020,000,000
		17,000,000,000

* With effect from the date on which the Swiss National Bank adheres to this Decision in accordance with Paragraph 22.

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E. Borrowing Arrangement with Saudi Arabia in Association with the General Arrangements to Borrow

Pursuant to Article VII, Section 1 of the Articles of Agreement, the Managing Director is authorized to send to the Minister of Finance of Saudi Arabia a letter proposing a borrowing agreement with Saudi Arabia, as set forth in the attachment. When a reply is received from the Minister accepting the proposal, the Managing Director's letter and the reply shall constitute an agreement between Saudi Arabia and the Fund, which shall enter into force on the date on which the revised and enlarged General Arrangements to Borrow authorized by Decision No. 7337-(83/37)[3] become effective.

Decision No. 7403-(83/73)
May 20, 1983

Attachment

Your Excellency:

I refer to Decision No. 7337-(83/37) of the Executive Board of the International Monetary Fund (the Fund), providing for a revision and enlargement of the General Arrangements to Borrow (the GAB), and to the desire of Saudi Arabia to strength the Fund by providing supplementary resources, in association with and for the same purposes as the GAB. Accordingly, pursuant to Article VII of the Articles of Agreement of the Fund (the Articles) and Executive Board Decision No. 7403-(83/73), adopted May 20, 1983, I have been authorized to propose on behalf of the Fund that Saudi Arabia enter into an Agreement with the Fund as set forth below:

Paragraph 1. *The Credit Arrangement*

During the period specified in Paragraph 2 and any renewal thereof, Saudi Arabia will stand ready to lend Saudi riyals to the Fund up to a maximum amount equivalent to one thousand five hundred million SDRs (SDR 1,500,000,000), on the terms and conditions set forth in this Agreement, to assist the Fund in the financing of purchases by members for the same purposes and in the same circumstances as are prescribed in the GAB. This amount may be changed by agreement between Saudi Arabia and the Fund.

Paragraph 2. *Period of Credit Arrangement and Renewal*

(a) Amounts of resources may be called by the Fund hereunder during a period of five years from the date this Agreement enters into force, unless the Fund's right to make calls is terminated earlier in accordance with this Agreement.

(b) When a renewal of the GAB Decision is under consideration, the Fund and Saudi Arabia shall consult regarding the renewal of the credit arrangement under this Agreement or the conclusion of such other credit arrangement as may be found appropriate at that time.

(c) Notwithstanding the termination of the credit arrangement under this Agreement, the provisions of Paragraphs 4 through 13 shall continue to apply until all the obligations of the Fund under this Agreement have been discharged.

Paragraph 3. *Calls*

(a) Calls may be made only pursuant to a proposal of the Managing Director that has become effective in accordance with (d) below.

[3] See pages 145–46.

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(b) The Managing Director may make a proposal for calls for purchases, including future calls for purchases under stand-by or extended arrangements, (i) if he considers that a proposal for calls or future calls for the same purchases could be made under the GAB and (ii) after consultation with Saudi Arabia at the same time and in the same manner as he consults GAB participants.

(c) In deciding whether to make a proposal and the amount to be called thereunder, the Managing Director shall take into account the present and prospective balance of payments and reserve position of Saudi Arabia and the Fund's holdings of Saudi riyals.

(d) A proposal for calls shall become effective only when Saudi Arabia has notified the Fund that it accepts the proposal and the proposal has been approved by the Executive Board of the Fund. Calls shall be made as and when amounts of Saudi riyals are needed by the Fund to finance purchases covered by the proposal.

(e) When the Fund makes a call, Saudi Arabia shall transfer to the account of the Fund, free of any charge or commission, an amount of Saudi riyals equivalent to the amount of the call. The transfer shall be made on the date specified in the call. Saudi Arabia shall exchange the riyals for a freely usable currency of its choice in accordance with Article V, Section 3 of the Articles.

(f) If Saudi Arabia represents to the Fund that, in view of the present and prospective balance of payments and reserve position of Saudi Arabia, future calls under a proposal that has become effective as provided in (d) above should no longer be made or be made for a smaller amount and the Fund, after giving the overwhelming benefit of any doubt to the representation, determines that it is justified, the Fund shall comply with Saudi Arabia's representation.

Paragraph 4. *Evidence of Indebtedness*

The Fund shall issue to Saudi Arabia, at its request, a nonnegotiable instrument or instruments in a form to be agreed with Saudi Arabia, evidencing the Fund's outstanding indebtedness to Saudi Arabia under this Agreement. Upon repayment of an amount of indebtedness evidenced by an instrument and all accrued interest thereon, the instrument shall be returned to the Fund for cancellation, and if any balance of the indebtedness remains outstanding, the Fund shall issue a new instrument for the remainder of the amount, with the same maturity date.

Paragraph 5. *Interest*

(a) The Fund shall pay interest on its outstanding indebtedness at a rate equal to the combined market interest rate computed by the Fund from time to time under its Rules and Regulations for the purpose of determining the rate at which it pays interest on holdings of SDRs. If the Fund changes the method of computing the combined market interest rate, the new method will apply to amounts borrowed hereunder only if it is applied to borrowing by the Fund under the GAB, and Saudi Arabia agrees.

(b) Interest shall accrue daily and shall be paid as soon as possible after each July 31, October 31, January 31, and April 30.

Paragraph 6. *Repayment by the Fund*

(a) Subject to the other provisions of this Agreement, the Fund shall repay an amount equal to each amount transferred by Saudi Arabia hereunder five years after the date the transfer was made. To the extent the member whose purchase the amount was used to finance is committed to repurchase by installments on

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fixed dates falling earlier than five years after that date, the Fund shall repay the amount in corresponding installments on those fixed dates.

(b) Whenever a reduction in the Fund's holdings of currency of a purchasing member is attributed to a purchase financed with an amount transferred by Saudi Arabia hereunder, the Fund shall promptly make a corresponding repayment to Saudi Arabia. If the amount was used to finance a reserve tranche purchase, and the Fund's holdings of the purchasing member's currency not subject to repurchase are reduced as a result of net sales of the currency during a quarterly period covered by an operational budget, the Fund shall make a corresponding repayment to Saudi Arabia at the beginning of the next quarterly period. The amount repaid under this subparagraph (b) shall bear the same proportion to the amount of the reduction as the amount transferred under this Agreement bears to the amount of the purchase.

(c) Before the date repayment is due under (a) or (b) above, the Fund, after consultation with Saudi Arabia, may repay all or part of its outstanding indebtedness hereunder.

(d) If Saudi Arabia represents to the Fund that it has a balance of payments need for repayment before the due date of all or part of such outstanding indebtedness and requests such repayment, and the Fund after giving Saudi Arabia's representation the overwhelming benefit of any doubt determines that there is such a need, the Fund shall make early repayment as requested by Saudi Arabia.

(e) Amounts repaid under (c) and (d) shall be credited against outstanding indebtedness in the order in which such indebtedness would fall due under (a) above.

(f) The Fund shall at no time reduce its holdings of the currency of a member whose purchases were financed by borrowing hereunder below an amount equal to the outstanding amount of such borrowing plus any outstanding amount borrowed under the GAB to finance purchases by the same member.

(g) When any repayment is made to Saudi Arabia, the amount that the Fund may call for under the credit arrangement shall be restored pro tanto.

Paragraph 7. *Media of Payment*

(a) Payments of interest and repayments of principal shall be made, as determined by the Fund after consultation with Saudi Arabia, in Saudi riyals, in SDRs, or in currencies that are actually convertible; provided that (i) unless Saudi Arabia agrees, SDRs shall not be used in early repayment under Paragraph 6(c) if the effect would be to increase Saudi Arabia's holdings of SDRs above the limit specified in Article XIX, Section 4 of the Articles, and (ii) Saudi riyals shall not be used in early repayment on balance of payments grounds under Paragraph 6(d).

(b) Currencies other than Saudi riyals to be used in payment of interest and repayment of principal shall be selected by the Fund from those that can be used in net sales under the operational budget of the Fund in effect at the time the payment is made.

Paragraph 8. *Rates of Exchange*

All amounts under this Agreement shall be denominated in SDRs, as valued by the Fund from time to time. The value in terms of SDRs of Saudi riyals to be transferred by Saudi Arabia to the Fund and of payments to be made by the Fund to Saudi Arabia in currencies shall be determined in accordance with Rule O-2 of the Rules and Regulations of the Fund.

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Paragraph 9. *Transferability*

Saudi Arabia may transfer all or part of its claims under this Agreement only with the prior consent of the Fund and on such terms and conditions as the Fund may approve.

Paragraph 10. *Withdrawal from Membership*

If Saudi Arabia withdraws from membership in the Fund, no further calls shall be made hereunder. The Fund's outstanding indebtedness hereunder shall be treated as an amount due from the Fund for the purpose of Article XXVI, Section 3, and Schedule J of the Articles.

Paragraph 11. *Suspension of Exchange Transactions and Liquidation*

(a) The right of the Fund to make calls and its obligation to make repayment hereunder shall be suspended during any suspension of exchange transactions under Article XXVII of the Articles.

(b) In the event of liquidation of the Fund, no further calls shall be made by the Fund hereunder. The Fund's outstanding indebtedness shall constitute a liability under Schedule K of the Articles. For the purpose of Paragraph 1(a) of Schedule K, the currency in which each amount of the Fund's indebtedness is payable shall be first Saudi riyals and then any currency that is actually convertible.

Paragraph 12. *Amendments*

(a) This Agreement may be amended at any time, by agreement between Saudi Arabia and the Fund.

(b) If the revised and enlarged GAB is modified while this Agreement is in effect, Saudi Arabia and the Fund will consult with each other with a view to determining whether consequential modifications should be made in the provisions of this Agreement.

(c) If, after consultation with the Fund and the GAB participants, Saudi Arabia proposes that the credit arrangement under this Agreement be converted into or replaced by an arrangement of the type referred to in Paragraph 23(a) or Paragraph 3(b) of the revised GAB Decision, as the case may be, the Fund will consider the steps to be taken, subject to the concurrence of the GAB participants as necessary, to effect such conversion or replacement.

Paragraph 13. *Interpretation; Settlement of Disputes*

Any question of interpretation arising in connection with this Agreement that does not fall within the purview of Article XXIX of the Articles, and any dispute arising hereunder, shall be settled to the mutual satisfaction of Saudi Arabia and the Fund.

If the foregoing proposal is acceptable to Saudi Arabia, this communication and your reply indicating Saudi Arabia's acceptance shall constitute an Agreement between Saudi Arabia and the Fund, which shall enter into force on the date on which the revised and enlarged GAB authorized by Decision No. 7337-(83/37)[4] of the Executive Board of the Fund becomes effective.

Very truly yours,
/s/
J. de Larosière

[4] See pages 145–46.

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F. Buffer Stock Financing Facility: International Natural Rubber Agreement, 1979

1. The Fund, having considered the text of the International Natural Rubber Agreement as established by the United Nations Conference on Natural Rubber on October 6, 1979, finds that the terms of this Agreement relating to the international natural rubber buffer stock established under the Agreement are consistent with the principles referred to in Executive Board Decision No. 2772-(69/47), adopted June 25, 1969,[5] as amended.

2. In view of paragraph 1 above, the Fund will meet, subject to the provisions of Executive Board Decision No. 2772-(69/47), as amended, a member's request for a purchase in connection with the financing by the member of its direct compulsory contribution to the acquisition costs of the buffer stock established under the International Natural Rubber Agreement, if its request is received in the Fund not later than six months after the date of the contribution or, in respect of contributions made before the date of this decision, not later than 90 days after the date of this decision.

3. A member that has outstanding purchases under this decision
   (a) shall make repurchases in respect of these purchases in accordance with paragraph 1(a) of Decision No. 5703-(78/39), adopted March 22, 1978,[6] as amended, and
   (b) will be expected to repurchase at an earlier date than would be required under (a) above,
      (i) when, and to the extent that, the International Natural Rubber Council refunds net contributions in excess of those required to support buffer stock operations, and
      (ii) if the current Agreement terminates without being replaced by a new Agreement providing for a buffer stock, when transfers in liquidation are made to the member. Any transfer of natural rubber from the buffer stock to the member will be treated as a distribution in currency, valued at the lowest current price for each type or grade so transferred during the 30 market days preceding the termination of the Agreement.

4. If the current Agreement is to be replaced by a new Agreement providing for a buffer stock,
   (a) a transfer of all or part of a member's share under the existing Agreement to the buffer stock account of the new Agreement will not be treated as a distribution in currency for the purpose of repurchase, if within 180 days of the termination of the current Agreement the Fund finds the terms of the new Agreement to be consistent with the principles referred to in Executive Board Decision No. 2772-(69/47), as amended;
   (b) members that do not participate in the new Agreement will be expected to repurchase in accordance with paragraph 3(b)(ii) above.

5. The staff will keep the Executive Board informed on the operation of the buffer stock and other developments in connection with the International Natural Rubber Agreement by reports that will be made at least once a year, and the Fund may make such review of this decision as is appropriate in the light of these reports.

Decision No. 7246-(82/147)
November 12, 1982

G. Buffer Stock Financing Facility: Sixth International Tin Agreement

1. The Fund, having considered the text of the Sixth International Tin Agree-

[5] *Selected Decisions of the International Monetary Fund and Selected Documents,* Tenth Issue (Washington, 1983), pages 70–71.
[6] *Ibid.*, pages 105–107.

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ment, as established by the United Nations Tin Conference on June 26, 1981, and applied provisionally among the members who have decided to do so, finds that the terms of this Agreement relating to the international buffer stock established under the Agreement are consistent with the principles referred to in Executive Board Decision No. 2772-(69/47), adopted June 25, 1969,[7] as amended.

2. In view of paragraph (1) above, the Fund will meet, subject to the provisions of Executive Board Decision No. 2772-(69/47), as amended, a member's requests for a purchase in connection with the financing by a member of its compulsory contributions to the normal buffer stock established under the Sixth International Tin Agreement, if its request is received in the Fund not later than six months after the date of the contribution or, in respect of contributions made before the date of this decision, not later than 90 days after the date of this decision.

3. A member that has outstanding purchases under this decision

(a) shall make repurchases in respect of these purchases in accordance with paragraph 1(a) of Decision No. 5703-(78/39), adopted March 22, 1978,[8] as amended, and

(b) will be expected to repurchase at an earlier date than would be required under (a) above,

(i) when, and to the extent that, the International Tin Council makes refunds, and

(ii) if the Sixth International Tin Agreement terminates without being replaced by a new International Tin Agreement providing for a buffer stock, when transfers in liquidation are made to the member. Any transfer of tin metal from the buffer stock to the member will be treated as a distribution in currency, valued at the average price for tin prevailing on the appropriate market (London or Penang) on the day of distribution.

4. If the Sixth International Tin Agreement is to be replaced by a new International Tin Agreement providing for a buffer stock,

(a) a transfer of all or part of a member's share under the existing Agreement to the buffer stock account of the new Agreement will not be treated as a distribution in currency for the purpose of repurchase, if within 180 days of the termination of the existing Agreement, the Fund finds the terms of the new Agreement to be consistent with the principles referred to in Executive Board Decision No. 2772-(69/47), as amended;

(b) members that do not participate in the new Agreement will be expected to repurchase in accordance with paragraph 3(b)(ii) above.

5. The staff will keep the Executive Board informed on the operation of the buffer stock and other developments in connection with the Sixth International Tin Agreement by reports that will be made at least once a year, and the Fund may make such review of this decision as is appropriate in the light of these reports.

Decision No. 7247-(82/147)
November 12, 1982

H. Borrowing Agreement with the Saudi Arabian Monetary Agency: Change in Conversion Arrangements

The Managing Director is authorized to communicate to the Saudi Arabian Monetary Agency the Fund's willingness to accept deutsche mark, French francs, pounds sterling, U.S. dollars, and Japanese yen when an exchange is required of Saudi Arabian riyals borrowed under the agreement authorized in Decision

[7] *Selected Decisions of the International Monetary Fund and Selected Documents,* Tenth Issue (Washington, 1983), pages 70–71.
[8] *Ibid.,* pages 105–107.

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No. 6843-(81/75),[9] adopted May 6, 1981; provided that the members issuing those currencies concur to the use of their currencies held by the Fund for the purposes of investments resulting from such acceptance of their currencies, and provided further that the Fund's depositories in their territories agree to open and maintain "Borrowed Resources Suspense Accounts—Cash Accounts" for these purposes.

Decision No. 7188-(82/114)
August 20, 1982

I. Fund Policies and External Debt-Servicing Problems

Chairman's Summary of
Executive Board Discussion

In view of the speed with which recent developments had unfolded, Directors felt that it was important that the Fund should be in a position to react quickly and flexibly in response to different types of situations. Directors generally believed that the initiatives that had been taken by the Fund to assist member countries in acute debt crisis situations had been appropriate in the circumstances. But the discussion had also indicated that there was a need to improve the Fund's methods to try to avoid the repetition of recent crises or, more generally, to acquire the knowledge to prevent potentially dangerous situations from arising.

Comments could be made under three main headings:

1. Implementation of external surveillance

Directors observed that more timely, more comprehensive, and more accurate information on the external debt situation of members, and on changes therein, is required. There had been strong support for Fund actions to improve the availability of external debt information. A number of specific points were made. First, technical assistance could usefully be provided to member countries, especially by the Central Banking Department, to help them to improve their statistical and administrative capacity in assessing debt developments. That was a point to be borne in mind when discussing the resources at the disposal of the Central Banking Department.

Second, the Fund itself should be more active in compiling external debt statistics on a regular basis; at present they were scattered in many different places and were not always available either in a centralized form or in a timely manner. Many Directors warmly welcomed the work currently under way in the Bureau of Statistics. They were particularly heartened by [a Director's] intervention, because it was important to have wide coverage and to receive the cooperation of the monetary authorities responsible for the statistical information on bank lending in their home countries. At the same time, the Fund should not overlap or duplicate the work of other institutions. Instead, it should improve its cooperation with other institutions like the World Bank and the BIS (Bank for International Settlements), and with them work out a procedure that would make data on external debt more comprehensive and more rapidly available. There was much to do in that field.

Third, the Fund should improve its ability to analyze external debt developments and problems on a worldwide basis. It was clear that the papers prepared in connection with the world economic outlook exercise, describing developments in international financial markets and in the debt situation, should continue to be prepared. Even outside the regular world economic outlook discussions management and staff should be able to provide the Board with interesting updating papers, although the Article IV consultations provided the best framework for improving

[9] *Selected Decisions of the International Monetary Fund and Selected Documents,* Tenth Issue (Washington, 1983), pages 173–74.

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the analysis of the external debt situations of individual countries. Speakers agreed that the Fund should pragmatically try to improve the external debt surveillance content of the Article IV consultation process.

Two points had been made on that topic during the discussion. First, consistent with what the Fund was trying to do on a general basis in the Bureau of Statistics, it should use Article IV consultations to try to improve the reporting of external debt developments in individual member countries, with particular reference to areas such as private debt, short-term debt, short-term liabilities, and the assets of the banking sector at large. But Article IV consultations should go further than merely describing a country's existing external debt; they should seek to include a description of the medium-term external debt outlook for the country concerned. Such forward-looking analyses would not be easy, and the staff would have to rely heavily on assumptions regarding the external environment, including world trade, commodity prices, and many other factors that were difficult to anticipate. Naturally, such analyses ought not to be accorded more significance than the uncertainty of future events allowed. Nonetheless, it was the duty of the Fund, as an institution charged with the responsibility of surveillance in a very difficult world, to try to help member countries better to understand the medium-term implications of their external debt policies.

It was evident that, if the forward-looking analyses were to be meaningful, they should take into account debt service payments associated with new borrowings planned for the period ahead. Directors agreed that such forward-looking technical analyses should be prepared in close cooperation with the authorities in member countries. They too had views on the underlying medium-term assumptions. Also, in view of the uncertainties involved, it would not be right to include the forward-looking analyses in the reports on recent economic developments. Most speakers had said that the correct place for them would be in the staff reports for Article IV consultations, which would of course continue to be confidential. In a number of countries the staff had already included medium-term assumptions on debt service developments in its reports. It would continue to do so, bearing in mind the words of caution spoken by several Directors during the discussion. It was important also that forward-looking external debt analyses should not be limited to countries that were in difficult debt situations or engaged in rescheduling operations; rather, they should become a routine element in the Fund's work. Such an arrangement would not only be consistent with the notion of uniformity of treatment; it would also serve to show that the forward-looking debt analyses were not in any sense a predictive exercise, but an analytical tool that should become part of the set of elements used in any assessment of the sustainability of a balance of payments situation or of borrowing policies.

Directors supported the continuation of the present policy of withholding reports for Article IV consultations and papers on the use of Fund resources from commercial bankers, for reasons of confidentiality. It was essential for the Fund to maintain the unique relationship involving confidence and mutual trust between the Fund and member countries, and to avoid any suspicion that information provided on a confidential basis might fall into the hands of the international banking community.

A number of Directors had commented on the relationship between the Fund and the Institute of International Finance. It was felt that the Fund should adopt a pragmatic attitude. Nevertheless, it was clear that the Institute should have no privileged access to confidential information from the Fund. Relations with the Institute would be conducted according to the principles of confidentiality and uniformity of treatment that the Fund applied in the conduct of all its work. However, on a pragmatic basis, the Institute might well prove to be a useful channel of communication with the commercial banks.

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Many Directors had suggested that there was some scope for enhancing the informal contacts between the Fund and the national bank supervisory authorities. In that area the Fund would have to act very cautiously because it should not be seen as becoming an international agency for rating the creditworthiness of countries. Such a function did not fall within the Articles of Agreement. However, it might sometimes be useful for the Fund to inform the bank supervisory authorities of what the Fund and member countries were trying to achieve in the framework of programs supported by the use of Fund resources. The purpose would be, for example, to prevent the supervisory authorities adopting unduly rigid rules that might have adverse consequences for member countries.

2. Balance of payments assistance and implementation of adjustment efforts in the context of Fund-supported programs

Executive Directors commented on the relationship between balance of payments assistance from non-Fund sources and the implementation of Fund-supported adjustment efforts by members experiencing debt-servicing difficulties.

First, Directors considered the way in which the Fund collaborates with official institutions in multilateral debt renegotiations to be generally satisfactory. Some of them had said that the various official creditors should receive similar, evenhanded treatment, if only to ensure continued cooperation among official creditors. Directors felt that any special elements that might be involved in the relationship between Fund-supported programs and the debt relief envisaged by the Paris Club, or other groups concerned with official multilateral debt renegotiations, should continue to be handled on a case-by-case basis.

It was evident that in the case of some countries, only the provision of further concessional aid could make the rescheduling exercise successful. In those circumstances, it would be the duty of the Fund to put the matter squarely before the members of the international community able to provide aid. The straightforward rescheduling of official debt might occasionally be inadequate; more might be required even if the provision of extended assistance were to complicate the renegotiations.

Directors recognized that the procedures for rescheduling commercial bank debt were not as well developed as those for official debt negotiations. Nonetheless, the Fund could play, and had played, a useful role in bringing about a successful outcome to discussions between a debtor country and the commercial bank groups involved. Since the summer of 1982, certain "exceptional" circumstances had arisen, in which the difficulties encountered by major debtors have had broader implications for the orderly functioning of the international monetary system. The Fund management—in concert with major creditors, central banks, the BIS, and governments—had taken the initiative in ensuring that before Fund resources could be committed, sufficient additional financial flows from governments, official sources, and commercial sources were available to support the adjustment efforts of the member concerned. Directors had endorsed that approach, although some of them had cautioned against the Fund as a matter of general policy interjecting itself too closely or too systematically into traditional commercial bank/client relationships. They had encouraged the Fund to maintain a generally neutral role. The consensus was that the Fund should proceed on a case-by-case basis in full consultation with all the parties involved, bearing in mind the need for evenhanded treatment between cases.

Third, Executive Directors noted the inevitable degree of uncertainty regarding the amount and timing of external financing that could be made available during the period of an adjustment program supported by the Fund's resources. Such uncertainties should not necessarily prevent a member country wishing to enter into an arrangement with the Fund from doing so. But the Executive Board would

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need sufficient safeguards to ensure that the Fund's resources would be used to support a viable and financeable adjustment program. The best means of providing such safeguards—in the absence of any conclusion to the negotiations on non-Fund financing of a Fund-supported program—was considered to be the practice of introducing review clauses at an early stage of the program, linked, if necessary, to the satisfactory outcome of discussions on balance of payments financing from other sources. The staff would indicate in its reports what additional adjustment measures should be contemplated by the authorities if the amounts of external financing assumed by the staff did not materialize.

3. Guidelines on foreign borrowing in connection with upper credit tranche arrangements

In reviewing the 1979 guidelines, the Directors made a number of comments. First, many Directors felt that normally it would be better to impose ceilings on disbursed rather than on contracted debt; nonetheless, some flexibility should continue to be used.

Second, there were divergent views on the question of including loans with maturities of from 12 to 15 years within the ceiling on loans. It was understood that if loans of 12 to 15 years' maturity were included, the concessional loans without that category should still be excluded.

Third, Directors generally encouraged the staff to include short-term debt of a maturity of less than one year in the performance criteria relating to foreign borrowing, while allowing some flexibility in light of the different institutional reporting procedures employed by members, and the statistical difficulties of recording that category of debt. In quite a number of cases, it might be necessary to formulate the limitation as a subceiling.

Fourth, normally performance criteria would exclude only concessional loans, together with restructuring and refinancing loans specifically associated with multilateral government or commercial bank loan reschedulings.

Fifth, Directors considered that, in describing adjustment programs submitted by members in connection with requests for upper credit tranche stand-by arrangements or extended arrangements, staff papers should contain a description of the proposed external borrowing limitations in the light of the prospective medium-term debt-servicing profile of the member that should of course be consistent with the medium-term analysis in the staff report for the Article IV consultation.

4. Concluding remarks

The Executive Board would return to the subject of Fund policies and external debt-servicing problems after the Development Committee had discussed the issues involved and Executive Directors have had time for further reflection in light of any changes in the international debt situation.

Some Directors had suggested that the Fund should concentrate more closely on analyzing the causes of the tight external debt positions being experienced by many countries, with a view to devising global policies for treating the fundamental causes of the present situation rather than simply tackling its surface manifestations. In my view, taking into account the fragile nature of international credit, this subject was one that ought perhaps to be discussed in an informal gathering of the Board. . . .

Finally, Directors agreed that the external debt situations of countries were extremely sensitive to the world environment. Whatever the Fund could do in the ambit of its more general surveillance activities to encourage member countries to adopt a mix of economic policies that would foster economic recovery, and to avoid recourse to restrictive commercial practices, would be helpful in improving the external debt situation of member countries.

April 6, 1983

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Appendix III
Press Communiqués and Announcement of the Interim Committee and the Development Committee

Interim Committee of the Board of Governors on the International Monetary System

Press Communiqués

Nineteenth Meeting, Toronto, September 4–5, 1982

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its nineteenth meeting in Toronto, Ontario, on September 4, 1982 under the chairmanship of the Honorable Allan J. MacEachen, Deputy Prime Minister and Minister of Finance of Canada. Mr. Jacques de Larosière, Managing Director of the International Monetary Fund, participated in the meeting. The meeting was also attended by observers from a number of international and regional organizations and from Switzerland.

2. The Committee discussed the world economic outlook and the policies needed to deal with the difficult problems faced by most of the Fund's member countries. It was agreed that the deep-rooted character of the problems calls for sustained efforts to carry out adjustment of both internal and external imbalances.

The Committee expressed deep concern about the lack of growth in output and world trade, the high and rising rates of unemployment, and the increasing domestic pressure for protectionist trade measures. It noted that significant progress in reducing inflation has been made by several of the major industrial countries but that prevailing rates of inflation remain unacceptably high in most countries. The Committee recognized that the goals of steady expansion of output and reduction of unemployment could only be achieved if there were a sustained reduction in inflation and inflationary expectations, in nominal and real interest rates, and in other impediments. The Committee also recognized the importance of structural policies and special programs designed to encourage production and employment.

The Committee welcomed the recent declines in interest rates, which reflect in part the lower rates of increase in prices that have occurred. However, it believed that further decisive progress toward price stability—especially in countries with relatively high rates of price increase—is essential for lower rates of interest, for revival of economic growth, and for the closer convergence of inflation rates that would permit greater stability in the exchange markets for major currencies.

With these objectives in mind, the Committee stressed the need to make fiscal policies more supportive of monetary policies so as to allow appropriate moderation of growth in monetary aggregates with a less pronounced impact on output

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and employment. More specifically, the Committee called for a sustained reduction of fiscal deficits in order to build public confidence in the authorities' determination to maintain their anti-inflation stance, to ease pressures in credit markets and bring down interest rates, and to avoid impairing the medium-term availability of resources for the financing of private investment.

Efforts to reduce rigidities in prevailing practices with respect to wage bargaining and price determination were also urged by the Committee. It was recognized that, depending on the individual circumstances, a useful adjunct to appropriate fiscal and monetary policies might be provided by efforts of the authorities to promote consensus among the social partners on the need, as a means of promoting employment, for moderation of wage and salary increases. In this context, the Committee stressed the need to increase savings and to restore profit margins and incentives to investment.

The Committee deplored the unfortunate situation in which so many non-oil developing countries now find themselves. It noted that the marked slowing of economic growth in those countries, as well as the enlargement of their current account deficits, can be attributed, to a considerable extent, to external factors, including the international recession, severe deterioration of the terms of trade, and the unprecedented upsurge of interest rates in international credit markets. The Committee pointed out, however, that the current difficulties in many countries have also stemmed from unduly expansionary financial policies, which have generated domestic inflation and misallocation of resources, as well as external imbalances. The Committee observed that many non-oil developing countries are endeavoring to adjust the imbalances in their economies but that further progress is needed.

In this connection, the Committee voiced grave concern about two particular aspects of the external finances of non-oil developing countries. One of these related to the need for an enlarged flow of aid and concessional loans to developing countries, especially the low-income ones with limited access to international financial markets. The other aspect of concern related to the recent rates of increase in external debt, which has reached historically high levels in many countries. The Committee stressed the importance for these countries, at a time when private financial flows are less readily available, to be taking steps toward realistic adjustment to prevailing circumstances.

The Committee's discussions pointed up the high degree of interdependence in the world economy and reaffirmed its conviction regarding the urgent need for closer international cooperation. At a time of unsettled conditions in financial markets arising from external payments imbalances and the continuing problems of adjustment, the Committee again urged all member countries to seek solutions of their difficulties by means that give due consideration to the interests of their trading partners and of the world economy as a whole. In this connection, it warned that protectionist trade measures are shortsighted, since they are inimical to productivity gains and progress against inflation, and also destructive of opportunities for expansion of world trade and increased participation of all countries in its benefits. The Committee further noted that nondiscriminatory access to financial markets is essential and should be maintained.

3. The Committee agreed that in the unusually difficult conditions prevailing in the world economy the role of the Fund in the promotion of balance of payments adjustment is of critical importance and stressed the need for effective and evenhanded implementation by the Fund of its surveillance function. In the view of the Committee, full cooperation by all members was essential for the success of the Fund's efforts to promote increased international stability. In this connection, the Committee was pleased to note the policy declaration relating to the

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Fund's surveillance responsibilities and its efforts to foster stability that was included in the statement on international monetary undertakings issued at the Versailles summit meeting of last June.

4. The Committee considered various issues relating to the Eighth General Review of Quotas. It noted the considerable progress toward an increase in the size of the Fund that was reported by the Executive Board and welcomed the agreement reached in the Board on the method for calculating quotas for the purposes of the Eighth General Review. The Committee's attention was focused on the main issues of the overall increase in the size of the Fund and the distribution of the overall increase among individual members.

There was widespread support in the Committee on the urgent need for a substantial increase in quotas under the Eighth General Review. The Committee reiterated its view that quotas must remain the primary source of financial resources for the Fund's operations and that, therefore, the Review should result in an increase in quotas that would be large enough to enable the Fund to perform its functions in an effective manner in the 1980s. The Committee also reiterated its view that the occasion of an enlargement of the Fund under the Eighth General Review should be used to bring the quotas of members more in line with their relative positions in the world economy, taking account of the case for maintaining a proper balance between the different groups of countries. The Committee also asked the Executive Board to assess the adequacy of existing arrangements to deal with major strains in the international financial system.

The Committee urged the Executive Board to pursue its work on the issues of the Review as a matter of high priority, so that the remaining issues on the size and distribution of the quota increase could be resolved by the time of the Committee's next meeting in April 1983.

5. The Committee discussed various SDR matters, in particular the question of allocations of SDRs in the fourth basic period, which began on January 1, 1982. The Managing Director reported that he had not been able to make a proposal for such allocations because the broad support required by the Articles was lacking. The Committee asked the Executive Board to continue its efforts to bring about a convergence of views that would permit the Managing Director to submit, as soon as possible, a proposal concerning SDR allocations in the current basic period, in accordance with the provisions of the Fund's Articles.

The Committee noted the wide-ranging examination undertaken by the Executive Board of various aspects of the use and role of the SDR and SDR-denominated assets in the international monetary system, and endorsed the active pursuit by the Executive Board of this examination.

6. The Committee expressed deep appreciation to the Government of Canada, to the authorities of Ontario, and to the city and the people of Toronto for their warm hospitality and for the excellent arrangements provided for the meeting.

7. The Committee agreed to hold its next meeting in Washington, D.C., on April 27–28, 1983.

Annex: Interim Committee Attendance, September 4, 1982

Chairman

Allan J. MacEachen, Deputy Prime Minister and Minister of Finance of Canada

Managing Director

J. de Larosière

Members or Alternates

Mohammad Abal-Khail, Minister of Finance and National Economy of Saudi Arabia
Hassan Al-Najafi, Governor of the Central Bank of Iraq

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Beniamino Andreatta, Minister of the Treasury of Italy
Mahfoud Aoufi, Governor of the Banque Centrale d'Algérie
Willy De Clercq, Vice Prime Minister, Minister of Finance, and Minister of Foreign Trade of Belgium
Jacques Delors, Minister of Economy and Finance of France
Ernane Galvêas, Minister of Finance of Brazil
José Ramón Alvarez Rendueles, Governor of the Banco de España (Alternate for Juan Antonio García Diez, Minister of Economy and Commerce of Spain)
John Howard, Treasurer of the Commonwealth of Australia
Sir Geoffrey Howe, Chancellor of the Exchequer of the United Kingdom
Ahti Karjalainen, Governor of the Bank of Finland
Manfred Lahnstein, Federal Minister of Finance of Germany
Ray MacSharry, Deputy Prime Minister and Minister for Finance of Ireland
Arthur K. Magugu, Minister for Finance of Kenya
Pranab Kumar Mukherjee, Minister of Finance of India
Tengku RAZALEIGH Hamzah, Minister of Finance of Malaysia
Donald T. Regan, Secretary of the Treasury of the United States
SAMBWA Pida Nbagui, Governor of the Banque du Zaïre
SHANG Ming, Advisor at Vice President level of the People's Bank of China
A.P.J.M.M. van der Stee, Minister of Finance of the Netherlands
Michio Watanabe, Minister of Finance of Japan
Jorge Wehbe, Minister of Economy of Argentina

Observers

A.W. Clausen, President, IBRD
Abderrezzak Ferroukhi, Head, Economics and Finance Department, OPEC
William B. Kelly, Deputy Director-General, GATT
Alexandre Lamfalussy, Assistant General Manager, BIS
Roger Lawrence, Director, Money, Finance and Development Division, UNCTAD
Emile van Lennep, Secretary-General, OECD
F. Leutwiler, Chairman of the Governing Board, Swiss National Bank
François-Xavier Ortoli, Vice-President, CEC
Jean Ripert, Director-General for Development and International Economic Cooperation, UN
Manuel Ulloa Elías, Chairman, Development Committee

Twentieth Meeting, Washington, February 10–11, 1983

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its twentieth meeting in Washington, D.C., on February 10 and 11, 1983, under the chairmanship of Sir Geoffrey Howe, Chancellor of the Exchequer of the United Kingdom. Mr. Jacques de Larosière, Managing Director of the International Monetary Fund, participated in the meeting. The meeting was also attended by observers from a number of international and regional organizations and from Switzerland.

2. The Committee discussed the world economic outlook and the policies needed to cope with the difficult problems faced by most members of the Fund.

The Committee noted that estimated rates of both growth of output and inflation had been revised downward since its previous meeting in September 1982. Anxiety was expressed at the high level of unemployment and the weakness of investment and world trade, against the background of only limited indications of economic recovery. At the same time, the Committee welcomed the further progress made by some of the larger industrial countries in their fight against inflation, as well as the reduction in interest rates that had been facilitated by this progress—developments that were providing the basis for a sustainable recovery in economic activity.

Believing that successful handling of the inflation problem is a necessary—albeit not sufficient—condition for sustained growth over the medium term, the Committee urged national authorities, in their efforts to promote sustained recovery,

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to avoid measures that might generate harmful expectations with regard to inflation. The importance of reducing fiscal deficits in a number of countries was also emphasized. Otherwise, the Committee noted, high real interest rates detrimental to the process of recovery could be generated by market expectations regarding government borrowing requirements.

It was the Committee's view that, in several major industrial countries where inflation remained relatively high, present circumstances called for continued restraint in monetary and fiscal policies, along with effective implementation of the incomes policies now in place. It was felt, however, that conditions for economic recovery had improved in those large industrial countries that have been able to achieve the greatest measure of success in reducing and controlling inflation. This success—and the reduction in interest rates that it has permitted—provided the basis, within the pursuit of counterinflationary monetary and fiscal policies, for greater real growth of activity. The transition to a more stable path of real growth would be further facilitated by determined efforts to reduce market rigidities and structural imbalances.

The Committee deplored the upsurge of protectionist pressures in the past year or two. It stressed the paramount importance of resisting these pressures and, indeed, rolling them back.

The unsatisfactory situation facing non-oil developing countries was a source of particular concern to the Committee, which noted that growth rates in these countries, after averaging about 6 per cent in the 1960s and early 1970s, had averaged only 2½ per cent during the past two years and were not expected to show much improvement in 1983. The Committee also observed that the modest recent increases in output, which were barely sufficient to keep pace with rapid population growth, had been achieved against a background of deteriorating terms of trade, sluggish markets for exports, high interest rates in international financial markets, and strains in the financing of current account deficits. These conditions had necessitated a sharp compression of imports by the non-oil developing countries—which, in turn, had been achieved at the cost of lower investment and growth.

Noting the extent of the external adjustment already achieved by many non-oil developing countries and the uncertainties that most such countries face in financing their current account deficits, the Committee attached great importance to the continuing provision of both official development assistance and private banking flows on an adequate scale, and it welcomed the special role recently played by the Fund in this connection.

More generally, the Committee stressed the enhanced importance, in current circumstances, of the Fund's role in providing its balance of payments assistance to member countries that engage in adjustment programs and in exercising firm surveillance over policies, and also the need to equip the Fund with adequate resources to perform this role.

3. The Committee, noting the progress made by the Executive Board on the various issues of the Eighth General Review of Quotas, focused its attention on the remaining issues, and took satisfaction in being able to reach the following agreement on the subject of quotas:

(a) The total of Fund quotas should be increased under the Eighth General Review from approximately SDR 61.03 billion to SDR 90 billion (equivalent to about US$98.5 billion).

(b) Forty per cent of the overall increase should be distributed to all members in proportion to their present individual quotas, and the balance of 60 per cent should be distributed in the form of selective adjustments in proportion to each

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member's share in the total of the calculated quotas, i.e., the quotas that broadly reflect members' relative positions in the world economy.

(c) Twenty-five per cent of the increase in each member's quota should be paid in SDRs or in usable currencies of other members.

The Committee considered the possibility of a special adjustment of very small quotas, i.e., those quotas that are currently less than SDR 10 million. It was agreed to refer this matter to the Executive Board for urgent consideration in connection with the implementation of the main decision.

4. The question of the limits on access to the Fund's resources was raised in the Committee. It was noted that the Executive Board will review this matter before June 30, 1983. The Committee invited the Executive Board to take note of the views expressed in the Committee by those favoring maintenance of the present enlarged limits in terms of multiples of quotas and also by those stressing the need to have regard to developments in the Fund's liquidity. It also invited the Managing Director to report on this matter at the next meeting of the Committee.

5. The Committee noted the recent decision of the finance ministers and central bank governors of the participants in the General Arrangements to Borrow (GAB) to support an increase in the total amount of the commitments under these Arrangements to SDR 17 billion (equivalent to about US$19 billion) and to make the resources of these Arrangements available to the Fund to finance also purchases by nonparticipants when the Fund faces an inadequacy of resources arising from an exceptional situation involving a threat to the stability of the international monetary system. In this connection, the Committee welcomed the intention of Switzerland to become a full participant in the Arrangements, through the Swiss National Bank, with a credit commitment of SDR 1,020 million.

The Committee also welcomed the willingness of Saudi Arabia to provide resources to the Fund, in association with the GAB, and for the same purposes as those of the GAB. They noted with satisfaction the progress that is being made in setting out the detailed features of this association.

6. The members of the Committee requested the Executive Board to adopt, before the end of February 1983, the necessary decisions and other actions to implement the consensus reached in the Committee. They also agreed to urge the governments of their constituencies to act promptly so that the proposals for the increase in the Fund's resources could be made effective by the end of 1983.

7. The Committee considered again the question of allocations of SDRs in the current, i.e., the fourth, basic period, which began on January 1, 1982. Noting the developments since its Toronto meeting, the Committee agreed that the matter should be re-examined as soon as possible. It, therefore, requested the Executive Board to review the latest trends in growth, inflation, and international liquidity, with a view to enabling the Managing Director to determine, not later than the next meeting of the Interim Committee, whether a proposal for a new SDR allocation could be made that would command broad support among members of the Fund.

8. The Committee agreed to hold its next meeting in Washington, D.C., on September 25, 1983.

Annex: Interim Committee Attendance, February 10–11, 1983

Chairman

Sir Geoffrey Howe, Chancellor of the Exchequer of the United Kingdom

Managing Director

J. de Larosière

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Members or Alternates

Mohammad Abal-Khail, Minister of Finance and National Economy of Saudi Arabia
Mohamed Finaish, Executive Director of the Fund (Alternate for Hassan Al-Najafi, Governor of the Central Bank of Iraq)
Rachid Bouraoui, Governor of the Banque Centrale d'Algérie
B.T. Chidzero, Minister of Finance of Zimbabwe
Willy De Clercq, Vice Prime Minister, Minister of Finance, and Minister of Foreign Trade of Belgium
Jacques Delors, Minister of Economy and Finance of France
Ernane Galvêas, Minister of Finance of Brazil
Giovanni Goria, Minister of the Treasury of Italy
Cesar E.A. Virata, Prime Minister and Minister of Finance of the Philippines (Alternate for John W. Howard, Treasurer, Australia)
Marc Lalonde, Minister of Finance of Canada
J.G. Littler, Second Permanent Secretary of H. M. Treasury of the United Kingdom
SHANG Ming, Adviser at Vice President level of the People's Bank of China (Alternate for LU Peijian, President of the People's Bank of China)
Manmohan Singh, Governor of the Reserve Bank of India (Alternate for Pranab Kumar Mukherjee, Minister of Finance of India)
Jóhannes Nordal, Governor of the Central Bank of Iceland
Nukul Prachuabmoh, Governor of the Bank of Thailand
Donald T. Regan, Secretary of the Treasury of the United States
H.O.C.R. Ruding, Minister of Finance of the Netherlands
SAMBWA Pida Nbagui, Governor of the Banque du Zaïre
Jesús Silva-Herzog, Secretary of Finance and Public Credit of Mexico
Gerhard Stoltenberg, Federal Minister of Finance of Germany
Haruo Mayekawa, Governor of the Bank of Japan (Alternate for Noboru Takeshita, Minister of Finance of Japan)
Jorge Wehbe, Minister of Economy of Argentina

Observers

A.W. Clausen, President, IBRD
Arthur Dunkel, Director-General, GATT
A. Ferroukhi, Head, Economics and Finance Department, OPEC
Ghulam Ishaq Khan, Chairman, Development Committee
Roger Lawrence, Director, Money, Finance, and Development Division, UNCTAD
Emile van Lennep, Secretary-General, OECD
F. Leutwiler, Chairman of the Governing Board, Swiss National Bank
François-Xavier Ortoli, Vice-President, CEC
Jean Ripert, Director General for Development and International Economic Cooperation, UN
Günther Schleiminger, General Manager, BIS

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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 COMMUNIQUÉ

Nineteenth Meeting, Toronto, September 5, 1982

1. The Development Committee held its nineteenth meeting in Toronto, Canada, on September 5, 1982, under the chairmanship of H.E. Manuel Ulloa Elías, Prime Minister and Minister of Economy, Finance and Commerce of Peru. Mr. J. de Larosière, Managing Director of the International Monetary Fund, Mr. A.W. Clausen, President of the World Bank, and Mr. Hans E. Kastoft, Executive Secretary, participated in the meeting. Representatives from a number of international and regional organizations and Switzerland also attended the meeting.

2. The Committee was provided with a review of the world development situation and prospects by the *World Development Report, 1982,* which constituted an important background document for its deliberations.

3. The Committee expressed its deep concern that the state of the world economy remained critical and that the development prospects for the international community had worsened over the past year. In the present unfavorable economic outlook, the developing countries are facing the serious challenge of reduced aid, continued weakness in commodity prices, deteriorating terms of trade, increasing protectionist tendencies, and concern over prospects for commercial borrowings in the context of the high interest rates and uncertainties in international financial markets. At the same time, the Committee took note of the recent welcome trend toward lower interest rates. The growth rates of non-oil developing countries in 1981 and 1982 are the lowest in several decades and will be only about half the average growth rate of the 1970s, signifying an exceptional situation of decline in real per capita income for many developing countries. This disturbing situation calls for intensified adjustment efforts on the part of both developed and developing countries in order to restore the health and vigor of the world economy. For the industrial countries, priorities would be the restoration of their own economic health and sustained growth, maintenance of a liberal environment for trade and capital flows, and continuing and hopefully increasing the flow of aid to the poorest developing countries. For the developing countries the priorities would include increasing levels of domestic savings and investments, greater efficiency in the use of capital, strengthening of general economic management, greater emphasis on agriculture, and special attention to the poverty alleviation programs.

4. It was against this background that the Committee addressed itself primarily to the issue of transfer of real resources to the developing countries.

5. The Committee noted IDA's solid achievements since its establishment in 1960. IDA has become a very important and effective multilateral instrument for promoting development in low-income countries as is evident from the Bank/IDA staff study, *IDA in Retrospect.* The Committee noted that while substantial progress has been made, the poorest countries remain in desperate need of further assistance and IDA continues to merit full support of both traditional and new donors.

6. The Committee noted with satisfaction that in an effort to address the resource crisis presently faced by IDA, donors had acted to avoid the possibility of a precipitate decline in the annual volume of IDA's lending activity in fiscal

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years 1983 and 1984. It welcomed the response of most donor countries to the call for release of the remainder of their IDA-6 contributions in full in 1983. In this regard, the Committee noted with satisfaction that since its last meeting in Helsinki in May this year, the seven major donors at their summit meeting in Versailles stressed the need for special temporary arrangements to overcome funding problems of IDA-6 and an early start to IDA-7. It welcomed the recent hopeful developments which indicated that 22 donor countries had agreed to release the remainder of their IDA-6 contributions in full. It urged the few remaining donors who had not yet done so to join others in taking similar action. In addition to meeting their IDA-6 obligations on the original three-year schedule without insisting on pro rata contributions by all donors, most of them are prepared in principle to provide additional resources, amounting to up to one third of their original IDA-6 contribution, for fiscal year 1984, either through a Parallel Fund or through an Account of IDA to be established for fiscal year 1984. The Committee noted the importance these donors placed on providing IDA with additional commitment authority in fiscal year 1984. In view of the special action taken by other donors to maintain IDA's annual resource flows at levels not lower than what is required by the IDA program, it was hoped that the U.S. Congress would act to appropriate the third U.S. installment at the level requested by the Administration and ensure that its contribution under IDA-6 could be completed within four years.

7. The Committee welcomed the donors' agreement to commence formal discussions on IDA-7 before the end of calendar year 1982 and encouraged donor governments if possible to complete negotiations by the Bank/Fund Annual Meetings in 1983 so that legislative approvals can be obtained in time for IDA-7 to become effective promptly. While recognizing the budgetary constraints of the industrialized countries, the Committee strongly hoped that it would be possible to agree on a level of replenishment appropriate to the difficult situation facing the poorest countries and their expanding needs for concessional assistance.

8. In the area of nonconcessional flows to the developing countries, the Committee noted with satisfaction that cofinancing operations of the Bank from various sources have expanded considerably in recent years. In 1982 its cofinancing operations amounted to $7.4 billion, of which $3.2 billion was from private sources compared to an annual average of about $200 million from private sources in the second half of the 1970s.

9. The World Bank is now exploring the possibilities of introducing new mechanisms to make cofinancing a more effective vehicle to attract additional capital flows in the present difficult situation in the capital markets and to attract such capital on longer maturities. The Committee endorsed the efforts of the World Bank and the regional banks where appropriate to secure additional flows of resources to developing countries through cofinancing from all sources on terms suitable for and acceptable to borrowing countries. These efforts should in no way alter the development character of the banks. The Committee emphasized that cofinancing with private institutions should be regarded as a supplement to, and not as a substitute for, increased lending by the Bank and that instrumentalities for increased cofinancing with private sources should be subject to continuing review. The Committee also urged the World Bank to continue its examination of various proposals and to report their decision to the Development Committee at its next meeting.

10. The Committee noted that the Executive Directors of the Bank have adopted changes in the Bank's borrowing practices and its lending rate policy. A lending program of $11.2 billion for fiscal year 1983 has been agreed to by the Board. The Bank, while continuing to give priority to its traditional medium- and long-term

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borrowings, has now been authorized to make a cautious and carefully monitored start with borrowing up to $1.5 billion in short-term instruments in fiscal year 1983 and to adopt a variable pool-based lending rate. This action would permit the Bank to exercise more flexibility in tapping a much larger pool of funds and would thus remove a constraint to the planned expansion of its lending program. The Committee endorsed the decision of the Executive Board that the new practice would be subject to a major review before the end of the current fiscal year. The Committee invited the Executive Board of IBRD and those of other multilateral development banks to continue their study of the scope for expansion, in real terms, of future lending to developing countries in the near term and thereafter.

11. The important subject of lending for energy development was discussed by the Committee at its Helsinki meeting. In the short time available, it has not been possible to identify new approaches or financing mechanisms which attract broad support from those members expected to contribute the bulk of the capital. The Committee reiterated the importance of energy investment in developing countries, noted the limited resources for energy lending within the Bank, and urged the Executive Directors to complete their consideration of matters referred to them at Helsinki and to report on them to the next meeting of the Committee.

12. In continuation of reports presented to the Committee at its earlier meetings, the Committee considered two separate reports prepared by the Bank and the Fund staffs reviewing actions taken by the two institutions in pursuing those measures to enhance the flow of resources to developing countries raised by the Group of Twenty-Four's Program of Immediate Action and the Brandt Commission Report which are within the area of their competence. The Committee noted that both the Bank and the Fund had already implemented some of the recommendations applicable to them and are continuing their consideration of other issues relevant to the Committee's work.

13. The Committee noted the problems of small island and landlocked states, and recognized the urgent need to review mechanisms and adjustment prescriptions appropriate to the particular circumstances of such states.

14. The Committee also considered and approved the Annual Report on the work undertaken by it during the period July 1981 to June 1982 and authorized its submission to the Boards of Governors.

15. The Committee expressed its great appreciation to the Government of Canada for its warm hospitality and for the excellent arrangements provided for the meeting.

16. The Committee agreed to hold its next meeting in Washington, D.C. on April 29, 1983.

Press Announcement

Twentieth Meeting, Toronto, September 8, 1982

At its twentieth meeting in Toronto, Canada, on September 8, 1982, the Development Committee selected His Excellency Ghulam Ishaq Khan, Minister of Finance, Commerce, Planning and Coordination of Pakistan as Chairman.

Press Communiqué

Twenty-First Meeting, Washington, April 28–29, 1983

1. The Development Committee held its twenty-first meeting in Washington, D.C., on April 28–29, 1983, under the chairmanship of H.E. Ghulam Ishaq

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Khan, Minister for Finance, Commerce, and Economic Coordination of Pakistan. Mr. A.W. Clausen, President of the World Bank, Mr. J. de Larosière, Managing Director of the International Monetary Fund, and Mr. Hans E. Kastoft, Executive Secretary, participated in the meeting. Representatives from a number of international and regional organizations and Switzerland also attended the meeting.

2. The Committee was provided with a brief updated version of the world economic outlook circulated at the February meeting of the Interim Committee; this updated version constituted a general background document for its deliberations.

3. The Committee noted with deep concern that the world economic situation had remained very difficult since it had last met in September in Toronto, Canada. The protracted world recession now in its fourth consecutive year has exacted its toll from both rich and poor countries, but its impact has been particularly harsh on non-oil developing countries whose short- and medium-term prospects remain uncertain. World trade declined dramatically in 1982; in this decline the developing countries accounted for a disproportionate share; in 1982 non-oil commodity prices reached their lowest levels in 30 years; and export earnings of developing countries are not yet showing much sign of growth. The situation is further aggravated by declining ODA (official development assistance) in real terms, a slowdown in private capital flows, and the mounting burden of debt. The level of unemployment is unacceptably high and, apart from its social and political impacts, tends to strengthen trends and pressures in favor of protectionist policies and practices. The growth rates have declined in both industrial and non-oil developing countries and in the latter group are now the lowest on record in several decades, with declining real per capita income in many of them.

4. The economic problems of the developing countries were noted in the economic declaration of the nonaligned summit held in New Delhi and the fifth ministerial meeting of the Group of 77 held in Buenos Aires, and will receive further attention at the OECD (Organization for Economic Cooperation and Development) meeting in Paris, at the forthcoming Williamsburg summit, and at the sixth session of the United Nations Conference on Trade and Development.

5. There have, however, in the recent past been some welcome trends: inflation rates have come down, particularly in some of the larger industrial economies; interest rates have been on the decline, although they remain high in real terms; also, oil prices have fallen; at the same time, some commodity prices have started to rise. All these factors play an important role in the economies of all countries. Furthermore, the beginning of economic recovery in some of the industrial countries will, if sustained and strengthened, be of great significance. The Committee emphasized the need for industrial countries to pursue policies to promote sustainable and noninflationary growth.

6. It was against this background that the Committee deliberated at some length on a few selected topics and measures which, if adopted, will help contribute to a resolution of the difficulties which economies of the industrial and developing countries face at present.

7. In this context, the Committee, taking into account changes in the global demand and supply for external capital, first addressed itself to the need for reviewing the lending programs of multilateral development institutions (MDIs) in the period ahead and examining the consequent implications for their capital requirements. This review was in pursuance of the Committee's earlier exhortations at the two previous meetings urging the World Bank and other MDIs to continue their study of the scope for expansion in real terms of their lending to developing countries. Taking into account the great importance of maintaining and increasing external financial flows to the developing countries, the Committee noted with satisfaction the recent approval by the Bank's Board of Executive Directors of a

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special assistance program designed to be responsive to the current financial requirements of these countries. The Committee invited the Bank to put forward proposals which would, with due regard to financial prudence, allow an expansion of the Bank's lending program. The Committee noted the Bank management's intention to propose an expansion by 5 per cent per annum in real terms beginning in 1985. In accordance with past policy and practice of the Bank, the Committee also urged the management of the Bank to present a specific proposal to the Board of Executive Directors for a selective capital increase following and in line with the Eighth General Review of Quotas in the Fund by the time of the next Committee meeting.

8. On the basis of material provided by the regional banks and IFAD (International Fund for Agricultural Development), the Committee took note of their resource needs and urged member governments to take steps to meet the pledges already made. The Committee felt that member governments should seek means of financing the requirements of both ordinary capital and the replenishment of concessional funds for these institutions in order to enable them to continue to play their important role in the development efforts of their member countries.

9. Recognizing that the poorest countries had been most affected by the global recession, the Committee reiterated its concerns about the crucial importance of IDA (International Development Association) in financing the development programs of low-income developing countries. Delays in the availability of IDA-6 commitment authority, its subsequent stretching out to four years, and the resultant reduction in intended annual IDA commitments, particularly during the present prolonged global recession, have already had a serious impact on the low-income developing countries, especially in the poorest nations in sub-Saharan Africa and other regions; coupled with reductions in overall ODA flows in real terms, this requires the maintenance of concessional assistance at reasonable levels in the face of expanded needs. The Committee therefore urged the United States to provide its full third payment of $945 million in fiscal year 1983 and to complete its IDA-6 contribution in fiscal year 1984, recognizing that failure to do so would have serious consequences for safeguarding future levels of concessional assistance.

10. In a related view, the Committee noted that the extremely serious economic predicament of the poorest developing countries required a major effort on the part of donor governments to ensure that the Seventh Replenishment of the Association's resources (IDA-7) takes account of the need to accommodate an expanded recipient community and the desirability of reversing negative growth rates in IDA's most distressed borrowing countries. The Committee urged, therefore, that IDA-7 negotiations be completed as early as possible to ensure that the Seventh Replenishment became effective no later than July 1, 1984, and thus avoid another funding gap from arising.

11. The Committee reviewed the growth of developing country debt and expressed its concern about the severity of the debt-servicing problem faced by many of them. While noting the substantial contribution of commercial banks in meeting the severe debt problems faced by some medium-income developing countries over the past several months, the Committee stressed the importance of avoiding an abrupt reduction in the level of international bank lending to developing countries. It welcomed the efforts of the Fund and institutions in the main creditor countries to ensure that a reduction in availability of private bank credit does not impede a smooth and orderly adjustment of the domestic economies of the debtor countries. While noting with satisfaction the prompt response by bilateral and multilateral sources to recent critical situations, the Committee emphasized the necessity of maintaining and increasing financial flows to developing countries from official sources. It also noted the importance for borrowing countries of monitoring their external indebtedness carefully and maintaining sound economic and debt manage-

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ment policies and also welcomed the joint efforts of the Bank and the Fund to increase their assistance provided to member countries in the areas of external debt statistics and debt management. The Committee encouraged the Bank and the Fund to keep the important matter of the net capital flows to developing countries under review.

12. A subject of increasing importance which attracted the Committee's attention related to the linkages between trade and development. The Committee recognized the interdependence of the world economies and found that global economic recovery was critically important for increasing the foreign exchange earnings of developing countries. The expansion of world trade has made and can continue to make an important contribution to the economic growth and development of both industrial and developing countries. In this connection, the Committee welcomed the intensified efforts of the Bank and the Fund to encourage an expanding and open world trading system while remaining sensitive to the special needs of the developing countries. The Committee urged both institutions to collaborate with the GATT (General Agreement on Tariffs and Trade) in keeping under careful review, in the areas of their competence, the progress made, including inter alia the dismantling of barriers. It also called upon governments to resist protectionist pressures and to step up their efforts, both at the national level and in the relevant international fora, to liberalize trade, urging in particular that governments of industrial countries refrain from introducing restrictions or negotiating agreements which would limit their imports from developing countries. The Committee urged the Bank and the Fund, in continued collaboration with other agencies, to pursue their examination further in the areas of their competence on the linkages between capital flows, trade, and development, and to keep the Committee informed of the results of these examinations.

13. The Committee noted that since its Toronto meeting the Bank has introduced a set of new cofinancing instruments designed to increase the participation of commercial banks in World Bank projects. The new pattern of participation is intended to provide developing country borrowers with new benefits like longer maturities and increased financial flows. The Committee also noted with satisfaction cofinancing arrangements entered into by the Bank with official lenders. This will be of special significance to low-income borrowing members of the Bank.

14. The Committee briefly discussed the subject of lending for energy development. A full consideration of the subject was, however, deferred until receipt of a comprehensive study under preparation by the Bank which will take into account the recent developments and future prospects in this area. A report on this subject will be submitted to the next meeting of the Committee.

15. The Committee agreed to hold its next meeting in Washington, D.C., on September 26, 1983, at the time of the Annual Meetings of the Bank and the Fund.

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Appendix IV
Executive Directors and Voting Power on April 30, 1983

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Per Cent of Fund Total[2]
APPOINTED				
Richard D. Erb *Charles H. Dallara*	United States	126,325	126,325	19.52
John Anson *Christopher T. Taylor*	United Kingdom	44,125	44,125	6.82
Gerhard Laske *Guenter Grosche*	Germany, Fed. Rep. of	32,590	32,590	5.04
Bruno de Maulde *Anne Le Lorier*	France	29,035	29,035	4.49
Teruo Hirao *Tadaie Yamashita*	Japan	25,135	25,135	3.88
Yusuf A. Nimatallah *Jobarah E. Suraisry*	Saudi Arabia	21,250	21,250	3.28
ELECTED				
Miguel A. Senior (Venezuela) *José L. Feito (Spain)*	Costa Rica	865		
	El Salvador	895		
	Guatemala	1,015		
	Honduras	760		
	Mexico	8,275		
	Nicaragua	760		
	Spain	8,605		
	Venezuela	10,150	31,325	4.84
Robert K. Joyce (Canada) *Michael Casey (Ireland)*	Antigua and Barbuda	286		
	Bahamas	745		
	Barbados	505		
	Belize	322		
	Canada	20,605		
	Dominica	279		
	Grenada	295		
	Ireland	2,575		
	Jamaica	1,360		
	St. Lucia	304		
	St. Vincent	276	27,552	4.26
J.J. Polak (Netherlands) *Tom de Vries (Netherlands)*	Cyprus	760		
	Israel	3,325		
	Netherlands	14,470		
	Romania	3,925		
	Yugoslavia	4,405	26,885	4.15

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Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Per Cent of Fund Total[2]
ELECTED (continued)				
Jacques de Groote (Belgium)	Austria	5,200		
Heinrich G. Schneider (Austria)	Belgium	13,600		
	Hungary	4,000		
	Luxembourg	715		
	Turkey	3,250	26,765	4.14
Giovanni Lovato (Italy)	Greece	3,025		
Costa P. Caranicas (Greece)	Italy	18,850		
	Malta	550		
	Portugal	2,830	25,255	3.90
A.R.G. Prowse (Australia)	Australia	12,100		
Kerry G. Morrell (New Zealand)	Korea	2,809		
	New Zealand	3,730		
	Papua New Guinea	700		
	Philippines	3,400		
	Seychelles	270		
	Solomon Islands	282		
	Vanuatu	319		
	Western Samoa	295	23,905	3.69
Mohamed Finaish (Libya)	Bahrain	550		
Tariq Alhaimus (Iraq)	Iraq	2,591		
	Jordan	700		
	Kuwait	4,183		
	Lebanon	529		
	Libya	3,234		
	Maldives	264		
	Oman	550		
	Pakistan	4,525		
	Qatar	912		
	Somalia	595		
	Syrian Arab Republic	1,195		
	United Arab Emirates	2,276		
	Yemen Arab Republic	445		
	Yemen, People's Democratic Republic of	865	23,414	3.62
R.N. Malhotra (India)	Bangladesh	2,530		
A.S. Jayawardena (Sri Lanka)	Bhutan	267		
	India	17,425		
	Sri Lanka	2,035	22,257	3.44
John Tvedt (Norway)	Denmark	4,900		
Arne Lindå (Sweden)	Finland	4,180		
	Iceland	685		
	Norway	4,675		
	Sweden	7,000	21,440	3.31
N'Faly Sangare (Guinea)	Botswana	385		
E.I.M. Mtei (Tanzania)	Burundi	595		
	Ethiopia	790		
	Gambia, The	385		
	Guinea	700		
	Kenya	1,285		
	Lesotho	355		
	Liberia	805		
	Malawi	535		
	Nigeria	5,650		
	Sierra Leone	715		
	Sudan	1,570		
	Swaziland	430		
	Tanzania	1,075		
	Uganda	1,000		
	Zambia	2,365		
	Zimbabwe	1,750	20,390	3.15

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Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Per Cent of Fund Total[2]
ELECTED (concluded)				
A. Hasnan Habib (Indonesia)	Burma	1,345		
Jaafar Ahmad (Malaysia)	Fiji	520		
	Indonesia	7,450		
	Lao People's Dem. Rep.	490		
	Malaysia	4,045		
	Nepal	535		
	Singapore	1,174		
	Thailand	2,965		
	Viet Nam	1,600	20,124	3.11
Alexandre Kafka (Brazil)	Brazil	10,225		
César Robalino (Ecuador)	Colombia	3,145		
	Dominican Republic	1,075		
	Ecuador	1,300		
	Guyana	625		
	Haiti	595		
	Panama	925		
	Suriname	625		
	Trinidad and Tobago	1,480	19,995	3.09
ZHANG Zicun (CHANG Tse Chun) (China) *WANG Enshao (China)*	China	18,250	18,250	2.82
Ghassem Salehkhou (Islamic Republic of Iran)	Afghanistan	925		
Omar Kabbaj (Morocco)	Algeria	4,525		
	Ghana	1,840		
	Iran, Islamic Republic of	6,850		
	Morocco	2,500		
	Tunisia	1,195	17,835	2.76
Alvaro Donoso (Chile)	Argentina	8,275		
Mario Teijeiro (Argentina)	Bolivia	925		
	Chile	3,505		
	Paraguay	595		
	Peru	2,710		
	Uruguay	1,510	17,520	2.71
Abderrahmane Alfidja (Niger)	Benin	490		
wa Bilenga Tshishimbi (Zaïre)	Cameroon	925		
	Cape Verde	280		
	Central African Republic	490		
	Chad	490		
	Comoros	285		
	Congo	505		
	Djibouti	307		
	Equatorial Guinea	400		
	Gabon	700		
	Guinea-Bissau	309		
	Ivory Coast	1,390		
	Madagascar	760		
	Mali	655		
	Mauritania	505		
	Mauritius	655		
	Niger	490		
	Rwanda	595		
	São Tomé and Principe	280		
	Senegal	880		
	Togo	535		
	Upper Volta	490		
	Zaïre	2,530	14,946	2.31
			636,318[3]	98.33[2]

[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 in the General Department and the Special Drawing Rights Department (647,098). The sum of the individual percentages may differ from the percentages of the totals because of rounding.

[3] This total does not include the votes of Egypt, Democratic Kampuchea, and South Africa, which did not participate in the 1982 Regular Election of Executive Directors. The combined votes of those members total 10,780—1.67 per cent of those in the General Department and Special Drawing Rights Department.

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Appendix V
Changes in Membership of Executive Board

Changes in membership of the Executive Board between May 1, 1982 and April 30, 1983 were as follows:

Samir El-Khouri (Lebanon) resigned as Alternate Executive Director to Yusuf A. Nimatallah (Saudi Arabia), effective June 2, 1982.

Jobarah E. Suraisry (Saudi Arabia) was appointed Alternate Executive Director to Yusuf A. Nimatallah (Saudi Arabia), effective June 3, 1982.

Charles H. Dallara (United States) was appointed Alternate Executive Director to Richard D. Erb (United States), effective August 2, 1982.

Guenter Winkelmann (Germany, Federal Republic of) resigned as Alternate Executive Director to Gerhard Laske (Germany, Federal Republic of), effective August 31, 1982.

Guenter Grosche (Germany, Federal Republic of) was appointed Alternate Executive Director to Gerhard Laske (Germany, Federal Republic of), effective September 1, 1982.

Raúl Salazar (Peru) resigned as Alternate Executive Director to Juan Carlos Iarezza (Argentina), effective September 14, 1982.

M. Narasimham (India) resigned as Executive Director for Bangladesh, India, and Sri Lanka, effective September 30, 1982.

Byanti Kharmawan (Indonesia), Executive Director for Burma, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Nepal, Singapore, Thailand, and Viet Nam, died on October 5, 1982.

Morteza Abdollahi (Islamic Republic of Iran) completed his term of service as Executive Director for Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Morocco, Oman, and Tunisia, effective October 31, 1982.

Ariel Buira (Mexico) completed his term of service as Executive Director for Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, and Venezuela, effective October 31, 1982.

Juan Carlos Iarezza (Argentina) completed his term of service as Executive Director for Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay, effective October 31, 1982.

Semyano Kiingi (Uganda) completed his term of service as Executive Director for Botswana, Burundi, Ethiopia, The Gambia, Guinea, Kenya, Lesotho, Liberia, Malawi, Nigeria, Sierra Leone, Sudan, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe, effective October 31, 1982.

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Benito Legarda (Philippines) completed his term of service as Alternate Executive Director to A.R.G. Prowse (Australia), effective October 31, 1982.

Samuel Nana-Sinkam (Cameroon) completed his term of service as Executive Director for Benin, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Djibouti, Equatorial Guinea, Gabon, Guinea-Bissau, Ivory Coast, Madagascar, Mali, Mauritania, Mauritius, Niger, São Tomé and Principe, Senegal, Togo, Upper Volta, and Zaïre, effective October 31, 1982.

Vijit Supinit (Thailand) completed his term of service as Alternate Executive Director to Byanti Kharmawan (Indonesia), effective October 31, 1982.

Abderrahmane Alfidja (Niger), formerly Alternate Executive Director to Samuel Nana-Sinkam (Cameroon), was elected Executive Director by Benin, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Djibouti, Equatorial Guinea, Gabon, Guinea-Bissau, Ivory Coast, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé and Principe, Senegal, Togo, Upper Volta, and Zaïre, effective November 1, 1982.

Jacques de Groote (Belgium), formerly Executive Director for Austria, Belgium, Luxembourg, and Turkey, was elected Executive Director by Austria, Belgium, Hungary, Luxembourg, and Turkey, effective November 1, 1982.

Heinrich G. Schneider (Austria) was reappointed Alternate Executive Director to Jacques de Groote (Belgium), effective November 1, 1982.

Alvaro Donoso (Chile) was elected Executive Director by Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay, effective November 1, 1982.

Mario Teijeiro (Argentina) was appointed Alternate Executive Director to Alvaro Donoso (Chile), effective November 1, 1982.

Mohamed Finaish (Libya), formerly Executive Director for Bahrain, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Pakistan, Qatar, Somalia, Syrian Arab Republic, United Arab Emirates, Yemen Arab Republic, and the People's Democratic Republic of Yemen, was elected Executive Director by Bahrain, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Pakistan, Qatar, Somalia, Syrian Arab Republic, United Arab Emirates, Yemen Arab Republic, and the People's Democratic Republic of Yemen, effective November 1, 1982.

Tariq Alhaimus (Iraq) was reappointed Alternate Executive Director to Mohamed Finaish (Libya), effective November 1, 1982.

Robert K. Joyce (Canada), formerly Executive Director for Bahamas, Barbados, Canada, Dominica, Grenada, Ireland, Jamaica, St. Lucia, and St. Vincent and the Grenadines, was elected Executive Director by Antigua and Barbuda, Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Lucia, and St. Vincent and the Grenadines, effective November 1, 1982.

Michael Casey (Ireland) was reappointed Alternate Executive Director to Robert K. Joyce (Canada), effective November 1, 1982.

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, 1982.

José Gabriel-Peña (Dominican Republic) was reappointed Alternate Executive Director to Alexandre Kafka (Brazil), effective November 1, 1982.

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Byanti Kharmawan (Indonesia) was re-elected Executive Director by Burma, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Nepal, Singapore, Thailand, and Viet Nam, effective November 1, 1982.[1]

Vijit Supinit (Thailand) was reappointed Alternate Executive Director to Byanti Kharmawan (Indonesia), effective November 1, 1982.

Giovanni Lovato (Italy) was re-elected Executive Director by Greece, Italy, Malta, and Portugal, effective November 1, 1982.

Costa P. Caranicas (Greece) was reappointed Alternate Executive Director to Giovanni Lovato (Italy), effective November 1, 1982.

R.N. Malhotra (India) was elected Executive Director by Bangladesh, Bhutan, India, and Sri Lanka, effective November 1, 1982.

A.S. Jayawardena (Sri Lanka), formerly Alternate Executive Director to M. Narasimham (India), was appointed Alternate Executive Director to R.N. Malhotra (India), effective November 1, 1982.

J.J. Polak (Netherlands) was re-elected Executive Director by Cyprus, Israel, Netherlands, Romania, and Yugoslavia, effective November 1, 1982.

Tom de Vries (Netherlands) was reappointed Alternate Executive Director to J.J. Polak (Netherlands), effective November 1, 1982.

A.R.G. Prowse (Australia), formerly Executive Director for Australia, Korea, New Zealand, Papua New Guinea, Philippines, Seychelles, Solomon Islands, and Western Samoa, was elected Executive Director by Australia, Korea, New Zealand, Papua New Guinea, Philippines, Seychelles, Solomon Islands, Vanuatu, and Western Samoa, effective November 1, 1982.

Kerry G. Morrell (New Zealand) was appointed Alternate Executive Director to A.R.G. Prowse (Australia), effective November 1, 1982.

Ghassem Salehkhou (Islamic Republic of Iran) was elected Executive Director by Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Morocco, and Tunisia, effective November 1, 1982.

Omar Kabbaj (Morocco), formerly Alternate Executive Director to Morteza Abdollahi (Islamic Republic of Iran), was appointed Alternate Executive Director to Ghassem Salehkhou (Islamic Republic of Iran), effective November 1, 1982.

N'Faly Sangare (Guinea), formerly Alternate Executive Director to Semyano Kiingi (Uganda), was elected Executive Director by Botswana, Burundi, Ethiopia, The Gambia, Guinea, Kenya, Lesotho, Liberia, Malawi, Nigeria, Sierra Leone, Sudan, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe, effective November 1, 1982.

E.I.M. Mtei (Tanzania) was appointed Alternate Executive Director to N'Faly Sangare (Guinea), effective November 1, 1982.

Miguel A. Senior (Venezuela), formerly Alternate Executive Director to Ariel Buira (Mexico), was elected Executive Director by Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, and Venezuela, effective November 1, 1982.

José L. Feito (Spain) was appointed Alternate Executive Director to Miguel A. Senior (Venezuela), effective November 1, 1982.

[1] As noted above, Mr. Kharmawan died on October 5, 1982, before the beginning of his new term.

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Jón Sigurdsson (Iceland) was re-elected Executive Director by Denmark, Finland, Iceland, Norway, and Sweden, effective November 1, 1982.

Leiv Vidvei (Norway) was reappointed Alternate Executive Director to Jón Sigurdsson (Iceland), effective November 1, 1982.

ZHANG Zicun (China) was re-elected Executive Director by China, effective November 1, 1982.

TAI Qianding (China) was reappointed Alternate Executive Director to ZHANG Zicun (China), effective November 1, 1982.

A. Hasnan Habib (Indonesia) was elected Executive Director by Burma, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Nepal, Singapore, Thailand, and Viet Nam, effective November 4, 1982.

Vijit Supinit (Thailand), formerly Alternate Executive Director to Byanti Kharmawan (Indonesia), was appointed Alternate Executive Director to A. Hasnan Habib (Indonesia), effective November 4, 1982.

José Gabriel-Peña (Dominican Republic) resigned as Alternate Executive Director to Alexandre Kafka (Brazil), effective November 27, 1982.

César Robalino (Ecuador) was appointed Alternate Executive Director to Alexandre Kafka (Brazil), effective November 28, 1982.

Vijit Supinit (Thailand) resigned as Alternate Executive Director to A. Hasnan Habib (Indonesia), effective November 30, 1982.

TAI Qianding (China) resigned as Alternate Executive Director to ZHANG Zicun (China), effective November 30, 1982.

JAAFAR Ahmad (Malaysia) was appointed Alternate Executive Director to A. Hasnan Habib (Indonesia), effective December 1, 1982.

WANG Enshao (China) was appointed Alternate Executive Director to ZHANG Zicun (China), effective December 1, 1982.

wa Bilenga Tshishimbi (Zaïre) was appointed Alternate Executive Director to Abderrahmane Alfidja (Niger), effective December 21, 1982.

Jón Sigurdsson (Iceland) resigned as Executive Director for Denmark, Finland, Iceland, Norway, and Sweden, effective January 15, 1983.

John Tvedt (Norway) was elected Executive Director by Denmark, Finland, Iceland, Norway, and Sweden, effective January 16, 1983.

Leiv Vidvei (Norway), formerly Alternate Executive Director to Jón Sigurdsson (Iceland), was appointed Alternate Executive Director to John Tvedt (Norway), effective January 16, 1983.

Leiv Vidvei (Norway) resigned as Alternate Executive Director to John Tvedt (Norway), effective March 6, 1983.

Arne Lindå (Sweden) was appointed Alternate Executive Director to John Tvedt (Norway), effective March 7, 1983.

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The following served at certain times during 1982/83 as Temporary Alternate Executive Directors to the Executive Directors indicated:

Temporary Alternate Executive Director	Executive Director for whom Temporary Alternate Served
Samir Ramez Abiad (Lebanon)	Mohamed Finaish (Libya)
Ali Asghar Agah (Iran, Islamic Republic of)	Ghassem Salehkhou (Iran, Islamic Republic of)
Eric Michael Ainley (United Kingdom)	John Anson (United Kingdom)
	Yusuf A. Nimatallah (Saudi Arabia)
E.A. Ajayi (Nigeria)	Semyano Kiingi (Uganda)
	N'Faly Sangare (Guinea)
Hassan Alaoui-Abdallaoui (Morocco)	Morteza Abdollahi (Iran, Islamic Republic of)
	Ghassem Salehkhou (Iran, Islamic Republic of)
José Roberto Novaes de Almeida (Brazil)	Alexandre Kafka (Brazil)
Hernando Arias Garcia (Panama)	Alexandre Kafka (Brazil)
Luca Barbone (Italy)	Giovanni Lovato (Italy)
Chandi J. Batliwalla (India)	M. Narasimham (India)
	R.N. Malhotra (India)
Christian Bouchard (Gabon)	Samuel Nana-Sinkam (Cameroon)
Janet Bulloch (United Kingdom)	John Anson (United Kingdom)
Mohamed Camara (Guinea)	N'Faly Sangare (Guinea)
Luc E.J.M. Coene (Belgium)	Jacques de Groote (Belgium)
Thomas A. Connors (United States)	Richard D. Erb (United States)
Silvio E. Conrado (Nicaragua)	Ariel Buira (Mexico)
	Miguel A. Senior (Venezuela)
Ramiro J.J. Costa (Argentina)	Juan Carlos Iarezza (Argentina)
	Alvaro Donoso (Chile)
Jaime Delgadillo (Bolivia)	Alvaro Donoso (Chile)
Mama Kanny Diallo (Senegal)	Samuel Nana-Sinkam (Cameroon)
	Abderrahmane Alfidja (Niger)
Aliou B. Diao (Senegal)	Samuel Nana-Sinkam (Cameroon)
	Abderrahmane Alfidja (Niger)
Samir Fouad El-Khouri (Lebanon)	Yusuf A. Nimatallah (Saudi Arabia)
Gazi Ercel (Turkey)	Jacques de Groote (Belgium)
José Luis Feito (Spain)	Ariel Buira (Mexico)
Ingimundur Fridriksson (Iceland)	Jón Sigurdsson (Iceland)
	John Tvedt (Norway)
Giorgio Gomel (Italy)	Giovanni Lovato (Italy)
Avner Halevi (Israel)	J.J. Polak (Netherlands)
Christopher Mark Dobell Hull (United Kingdom)	John Anson (United Kingdom)
Liviu Ionescu (Romania)	J.J. Polak (Netherlands)
M. Ashraf Janjua (Pakistan)	Mohamed Finaish (Libya)
Kaarlo Vilho Jännäri (Finland)	Jón Sigurdsson (Iceland)
Guillermo Jauregui (Ecuador)	Alexandre Kafka (Brazil)
JIANG Hai (China)	ZHANG Zicun (China)
Joseph Mills Jones (Liberia)	Semyano Kiingi (Uganda)
	N'Faly Sangare (Guinea)
Peter Kohnert (Germany, Federal Republic of)	Gerhard Laske (Germany, Federal Republic of)
Michael J. Kooymans (Australia)	A.R.G. Prowse (Australia)
Seung-Woo Kwon (Korea)	A.R.G. Prowse (Australia)
Hak-Sung Lee (Korea)	A.R.G. Prowse (Australia)
Pierre Claver Maganga-Moussavou (Gabon)	Abderrahmane Alfidja (Niger)
Wolfgang Moerke (Germany, Federal Republic of)	Gerhard Laske (Germany, Federal Republic of)
James A.K. Munthali (Malawi)	Semyano Kiingi (Uganda)
	N'Faly Sangare (Guinea)
V.K.S. Nair (India)	M. Narasimham (India)
	R.N. Malhotra (India)
Yoshio Okubo (Japan)	Teruo Hirao (Japan)
John Kobina Orleans-Lindsay (Ghana)	Abderrahmane Alfidja (Niger)
Ishwari Raj Panday (Nepal)	A. Hasnan Habib (Indonesia)
Jørgen Gier Pedersen (Denmark)	Jón Sigurdsson (Iceland)
	John Tvedt (Norway)
Patrick D. Péroz (France)	Bruno de Maulde (France)

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Temporary Alternate Executive Director	Executive Director for whom Temporary Alternate Served
Pál Péterfalvy (Hungary)	Jacques de Groote (Belgium)
George W.K. Pickering (Canada)	Robert K. Joyce (Canada)
Christopher Noel Pinfield (New Zealand)	A.R.G. Prowse (Australia)
Eduardo Portas (Mexico)	Ariel Buira (Mexico)
	Miguel A. Senior (Venezuela)
David V. Pritchett (United States)	Yusuf A. Nimatallah (Saudi Arabia)
Mohammed Zia Masoom Qureshi (Pakistan)	Mohamed Finaish (Libya)
Janardana Reddy (Fiji)	Byanti Kharmawan (Indonesia)
	A. Hasnan Habib (Indonesia)
Cristian Alfonso Salinas Cerda (Chile)	Alvaro Donoso (Chile)
Feridoun Sarraf (Iran, Islamic Republic of)	Morteza Abdollahi (Iran, Islamic Republic of)
Johannes Schuijer (Netherlands)	J.J. Polak (Netherlands)
Douglas I.S. Shaw (Canada)	Robert K. Joyce (Canada)
Hideaki Suzuki (Japan)	Teruo Hirao (Japan)
Paul S. Tjokronegoro (Indonesia)	Byanti Kharmawan (Indonesia)
Martín Toro (Venezuela)	Miguel A. Senior (Venezuela)
Francisco A. Tourreilles (Uruguay)	Juan Carlos Iarezza (Argentina)
Okan Üçer (Turkey)	Jacques de Groote (Belgium)
WANG Enshao (China)	ZHANG Zicun (China)
John Calvin Williams (United States)	Richard D. Erb (United States)
John F. Williams (United Kingdom)	John Anson (United Kingdom)
Ali Yasseri (Iran, Islamic Republic of)	Morteza Abdollahi (Iran, Islamic Republic of)
	Ghassem Salehkhou (Iran, Islamic Republic of)
Francis Yeo Teng Yang (Singapore)	Byanti Kharmawan (Indonesia)
ZHANG Xiaokang (China)	ZHANG Zicun (China)

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Appendix VI
Administrative Budget

Administrative Budget as Approved by the Executive Board for the Financial Year Ending April 30, 1984 Compared with Actual Expenses for the Financial Years Ended April 30, 1982 and 1983

(Values expressed in special drawing rights)[1]

Object of Expense	Financial Year Ended April 30, 1982	Financial Year Ended April 30, 1983		Financial Year Ending April 30, 1984
	Actual Expenses	Revised Budget	Actual Expenses	Budget
I. PERSONNEL EXPENSES				
Salaries	62,154,842	68,585,514	68,585,225	77,641,777
Other personnel expenses	47,064,466	53,623,200	53,622,416	51,616,342
Total	109,219,308	122,208,714	122,207,641	129,258,119
II. TRAVEL EXPENSES				
Business travel	10,188,389	12,355,162	12,354,830	12,675,265
Other travel	7,986,946	9,395,373	9,395,024	10,276,118
Total	18,175,335	21,750,535	21,749,854	22,951,383
III. OTHER ADMINISTRATIVE EXPENSES				
Communications	3,187,668	4,205,348	4,205,178	5,898,482
Building occupancy	4,488,666	5,888,332	5,888,031	8,556,498
Books and printing	1,509,725	1,605,584	1,604,683	1,895,280
Supplies and equipment	2,868,796	4,424,236	4,423,995	3,975,466
Data processing services	2,550,700	4,530,687	4,529,900	5,695,086
Miscellaneous	2,496,032	3,206,600	3,206,547	5,047,918
Total	17,101,587	23,860,787	23,858,334	31,068,730
TOTAL[2]	144,496,230	167,820,036	167,815,829	183,278,232

[1] The administrative budget is expressed in terms of U.S. dollars and converted to SDR equivalents.

[2] Net administrative expenses for the financial year ended April 30, 1982 totaled SDR 142,396,230 after a deduction of the amount reimbursed to the General Resources Account by assessments levied on the net cumulative allocations of participants in the Special Drawing Rights Department (SDR 2,100,000). For the year ended April 30, 1983, net administrative expenses amounted to SDR 165,315,827 after a deduction of SDR 2,500,002 reimbursed to the General Resources Account by assessments levied on the net cumulative allocations of participants in the Special Drawing Rights Department.

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Appendix VII

Comparative Statement of Income and Expense

(Values expressed in special drawing rights)

	Financial Year Ended April 30		
	1981	1982	1983
OPERATIONAL INCOME			
Periodic charges			
Received in special drawing rights	512,176,841	869,324,008	1,282,417,980
Amounts receivable	80,526,816	222,730,922	262,993,780
Total	592,703,657	1,092,054,930	1,545,411,760
Interest on holdings of special drawing rights	265,814,019	657,244,835	444,258,572
Other operational charges			
Received in special drawing rights	23,758,100	39,568,008	55,627,079
Total Operational Income	882,275,776	1,788,867,773	2,045,297,411
Deduct: Operational expense			
Remuneration			
Paid in special drawing rights	348,220,764	860,614,342	962,550,264
Paid in members' currencies	24,586,863	48,018,458	18,571,289
Total	372,807,627	908,632,800	981,121,553
Interest on borrowing			
Paid in special drawing rights	44,900,068	115,176,553	156,910,948
Paid in members' currencies	205,799,610	338,784,355	417,316,875
Amounts payable	78,827,405	220,549,600	260,668,454
Total	329,527,083	674,510,508	834,896,277
Less: net income from temporary investments held in the Borrowed Resources Suspense Accounts	—	39,651,089	27,513,391
Other	—	11,448	—
Total Operational Expense	702,334,710	1,543,503,667	1,788,504,439
NET OPERATIONAL INCOME	179,941,066	245,364,106	256,792,972
EXPENSE [1]			
Administrative budget expense	98,942,066 [1]	142,396,230 [1]	165,315,827 [1]
Fixed property expense	1,265,290	11,438,200	15,480,167
Amortization of prior service cost	236,882	—	—
Net valuation adjustment loss (gain) ...	(586,069)	(505,392)	(427,641)
Cumulative effect on prior years (to April 30, 1982) of changing the method of accounting for compensated absences and accumulated termination grants ..	—	—	11,029,770
TOTAL EXPENSE [2]	99,858,169	153,329,038	191,398,123
NET INCOME	80,082,897	92,035,068	65,394,849

[1] After deduction of SDR 1,599,994 for financial year 1981, SDR 2,100,000 for financial year 1982, and SDR 2,500,002 for financial year 1983, reimbursed to the General Resources Account by assessments levied on the net cumulative allocations of participants in the Special Drawing Rights Department; and SDR 300,000 for financial year 1981, reimbursed to the General Resources Account for the estimated expense of conducting the business of the Trust Fund.

[2] Excludes operational expense which has been deducted from operational income.

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Appendix VIII

Financial Statements of the General Department, Special Drawing Rights Department, Subsidy Account, Supplementary Financing Facility Subsidy Account, Trust Fund, and Staff Retirement Plan

REPORT OF THE EXTERNAL AUDIT COMMITTEE

Washington, D.C.
July 1, 1983

AUTHORITY AND SCOPE OF THE AUDIT

In accordance with Section 20(b) of the By-Laws of the International Monetary Fund we have audited the financial statements of the Fund for the year ended April 30, 1983, covering the

—General Department (including the General Resources Account, Borrowed Resources Suspense Accounts and Special Disbursement Account) together with supplemental schedules one through four,

—Special Drawing Rights Department, and

—Accounts Administered by the Fund which consist of the
Subsidy Account,
Supplementary Financing Facility Subsidy Account, and
Trust Fund.

The audit was conducted in accordance with international auditing guidelines and, accordingly, included reviews of accounting and control systems, tests of accounting records, evaluation of the extent and results of work performed by the Internal Auditor, and other audit procedures.

AUDIT OPINION

In our opinion, the financial statements of the General Department (including the related supplemental schedules one through four), the Special Drawing Rights Department, and the Accounts Administered by the Fund have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change, with which we concur, in the method of accounting for compensated absences and termination grants as described in Note 9 to the General Department financial statements, and give a true and fair view of the respective financial positions and the allocations and holdings of Special Drawing Rights as at April 30, 1983, and of the financial results of operations and transactions during that year.

EXTERNAL AUDIT COMMITTEE:

/s/ Gerardo Rueda-Rábago, Chairman (Mexico)
/s/ Walter Scholz (Germany)
/s/ David G. Njoroge (Kenya)

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INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT
BALANCE SHEET
as at April 30, 1983

(In thousands of SDRs)

(Note 1)

	1983	1982
ASSETS		
CURRENCIES AND SECURITIES (Notes 2 and 5)	64,064,554	59,861,433
SDR HOLDINGS (Note 3)	4,334,909	5,456,084
GOLD HOLDINGS (Note 4)	3,620,396	3,620,396
SUBSCRIPTIONS RECEIVABLE	—	10,800
BORROWED RESOURCES HELD IN SUSPENSE	1,780,609	236,447
CHARGES RECEIVABLE AND ACCRUED (Note 5)	505,334	370,749
OTHER ASSETS	13,231	13,920
TOTAL ASSETS	74,319,033	69,569,829
QUOTAS, RESERVES, AND LIABILITIES		
QUOTAS		
Subscriptions of Members	61,059,800	60,684,800
RESERVES (Note 6)	1,000,715	935,320
LIABILITIES		
Borrowing (Note 7)	10,952,479	6,772,754
Remuneration Payable (Note 5)	981,121	908,633
Interest Payable and Accrued (Note 7)	268,868	239,956
Other Liabilities and Deferred Credits (Note 5)	56,050	28,366
TOTAL QUOTAS, RESERVES, AND LIABILITIES	74,319,033	69,569,829

The accompanying notes and schedules 1–4 are an integral part of the financial statements.

/s/ DAVID WILLIAMS
Acting Treasurer

/s/ J. DE LAROSIÈRE
Managing Director

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INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT
STATEMENT OF INCOME AND EXPENSE
for the year ended April 30, 1983

(In thousands of SDRs)
(Note 1)

	1983	1982
OPERATIONAL INCOME		
Periodic charges (Note 5)	1,545,412	1,092,055
Interest on SDR holdings	444,258	657,245
Service charges	51,291	34,801
Other	4,336	4,767
	2,045,297	1,788,868
OPERATIONAL EXPENSE		
Remuneration (Note 5)	981,121	908,633
Interest on borrowing, net of income from temporary investments held in Borrowed Resources Suspense Accounts (SDR 27,513 in 1983 and SDR 39,651 in 1982)	807,383	634,860
Other	—	11
	1,788,504	1,543,504
NET OPERATIONAL INCOME	256,793	245,364
ADMINISTRATIVE EXPENSE (Note 9)		
Personnel	122,208	109,219
Travel	21,750	18,175
Other, net	20,930	14,497
Fixed property (Note 1)	15,480	11,438
Cumulative effect (to April 30, 1982) of changing the method of accounting for compensated absences and accumulated termination grants (Note 9)	11,030	—
TOTAL ADMINISTRATIVE EXPENSE	191,398	153,329
NET INCOME	65,395	92,035

The accompanying notes and schedules 1–4 are an integral part of the financial statements.

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INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT

STATEMENT OF CHANGES IN RESERVES

for the year ended April 30, 1983

(In thousands of SDRs)

(Note 1)

	1983	1982
SPECIAL RESERVE (Note 6)		
Balance at beginning of the year	569,740	477,705
Net income for the year	65,395	92,035
Balance at end of the year	635,135	569,740
GENERAL RESERVE (Note 6)		
Balance at beginning and end of the year	365,580	365,580
TOTAL RESERVES	1,000,715	935,320

The accompanying notes and schedules 1–4 are an integral part of the financial statements.

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INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT
SOURCES OF FINANCING AND APPLICATIONS OF RESOURCES
for the year ended April 30, 1983

(In thousands of SDRs)
(Note 1)

	April 30		
	1983	1982	Net Change
SOURCES OF FINANCING			
Members' reserve tranche positions (Notes 2 and 5)			
Remunerated positions	14,997,408	9,626,445	5,370,963
Nonremunerated positions	5,594,606	5,991,093	(396,487)
	20,592,014	15,617,538	4,974,476
Borrowing (Note 7)	10,952,479	6,772,754	4,179,725
Other liabilities, net of other assets	780,579	788,725	(8,146)
Reserves	1,000,715	935,320	65,395
	33,325,787	24,114,337	9,211,450
APPLICATIONS OF RESOURCES			
Members' use of Fund credit (Notes 2 and 5)	23,589,873	14,801,410	8,788,463
SDR holdings	4,334,909	5,456,084	(1,121,175)
Gold holdings	3,620,396	3,620,396	—
Borrowed resources held in suspense	1,780,609	236,447	1,544,162
	33,325,787	24,114,337	9,211,450

The accompanying notes and schedules 1–4 are an integral part of the financial statements.

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INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT

NOTES TO THE FINANCIAL STATEMENTS

General Department

Under the Articles of Agreement, the General Department consists of the General Resources Account, the Special Disbursement Account, and the Investment Account. The Investment Account had not been activated at April 30, 1983. The General Department also includes Borrowed Resources Suspense Accounts, the establishment of which was authorized by the Executive Board in May 1981.

General Resources Account

Assets held in the General Resources Account comprise (i) currencies of the Fund's member countries (including securities), (ii) SDR holdings, and (iii) gold.

Each member has been required to pay to the Fund the amount of its initial quota and subsequent increases partly in the member's own currency and the remainder in the form of reserve assets, except that for the increases proposed in 1978, members were permitted to pay the entire increase in their own currencies. In March 1983, the Board of Governors of the Fund authorized an increase in quotas from their current levels to approximately SDR 90 billion. Twenty-five per cent of the quota increases are to be paid in SDRs or in the currencies of other members prescribed by the Fund, subject to their concurrence. Members have until November 30, 1983 to consent to the proposed increase. A member's quota cannot be increased until it has consented to the increase and paid the subscription in full. No increase in quotas becomes effective before the date of the Fund's determination that members having not less than 70 per cent of present quotas have consented to the increases proposed for them.

The Fund makes its resources available to its members by selling SDRs or currencies to members in exchange for their own currency in accordance with Fund policies on the use of its resources. Use of the Fund's resources by a member is dependent on its having a balance of payments need.

When members make a purchase, they undertake to repurchase, within the period specified by the Fund, the Fund's holdings of their currencies against the payment to the Fund of SDRs or the currencies of other members specified by the Fund. The Fund's policies on the use of its resources, which indicate the time period for which purchases may be outstanding, are intended to assure that use of its resources is temporary and will be reversed within time periods specified by the Fund.

The composition of the Fund's holdings of members' currencies changes as a result of the Fund's operations and transactions, including purchase and repurchase transactions in currencies as noted above. The currency holdings reflect both the counterpart of purchases by those members that have a need to use the Fund's resources, and also the currencies of those members whose balance of payments and reserve positions are determined by the Fund on a quarterly basis to be sufficiently strong for their currencies to be used in all the Fund's operations and transactions in accordance with the policies of the Fund.

A member has a reserve tranche position in the Fund to the extent that the Fund's holdings of its currency, excluding holdings which reflect the member's use of Fund credit, are less than the member's quota. A member's reserve tranche position is regarded as a part of the member's external reserves and a member may purchase up to the amount of its full reserve tranche at any time. Reserve tranche purchases are not regarded as a use of Fund credit.

Members may make use of Fund credit under various policies and the amount of such use is related to a member's quota in the Fund. Under the credit tranche policy, the Fund's credit is at present made available to members in a range consisting of four tranches or segments each equal to 25 per cent of a member's quota. A first credit tranche purchase is defined as one that raises the Fund's holdings of a member's currency in the credit tranche from zero to 25 per cent of quota. Subsequent purchases are made in three successive tranches, each equal to 25 per cent of quota, to a level of no more than 100 per cent of quota. Purchases in these three tranches are referred to as upper credit tranche purchases. The distinction between first and upper credit tranches also reflects the higher conditionality that accompanies the use of Fund credit in the upper tranches.

Members experiencing balance of payments difficulties may enter into stand-by arrangements with the Fund under which the Fund commits itself to provide resources to be made available over periods of up to three years from the date of the arrangements. Purchases under these arrangements in the upper credit tranches depend upon the member's meeting the performance criteria included in the arrangements.

In addition to purchases under the Fund's credit tranche policies, members may use the Fund's resources under decisions on:

- Compensatory financing—to assist members, particularly primary exporters, encountering payments difficulties produced by temporary export shortfalls attributable to circumstances beyond their control and in addition, at their option, to assist members encountering payments difficulties produced by an excess in the cost of their cereal imports.
- Buffer stock financing—to assist members in connection with the financing of international buffer stocks of primary products.
- Extended Fund facility—to provide through extended arrangements of up to three years medium-term assistance to members to make structural adjustments in their economies. Purchases under these arrangements depend upon the member's meeting the performance criteria included in the arrangements.
- Supplementary financing facility and the policy on enlarged access—to make available under stand-by and extended arrangements resources, in addition to those available in the credit tranches or under the extended Fund facility, to members facing serious payments imbalances that are large in relation to their quotas. These policies are temporary and may be utilized only in conjunction with the use of resources under the upper credit tranche policy.

Members were also able to use the oil facility until May 1976 for balance of payments problems caused by increases in the cost of petroleum and petroleum products.

Members that have purchased resources from the Fund undertake to repurchase the Fund's holdings of their currencies against the payment to the Fund of SDRs or the currencies of other members specified by the Fund, except in the case of reserve tranche purchases made after April 1, 1978, which are not subject to repurchase. Under the Fund's repurchase policies, purchases in the credit tranches, under the compensatory financing facility and under the buffer stock facility are to be repurchased in quarterly installments beginning three years, and ending not later than five years, after the date of purchase; repurchases under the supplementary financing facility and the enlarged access policy are to be made in semiannual installments beginning three and one-half years, and ending not later than seven years, after the date of purchase; and repurchases under the extended Fund facility are to be made in semiannual

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installments beginning four years, and ending not later than ten years, after the date of purchase. However, a member is entitled to repurchase at any time holdings of its currency on which the Fund levies charges, and is expected to make repurchases prior to the periods mentioned above as and when its balance of payments and reserve position improves.

Borrowed Resources Suspense Accounts

Borrowed Resources Suspense Accounts have been established in order to hold, transfer, convert, and invest (i) currencies borrowed by the Fund before they are transferred to the General Resources Account for use in transactions or operations; and (ii) currencies received by the Fund in repurchases financed with borrowed resources before repayments to lenders can be made. Members are not obligated to maintain the SDR value of their currencies held by the Fund in the Borrowed Resources Suspense Accounts and as far as practicable, the currencies are invested in SDR-denominated obligations.

At April 30, 1983 borrowed resources held in suspense amounted to SDR 1,780.61 million (SDR 236.45 million at April 30, 1982) and included accrued income of SDR 3.37 million (SDR 6.66 million at April 30, 1982).

Special Disbursement Account

The Special Disbursement Account was activated on June 30, 1981. The Fund administers a Trust Fund, established in 1976 to provide balance of payments assistance on concessional terms to certain members. This Trust Fund is at present being wound up and the Fund has decided that resources received by the Trust Fund after April 30, 1981 will be transferred to the Special Disbursement Account, of which up to SDR 750 million is to be placed to the Supplementary Financing Facility Subsidy Account. At April 30, 1983 SDR 48.80 million (SDR 14.99 million at April 30, 1982) had been received into the Special Disbursement Account from the Trust Fund and placed to the Supplementary Financing Facility Subsidy Account. There were no resources held in the Special Disbursement Account at April 30, 1983 and 1982.

1. Accounting Practices

Unit of Account

The accounts of the General Department are expressed in terms of the SDR, the currency value of which is determined daily by the Fund, at present, by summing the values in U.S. dollars, based on market exchange rates, of a basket of five specified currencies, as follows:

Currencies	Amount
U.S. dollar	0.54
Deutsche mark	0.46
French franc	0.74
Japanese yen	34
Pound sterling	0.071

Members' currencies are valued in terms of the SDR on the basis of the representative rate of exchange determined in accordance with the Rules of the Fund. Gold with depositories is valued on the basis that one SDR is equivalent to 0.888671 gram of fine gold.

Basis of Accounting

The Fund maintains its books of account on an accrual basis and, accordingly, recognizes income as it is earned and records expenses as they are incurred. It is the practice of the Fund to make all calculations on the basis of the exact number of days in the accounting period.

The established policy of the Fund is to charge as an expense of each accounting period the total costs incurred for fixed property, furniture, and equipment. For the year ended April 30, 1983, the cost of property, furniture, and equipment charged as an expense amounted to SDR 20.60 million (SDR 12.48 million in 1982).

2. Currencies and Securities

Each member has the option to substitute nonnegotiable and noninterest-bearing securities for the amount of its currency held by the Fund in the General Resources Account that is in excess of ¼ of 1 per cent 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, 1983 were as follows:

	In millions of SDRs		
	April 30, 1983	April 30, 1982	Net Change
Members' quotas	61,060	60,685	375
Less subscriptions receivable	—	11	11
	61,060	60,674	386
Members' use of Fund credit	23,590	14,801	8,789
Members' reserve tranche positions	(20,592)	(15,618)	(4,974)
Administrative currency balances	7	4	3
Currencies and securities	64,065	59,861	4,204

Each member is obligated to maintain the value of the Fund's holdings of its currency in terms of the SDR except for holdings which may be held in Borrowed Resources Suspense Accounts, the Special Disbursement Account, and the Investment Account. Whenever the Fund revalues its holdings of a member's currency, an account receivable or an account payable is established for the amount of currency payable by or to the member in order to maintain the value of the Fund's holdings of the currency in terms of the SDR. The balances of the accounts receivable or payable are reflected in the Fund's total currency holdings. At April 30, 1983, accounts receivable to maintain SDR values of currency holdings amounted to SDR 7,963.08 million and accounts payable amounted to SDR 717.10 million. At June 15, 1983, the amounts receivable were SDR 4,716.52 million and amounts payable were SDR 137.61 million.

3. SDR Holdings

SDRs are reserve assets created by the Fund and allocated to members participating in the Special Drawing Rights Department. Although SDRs are not allocated to the Fund, the Fund may acquire, hold, and dispose of them through the General Resources Account. SDRs held by the Fund are received from its members in the settlement of their financial obligations to the Fund (quota payments, repurchases, and charges) and may be used by the Fund in transactions and operations between the Fund and its members (sold to members in purchases or transferred to members in the settlement of remuneration and interest on Fund borrowing). The Fund earns interest on its SDR holdings.

4. Gold Holdings

At April 30, 1983 the Fund held 3,217,341 kilograms of gold at designated depositories.

5. Fund Operations

For the year ended April 30, 1983, members' purchases amounted to SDR 11,392 million, of which SDR 1,134 million

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were reserve tranche purchases. Over the same period, repurchases by members totaled SDR 1,470 million.

Changes in the outstanding use of Fund credit under various facilities for the period ended April 30, 1983, were as follows:

	In millions of SDRs			
	April 30, 1982	Purchases	Repurchases	April 30, 1983
Regular facilities	3,206	1,805	290	4,721
Compensatory financing	3,643	3,740	546	6,837
Buffer stock financing	—	352	45	307
Extended Fund facility	2,115	1,220	19	3,316
Oil facility	565	—	538	27
Supplementary financing facility	4,112	1,959	32	6,039
Enlarged access resources	1,160	1,182	—	2,342
Total	14,801	10,258	1,470	23,589

Periodic Charges and Remuneration

The Fund levies charges, which are payable periodically, on its holdings of a member's currency that derive from the member's use of Fund credit. A service charge is levied by the Fund on each purchase involving use of Fund resources other than reserve tranche purchases.

Remuneration is paid by the Fund on that part of a member's reserve tranche position which is the difference between holdings of currency (excluding those that derive from use of Fund credit) and the amount of its quota equal to 75 per cent of quota on April 1, 1978 and the total of subsequent increases in quota. For members joining the Fund after that date, the proportion of quota is equal to the average of all other members on the date the member joined the Fund plus subsequent increases in the member's quota.

At April 30, 1983 the total holdings on which the Fund levied charges amounted to SDR 23,589 million (SDR 14,801 million in 1982) and total creditor positions on which the Fund paid remuneration amounted to SDR 14,997 million (SDR 9,626 million in 1982).

One member, Democratic Kampuchea, has not fulfilled its financial obligations to the General Department, either to repurchase a part of the Fund's holdings of the member's currency, or to pay charges on currency balances held by the Fund. At April 30, 1983, purchases by Democratic Kampuchea to be repurchased amounted to SDR 18.74 million and unpaid charges receivable from Democratic Kampuchea amounted to SDR 5.63 million and these unpaid charges are included in the balance sheet as charges receivable and as a deferred credit. On December 19, 1978 the Executive Board decided that Democratic Kampuchea may not make use of the general resources of the Fund until such time as Democratic Kampuchea is fulfilling its obligations under the Articles of Agreement.

6. Reserves

The Fund determines annually what part of its net income shall be placed to the General Reserve or to the Special Reserve, and what part, if any, shall be distributed. The Articles of Agreement do not limit the use that the Fund may make of the General Reserve, and permit the Fund to use the Special Reserve for any purpose for which it may use the General Reserve, except distribution. Any administrative deficit for any financial year must be written off first against the Special Reserve. Net income for the year ended April 30, 1983 was placed to the Special Reserve.

7. Borrowing

Outstanding borrowing by the Fund was as follows:

	In millions of SDRs	
	April 30, 1983	April 30, 1982
Oil facility	SDR 18	SDR 526
Supplementary financing facility	6,037	4,112
Enlarged access resources	4,120	1,358
General Arrangements to Borrow	777	777
	SDR 10,952	SDR 6,773

Oil Facility

In 1974 and 1975, the Fund entered into borrowing agreements with various members and Switzerland, or institutions within their territories, under which these lenders agreed to provide the Fund with specified currencies to finance purchases of currencies from the Fund by other members under the oil facility. The outstanding borrowings carry an interest rate of 7¼ per cent per annum. Calls made by the Fund under these arrangements are repayable in installments beginning not later than three and one-half years, and are to be completed not later than seven years, after the dates of the calls.

Supplementary Financing Facility (SFF)

The supplementary financing facility became operational in May 1979. The Fund has entered into borrowing agreements with 14 members, or institutions within their territories, and with the Swiss National Bank under which the lenders have agreed to make resources available to the Fund, at call, up to SDR 7,784 million until February 1984 to finance purchases by members under this facility. Borrowing by the Fund under these agreements is to be repaid in installments from three and one-half to seven years after the date of borrowing. Interest paid by the Fund on amounts borrowed under the borrowing agreements is based on the average yield on U.S. Government securities with a constant maturity of five years.

Enlarged Access Resources (EAR)

The policy on enlarged access became operational in May 1981. The Fund has entered into borrowing agreements with various members, or institutions within their territories, the Bank for International Settlements, and the Swiss National Bank under which the lenders have agreed to make resources available to the Fund, up to SDR 9,305 million, to finance purchases by members under the policy. The maturities of borrowing by the Fund under these agreements vary from six months to seven years. Interest paid by the Fund on amounts borrowed under these agreements is at variable rates of interest which are established periodically, and are related to market interest rates, based on weighted average yields of domestic instruments denominated in the five currencies in the SDR valuation basket.

General Arrangements to Borrow (GAB)

Ten members, or institutions within their territories, have adhered to the General Arrangements to Borrow under which the Fund may borrow their currencies up to specified amounts when supplementary resources are needed to forestall or to cope with an impairment of the international monetary system. The GAB may be activated only to finance purchases by a participant. These arrangements first became effective from October 24, 1962 and have been renewed until October 23, 1985. The Swiss Confederation has been associated with the GAB since June 1964. The present arrangement with the Swiss Confederation expires on July 15, 1985. Amounts available to

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the Fund under these arrangements are expressed in the currency of the lender. Based on rates in effect at April 30, 1983, the amounts available to the Fund amounted to SDR 6,449.5 million. The Fund pays a transfer charge of ½ of 1 per cent on amounts borrowed under these arrangements, and, in addition, pays interest at the rate at which the Fund levies charges on the holdings of currencies resulting from purchases for which it incurred the indebtedness, provided that the rate of interest shall be not less than 4 per cent per annum on any part of the indebtedness. Any calls made by the Fund under the GAB are repayable within five years and amounts outstanding at April 30, 1983 are to be repaid no later than November 1983.

In February 1983, the Fund approved an enlargement of the GAB to SDR 17 billion including provision for the adherence of the Swiss National Bank as a participant, and for associated agreements with nonparticipants. It also approved amendments that would allow the Fund to borrow under the GAB in certain circumstances in order to finance purchases by nonparticipants. These changes will become effective when all ten participants have notified the Fund that they concur in the amendments and in the increased credit limits. Participants were asked to notify the Fund of their concurrence by December 31, 1983.

Borrowing Guidelines

The Fund has established guidelines for borrowing, which provide that the Fund will not allow the total of outstanding borrowing, plus unused credit lines, to exceed the range of 50 to 60 per cent of the total of Fund quotas. Since at present, all GAB lines of credit may not be called upon at the same time, the total of outstanding borrowing shall include, either outstanding borrowing by the Fund under the GAB, or one half of the total credit lines under the GAB, whichever is the greater. The borrowing guidelines are subject to review by the Executive Board. At April 30, 1983 total outstanding borrowing and unused credit lines, calculated in accordance with these guidelines, were equal to 33.1 per cent of quotas (34.3 per cent at April 30, 1982).

8. Commitments Under Stand-By and Extended Arrangements

At April 30, 1983, thirty-nine arrangements were in effect and undrawn balances under these arrangements amounted to SDR 16,405.1 million.

9. Administrative Expenses

The Fund incurs administrative expenses primarily for salaries, travel, and other administrative needs, which are expended in accordance with an administrative budget approved by the Executive Board. Expenditures for building costs are authorized outside of the annual administrative budget. The Fund is reimbursed in respect of the expenses incurred in administering the Special Drawing Rights Department.

The Fund has certain commercial deposits and receivables relating to its administrative activities. These deposits and receivables are not subject to the maintenance of value obligations.

The Fund pays various allowances to or on behalf of Executive Directors and staff including the employer's contribution to the Staff Retirement Plan. All contributions to the Plan and all other assets, liabilities, and income of the Plan are held separately outside of the General Department and can be used or incurred only for the benefit of the participants in the Plan and their beneficiaries. The employer contributes that part of the costs and expenses of the Plan not provided by the contributions of the participants. In addition, experience gains and losses of the Plan, as determined by the actuary engaged by the Pension Committee, are amortized over a period of 15 years. The unamortized experience losses at April 30, 1983 amounted to SDR 57.0 million (calculated at the SDR value of the U.S. dollar on that date). Payments over the next 15 years to amortize the actuarial experience losses are estimated to be approximately SDR 75.2 million (at the April 30, 1983 SDR/US$ rate) of which SDR 6.9 million was paid on May 2, 1983.

Contributions by the employer to the Staff Retirement Fund for the year ended April 30, 1983 amounted to SDR 30.3 million, including SDR 7.5 million for the amortization of actuarial experience losses (SDR 5.3 million in 1982) and SDR 6.8 million to fund cost of living supplements to beneficiaries (SDR 7.3 million in 1982).

The Fund staff are entitled to accumulate annual leave, up to a maximum of 60 days, which may be commuted into a cash payment upon termination of employment. In addition, upon the completion of five years' service, each member of the staff is entitled to a termination grant, subject to maximum amounts based on years of service after July 1979. Prior to 1983, the Fund accounted for these amounts of accumulated leave and of earned termination grants only as they were paid. In 1983, the Fund elected to account for these amounts as an expense as they are earned. The effect of this change was to reduce the Fund's income in 1983 by SDR 14.7 million, of which SDR 11.0 million represents the effect of the change for years prior to 1983.

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Schedule 1

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT
QUOTAS, FUND'S HOLDINGS OF CURRENCIES, MEMBERS' USE OF FUND RESOURCES, AND RESERVE TRANCHE POSITIONS

as at April 30, 1983

(In thousands of SDRs)

	Quotas	Fund's Holdings of Currencies[1] Total	Fund's Holdings of Currencies[1] Per cent of quota	Use of Fund Resources	Reserve Tranche Positions
Afghanistan	67,500	52,416	77.7	—	15,086
Algeria	427,500	301,914	70.6	—	125,587
Antigua and Barbuda	3,600	3,600	100.0	—	2
Argentina	802,500	1,623,356	202.3	820,840	—
Australia	1,185,000	1,217,406	102.7	32,463	67
Austria	495,000	189,000	38.2	—	306,004
Bahamas	49,500	42,850	86.6	—	6,651
Bahrain	30,000	14,489	48.3	—	15,514
Bangladesh	228,000	597,127	261.9	376,644	7,520
Barbados	25,500	49,590	194.5	24,091	2
Belgium	1,335,000	1,034,885	77.5	—	300,153
Belize	7,200	5,882	81.7	—	1,321
Benin	24,000	21,981	91.6	—	2,024
Bhutan	1,700	1,331	78.3	—	370
Bolivia	67,500	159,766	236.7	92,245	4
Botswana	13,500	4,351	32.2	—	9,152
Brazil	997,500	2,336,756	234.3	1,339,250	—
Burma	109,500	174,290	159.2	64,788	—
Burundi	34,500	34,655	100.5	7,500	7,368
Cameroon	67,500	53,878	79.8	268	13,896
Canada	2,035,500	1,725,210	84.8	—	310,436
Cape Verde	3,000	2,425	80.8	—	576
Central African Republic	24,000	44,180	184.1	21,368	1,211
Chad	24,000	26,043	108.5	7,100	5,064
Chile	325,500	742,510	228.1	417,004	—
China	1,800,000	2,249,999	125.0	450,000	1
Colombia	289,500	60,743	21.0	—	228,762
Comoros	3,500	3,500	100.0	—	1
Congo	25,500	22,219	87.1	—	3,297
Costa Rica	61,500	158,600	257.9	97,077	—
Cyprus	51,000	59,455	116.6	8,447	[2]
Denmark	465,000	367,190	79.0	—	97,813
Djibouti	5,700	4,465	78.3	—	1,237
Dominica	2,900	12,817	442.0	9,918	2
Dominican Republic	82,500	262,065	317.7	179,563	—
Ecuador	105,000	105,029	100.0	—	—
Egypt	342,000	392,039	114.6	50,029	—
El Salvador	64,500	161,875	251.0	97,373	—
Equatorial Guinea	15,000	29,748	198.3	14,739	—
Ethiopia	54,000	166,499	308.3	112,500	16
Fiji	27,000	35,103	130.0	13,500	5,405
Finland	393,000	322,729	82.1	7,194	77,486
France	2,878,500	2,010,107	69.8	—	868,701
Gabon	45,000	52,442	116.5	7,474	38
Gambia, The	13,500	42,423	314.2	28,946	36
Germany, Federal Republic of	3,234,000	852,589	26.4	—	2,381,431
Ghana	159,000	174,995	110.1	15,990	1
Greece	277,500	221,932	80.0	—	55,569
Grenada	4,500	8,802	195.6	4,300	—
Guatemala	76,500	172,100	225.0	95,600	6

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Schedule 1
(continued)

	Quotas	Fund's Holdings of Currencies [1] Total	Fund's Holdings of Currencies [1] Per cent of quota	Use of Fund Resources	Reserve Tranche Positions
Guinea	45,000	55,060	122.4	11,500	1,450
Guinea-Bissau	5,900	8,438	143.0	2,538	2
Guyana	37,500	113,123	301.7	75,620	—
Haiti	34,500	82,105	238.0	47,650	70
Honduras	51,000	160,393	314.5	109,391	—
Hungary	375,000	672,605	179.4	297,600	—
Iceland	43,500	65,009	149.4	21,500	—
India	1,717,500	4,019,243	234.0	2,666,000	364,269
Indonesia	720,000	785,105	109.0	65,100	—
Iran, Islamic Republic of	660,000	589,236	89.3	—	70,765
Iraq	234,100	234,103	100.0	—	—
Ireland	232,500	157,341	67.7	—	75,165
Israel	307,500	325,601	105.9	18,100	4
Italy	1,860,000	1,229,399	66.1	—	630,613
Ivory Coast	114,000	587,091	515.0	473,087	2
Jamaica	111,000	665,274	599.3	554,206	—
Japan	2,488,500	1,231,666	49.5	—	1,256,838
Jordan	45,000	28,438	63.2	—	16,567
Kampuchea, Democratic	25,000	37,494	150.0	12,500	7
Kenya	103,500	445,335	430.3	343,942	2,137
Korea	255,900	1,394,125	544.8	1,138,221	—
Kuwait	393,300	141,734	36.0	—	251,567
Lao People's Democratic Republic	24,000	36,944	153.9	12,944	—
Lebanon	27,900	21,771	78.0	—	6,130
Lesotho	10,500	10,415	99.2	—	85
Liberia	55,500	231,544	417.2	176,032	—
Libyan Arab Jamahiriya	298,400	109,227	36.6	—	189,173
Luxembourg	46,500	34,296	73.8	—	12,208
Madagascar	51,000	186,568	365.8	136,744	1,178
Malawi	28,500	117,736	413.1	89,241	7
Malaysia	379,500	579,028	152.6	316,050	116,537
Maldives	1,400	1,098	78.4	—	303
Mali	40,500	67,299	166.2	35,475	8,680
Malta	30,000	4,424	14.7	—	25,606
Mauritania	25,500	67,588	265.1	42,076	—
Mauritius	40,500	191,703	473.3	151,205	13
Mexico	802,500	1,103,492	137.5	300,935	—
Morocco	225,000	1,088,944	484.0	863,938	18
Nepal	28,500	34,484	121.0	11,678	5,693
Netherlands	1,422,000	767,872	54.0	—	654,136
New Zealand	348,000	347,970	100.0	—	41
Nicaragua	51,000	68,549	134.4	17,540	—
Niger	24,000	17,865	74.4	—	6,135
Nigeria	540,000	540,000	100.0	—	5
Norway	442,500	94,165	21.3	—	348,341
Oman	30,000	7,649	25.5	—	22,361
Pakistan	427,500	1,590,876	372.1	1,222,179	58,822
Panama	67,500	142,736	211.5	75,235	14
Papua New Guinea	45,000	89,938	199.9	45,000	67
Paraguay	34,500	5,578	16.2	—	28,929
Peru	246,000	811,356	329.8	565,330	2
Philippines	315,000	1,277,095	405.4	962,034	—
Portugal	258,000	209,231	81.1	—	48,770
Qatar	66,200	41,424	62.6	—	24,781
Romania	367,500	1,227,396	334.0	859,891	—
Rwanda	34,500	27,196	78.8	—	7,308
St. Lucia	5,400	7,950	147.2	2,549	—
St. Vincent	2,600	4,100	157.7	1,500	—
São Tomé and Principe	3,000	2,348	78.3	—	654
Saudi Arabia	2,100,000	434,789	20.7	—	1,665,212

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Schedule 1
(*concluded*)

	Quotas	Fund's Holdings of Currencies[1] Total	Per cent of quota	Use of Fund Resources	Reserve Tranche Positions
Senegal	63,000	223,627	355.0	161,563	937
Seychelles	2,000	1,559	78.0	—	442
Sierra Leone	46,500	113,224	243.5	66,723	—
Singapore	92,400	22,200	24.0	—	70,213
Solomon Islands	3,200	5,577	174.3	2,400	23
Somalia	34,500	114,790	332.7	80,276	—
South Africa	636,000	1,430,972	225.0	795,000	32
Spain	835,500	629,935	75.4	—	205,564
Sri Lanka	178,500	486,497	272.5	313,900	5,907
Sudan	132,000	681,450	516.3	549,445	—
Suriname	37,500	29,625	79.0	—	7,876
Swaziland	18,000	18,973	105.4	975	10
Sweden	675,000	531,676	78.8	—	143,330
Syrian Arab Republic	94,500	94,503	100.0	—	—
Tanzania	82,500	151,011	183.0	68,493	—
Thailand	271,500	959,445	353.4	687,959	17
Togo	28,500	48,418	169.9	20,116	206
Trinidad and Tobago	123,000	24,865	20.2	—	98,138
Tunisia	94,500	75,308	79.7	—	19,204
Turkey	300,000	1,768,588	589.5	1,468,582	—
Uganda	75,000	336,152	448.2	264,662	3,522
United Arab Emirates	202,600	106,164	52.4	—	96,439
United Kingdom	4,387,500	2,765,838	63.0	—	1,621,703
United States	12,607,500	5,479,729	43.5	—	7,132,991
Upper Volta	24,000	18,367	76.5	—	5,635
Uruguay	126,000	201,616	160.0	75,600	—
Vanuatu	6,900	5,865	85.0	—	1,039
Venezuela	990,000	563,020	56.9	—	426,991
Viet Nam	135,000	164,708	122.0	29,708	5
Western Samoa	4,500	8,076	179.5	3,574	—
Yemen Arab Republic	19,500	29,250	150.0	9,750	3
Yemen, People's Democratic Republic of	61,500	77,340	125.8	15,839	—
Yugoslavia	415,500	2,159,941	519.8	1,747,732	3,297
Zaïre	228,000	609,071	267.1	381,066	—
Zambia	211,500	783,677	370.5	572,173	—
Zimbabwe	150,000	303,579	202.4	153,595	17
Totals	61,059,800	64,064,554		23,589,873	20,592,014

[1] Includes nonnegotiable, noninterest-bearing notes, which members are entitled to issue in substitution for currency.
[2] Less than SDR 500.

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Schedule 2

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT

MEMBERS' PURCHASES SUBJECT TO REPURCHASE BY YEAR OF SCHEDULED REPURCHASE [1]

as at April 30, 1983

(In thousands of SDRs)

Financial Years Ending April 30	Credit Tranches	Compensatory Financing	Buffer Stock	Extended Facility	Oil Facility	Total [2]
1984	671,383	729,708	—	81,947	27,315	1,516,597 [2]
1985	1,660,093	979,995	—	276,620	—	2,916,708
1986	2,135,188	1,474,392	30,990	717,363	—	4,357,933
1987	2,427,024	2,306,809	152,730	1,175,658	—	6,062,221
1988	1,854,909	1,345,767	123,065	1,306,204	—	4,629,945
1989	837,596	—	—	1,119,710	—	1,957,306
1990	408,567	—	—	758,179	—	1,166,746
1991	—	—	—	488,781	—	488,781
1992	—	—	—	377,856	—	377,856
1993	—	—	—	164,072	—	164,072
Totals	9,994,760	6,836,671	306,785	6,466,390	27,315	23,638,165 [2]

[1] A member is entitled to repurchase at any time holdings of its currency subject to charges and is expected to make repurchases as and when its balance of payments and reserve position improves.

[2] The total of outstanding purchases includes SDR 6.244 million of purchases in the reserve tranche made prior to April 1, 1978, and which are subject to repurchase. Purchases in the reserve tranche made after the Second Amendment of the Articles of Agreement effective on April 1, 1978 are not subject to repurchase.

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Schedule 3

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT

SCHEDULED REPAYMENTS OF FUND BORROWING

as at April 30, 1983

(In thousands of SDRs)

Periods of Repayment[1] Financial Years Ending April 30	Oil Facility 1975 Agreements	General Arrangements to Borrow	Supplementary Financing Facility	Enlarged Access Resources	Total
1984	18,252	777,254	199,478	560,103[2]	1,555,087
1985	—	—	655,997	—	655,997
1986	—	—	1,200,856	312,000	1,512,856
1987	—	—	1,563,542	890,000	2,453,542
1988	—	—	1,320,759	890,000	2,210,759
1989	—	—	768,837	890,000	1,658,837
1990	—	—	327,401	578,000	905,401
Totals	18,252	777,254	6,036,870	4,120,103	10,952,479

[1] Dates of repayment are the scheduled dates as provided in the borrowing agreements between the Fund and lenders. The borrowing agreements also permit earlier repayments in certain circumstances.

[2] Short-term borrowing with original maturities not exceeding three years. At maturity, the amounts are subject to renewal in accordance with the provisions of the borrowing agreements, under which, within certain time limits, the Fund has the option to renew borrowing.

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Schedule 4

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT

STATUS OF STAND-BY ARRANGEMENTS

AND EXTENDED ARRANGEMENTS

as at April 30, 1983

(In thousands of SDRs)

Member	Date of Arrangement	Expiration	Total Amount Agreed	Undrawn Balance
STAND-BY ARRANGEMENTS				
Argentina	January 24, 1983	April 23, 1984	1,500,000	1,199,260
Bangladesh	March 28, 1983	August 31, 1983	68,400	45,600
Barbados	October 1, 1982	May 31, 1984	31,875	19,500
Central African Republic	April 22, 1983	April 21, 1984	18,000	18,000
Chile	January 10, 1983	January 9, 1985	500,000	378,000
Costa Rica	December 20, 1982	December 19, 1983	92,250	73,800
El Salvador	July 16, 1982	July 15, 1983	43,000	15,500
Guinea	December 1, 1982	November 30, 1983	25,000	13,500
Haiti	August 9, 1982	September 30, 1983	34,500	17,500
Honduras	November 5, 1982	December 31, 1983	76,500	45,900
Hungary	December 8, 1982	January 7, 1984	475,000	249,400
Kenya	March 21, 1983	September 20, 1984	175,950	130,750
Liberia	September 29, 1982	September 28, 1983	55,000	20,000
Madagascar	July 9, 1982	July 8, 1983	51,000	10,200
Malawi	August 6, 1982	August 5, 1983	22,000	6,000
Mali	May 21, 1982	May 20, 1983	30,375	—
Philippines	February 25, 1983	February 28, 1984	315,000	265,000
Romania	June 15, 1981	June 14, 1984	1,102,500	560,500
Senegal	November 24, 1982	November 23, 1983	47,250	41,340
Somalia	July 15, 1982	January 14, 1984	60,000	26,250
South Africa	November 3, 1982	December 31, 1983	364,000	205,000
Sudan	February 23, 1983	February 22, 1984	170,000	102,000
Thailand	November 17, 1982	December 31, 1983	271,500	176,700
Togo	March 4, 1983	April 3, 1984	21,375	19,375
Turkey	June 18, 1980	June 17, 1983	1,250,000	90,000
Uganda	August 11, 1982	August 10, 1983	112,500	37,500
Uruguay	April 22, 1983	April 21, 1985	378,000	378,000
Yugoslavia	January 30, 1981	December 31, 1983	1,662,000	379,000
Zambia	April 18, 1983	April 17, 1984	211,500	180,000
Zimbabwe	March 23, 1983	September 22, 1984	300,000	240,000
			9,464,475	4,943,575
EXTENDED ARRANGEMENTS				
Brazil	March 1, 1983	February 28, 1986	4,239,375	4,114,500
Dominica	February 6, 1981	February 5, 1984	8,550	2,138
Dominican Republic	January 21, 1983	January 20, 1986	371,250	297,000
India	November 9, 1981	November 8, 1984	5,000,000	2,600,000
Ivory Coast	February 27, 1981	February 22, 1984	484,500	153,900
Jamaica	April 13, 1981	April 12, 1984	477,700	149,700
Mexico	January 1, 1983	December 31, 1985	3,410,625	3,310,315
Pakistan	December 2, 1981	November 23, 1983	919,000	284,000
Peru	June 7, 1982	June 6, 1985	650,000	550,000
			15,561,000	11,461,553
		Totals	25,025,475	16,405,128

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INTERNATIONAL MONETARY FUND
SPECIAL DRAWING RIGHTS DEPARTMENT
BALANCE SHEET
as at April 30, 1983

(In thousands of SDRs)

	1983	1982
ALLOCATIONS		
Net cumulative allocations of special drawing rights to participants	21,433,330	21,433,330
Charges due but not paid (Note 1)	25,580	15,420
	21,458,910	21,448,750
HOLDINGS		
Participants		
With holdings above allocations		
Allocations	5,519,349	5,195,459
Net receipt of SDRs	3,345,988	1,995,336
	8,865,337	7,190,795
With holdings below allocations		
Allocations	15,913,982	16,237,871
Net use of SDRs	7,671,777	7,440,255
	8,242,205	8,797,616
Total holdings by participants	17,107,542	15,988,411
General Resources Account	4,334,909	5,456,084
Prescribed holders	16,459	4,255
	21,458,910	21,448,750

The accompanying notes are an integral part of the financial statements.

/s/ DAVID WILLIAMS
Acting Treasurer

/s/ J. DE LAROSIÈRE
Managing Director

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INTERNATIONAL MONETARY FUND
SPECIAL DRAWING RIGHTS DEPARTMENT
STATEMENT OF SOURCE AND USE OF SPECIAL DRAWING RIGHTS
as at April 30, 1983

(In thousands of SDRs)

	Participants	General Resources Account	Prescribed Holders	Total 1983	Total 1982
Total holdings at beginning of year	15,988,411	5,456,084	4,255	21,448,750	21,433,330
Receipt of SDRs					
Transfers among participants and prescribed holders					
Transactions with designation	2,713,441			2,713,441	1,874,681
Transactions by agreement	1,223,163		58,265	1,281,428	1,242,038
Operations					
Loans	121,322			121,322	24,309
Settlement of financial obligations	206,996		68,094	275,090	133,309
Net interest on SDRs	270,892		1,625	272,517	245,365
Transfers from participants to General Resources Account					
Repurchases		565,880		565,880	838,081
Charges		1,496,619		1,496,619	968,483
Quota payments		83,368		83,368	266,010
Interest on SDRs		444,258		444,258	657,244
Assessments on SDR allocations		2,494		2,494	2,095
Adjustment of underpayment of interest					1
Transfers from General Resources Account to participants and prescribed holders					
Purchases	2,418,576			2,418,576	2,035,221
Repayments of Fund borrowings	28,279			28,279	143,989
Interest on Fund borrowings	212,709		11,055	223,764	143,186
Refunds and adjustments	20,099			20,099	23,237
In exchange for currencies of other members					
Acquisitions for net charges (Special Drawing Rights Department)	35,835			35,835	2,921
Acquisitions to pay charges (General Resources Account)	126,628			126,628	24,062
Remuneration	860,614			860,614	348,221
	8,238,554	2,592,619	139,039	10,970,212	8,972,453
Use of SDRs					
Transfers among participants and prescribed holders					
Transactions with designation	2,713,441			2,713,441	1,874,681
Transactions by agreement	1,226,596		54,832	1,281,428	1,242,038
Operations					
Loans	53,000		68,323	121,323	24,309
Settlement of financial obligations	271,410		3,680	275,090	133,309
Transfers from participants to General Resources Account					
Repurchases	565,880			565,880	838,081
Charges	1,496,619			1,496,619	968,483
Quota payments	83,368			83,368	266,010
Assessments on SDR allocations	2,494			2,494	2,095
Transfers from General Resources Account to participants and prescribed holders					
Purchases		2,418,576		2,418,576	2,035,221
Repayments of Fund borrowings		28,279		28,279	143,989
Interest on Fund borrowings		223,763		223,763	143,186
Refunds and adjustments		20,099		20,099	23,237
In exchange for currencies of other members					
Acquisitions for net charges (Special Drawing Rights Department)		35,835		35,835	2,921
Acquisitions to pay charges (General Resources Account)		126,628		126,628	24,062
Remuneration		860,614		860,614	348,221
Charges in the Special Drawing Rights Department					
Net charges due	716,775			716,775	902,609
Charges due but not paid	—25,580			—25,580	—15,420
Settlement of unpaid charges	15,420			15,420	
Return of excess interest received					1
	7,119,423	3,713,794	126,835	10,960,052	8,957,033
Total holdings at end of financial year	17,107,542	4,334,909	16,459	21,458,910	21,448,750

The accompanying notes are an integral part of the financial statements.

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International Monetary Fund
Special Drawing Rights Department
Notes to the Financial Statements

Special Drawing Rights Department

All transactions and operations involving SDRs are conducted through the Special Drawing Rights Department. SDRs do not constitute claims by holders against the Fund to provide currency, except in connection with the termination of participation or liquidation. SDRs are allocated by the Fund to members that are participants in the Special Drawing Rights Department in proportion to their quotas in the Fund. Three allocations were made, in 1970, 1971, and 1972, aggregating SDR 9.3 billion. Three further allocations were made, in 1979, 1980, and 1981, aggregating SDR 12.1 billion. The Fund is empowered to prescribe certain official entities as holders of SDRs; to date, 13 institutions have been prescribed as holders. These prescribed holders do not receive allocations and cannot use or receive SDRs in designation.

Uses of SDRs

Participants and prescribed holders can use and receive SDRs in transactions and operations by agreement among themselves. Participants can also use SDRs in operations involving the General Resources Account, such as the payment of charges and repurchases. In addition, the Fund ensures, by designating participants to provide freely usable currency in exchange for SDRs, that a participant can use its SDRs to obtain such currency if it has need because of its balance of payments or its reserve position or developments in its reserves. A participant is not obliged to provide currency for SDRs beyond the point at which its holdings of SDRs in excess of its net cumulative allocation are equal to twice its net cumulative allocation. A participant may, however, provide currency in excess of the obligatory limit or any agreed higher limit.

Interest, Charges, and Assessment

Interest is paid to each holder on its holdings of SDRs and charges are levied at the same rate on each participant's net cumulative allocation plus any negative balance of the participant or unpaid charges. Interest and charges are settled by crediting and debiting individual holdings accounts on April 30 each year. The Fund is required to pay interest to each holder, whether or not sufficient SDRs are received in payment of charges. The expenses of conducting the business of the Special Drawing Rights Department are paid by the Fund from the General Resources Account which is reimbursed in SDRs at the end of each financial year. For this purpose, the Fund levies an assessment, at the same rate for all participants, on their net cumulative allocations.

Suspension of Right to Use SDRs

On December 19, 1978 the Executive Board suspended the right of Democratic Kampuchea to use SDRs acquired after the date of the suspension because the Fund found that Democratic Kampuchea had failed to meet certain obligations in the Special Drawing Rights Department.

1. Charges Due but not Paid

Charges due but not paid represent the amount of unpaid charges by Comoros, Equatorial Guinea, Grenada, Guinea, Guinea-Bissau, Jamaica, Lao People's Democratic Republic, Liberia, St. Lucia, Senegal, Viet Nam, and Zaïre for the financial year ended April 30, 1983. Under Article XX, Section 1, the Fund is required to pay interest to each holder, whether or not sufficient SDRs are received in payment of charges. The total of SDRs held by all holders on April 30, 1983 exceeds the total of net cumulative allocations to the extent of these unpaid charges. At June 15, 1983 charges due from three participants amounting to SDR 0.9 million remained outstanding.

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INTERNATIONAL MONETARY FUND

SUBSIDY ACCOUNT

STATEMENT OF FINANCIAL POSITION

Changes during year and Position as at April 30, 1983

(In thousands of SDRs)

(Note 1)

	1983	1982
Balance at beginning of year	20,329	62,090
Contributions received (Note 1)	381	3,477
Interest earned on investments	1,723	2,730
	2,104	6,207
Valuation gain	462	2,083
	2,566	8,290
	22,895	70,380
Less: Subsidy payments (Note 2)	9,340	50,051
Balance at end of year	13,555	20,329
Balance represented by:		
Currency on deposit	41	372
Investments in United States Government obligations, at cost *(market value: SDR 13,733—1983; SDR 19,227—1982)*	12,693	19,224
Accrued interest receivable	821	733
Total assets	13,555	20,329

The accompanying notes are an integral part of the financial statement.

/s/ DAVID WILLIAMS
Acting Treasurer

/s/ J. DE LAROSIÈRE
Managing Director

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INTERNATIONAL MONETARY FUND
SUBSIDY ACCOUNT
NOTES TO THE FINANCIAL STATEMENT

Purpose

The Subsidy Account, which is administered by the Fund, was established to assist the most seriously affected members to meet the interest cost of using resources made available through the Fund's oil facility for 1975. The assets of the Subsidy Account are separate from the assets of all other accounts of the Fund and are not used to discharge liabilities or to meet losses incurred in the administration of other accounts.

1. Accounting Practices

Unit of Account

The accounts of the Subsidy Account are expressed in terms of the SDR, the currency value of which is determined daily by the Fund, at present, by summing the values in U.S. dollars, based on market exchange rates, of a basket of five specified currencies, as follows:

Currencies	Amount
U.S. dollar	0.54
Deutsche mark	0.46
French franc	0.74
Japanese yen	34
Pound sterling	0.071

Basis of Accounting

The accounts are maintained on an accrual basis and, accordingly, income is recognized as it is earned. It is the practice of the Fund to make all calculations on the basis of the exact number of days in the calendar year.

Contributions

Contributions to the Subsidy Account are made in currencies which are valued in terms of the SDR on the basis of exchange rates against the SDR at the time of receipt.

2. Subsidy Payments

The rate of subsidy for the financial years ended April 30, 1976 through 1982 and for the period from May 1, 1982 to May 11, 1983—the latter being the date by which the last outstanding balances from purchases under the 1975 oil facility are scheduled to be fully repurchased—was set by the Fund at 5 per cent per annum of the average daily balances in each year of the Fund's holdings of recipient members' currencies subject to the schedule of charges applicable to the 1975 oil facility. Subsidy payments are made in U.S. dollars at the SDR/US$ rate determined for the date of payment. Subsidy payments for the period from May 1, 1982 to May 11, 1983 amounted to SDR 2.5 million and were made on June 15, 1983. A decision on the disposition of the remaining assets of the Subsidy Account will be taken by the Fund at a later date.

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INTERNATIONAL MONETARY FUND

SUPPLEMENTARY FINANCING FACILITY
SUBSIDY ACCOUNT
BALANCE SHEET
as at April 30, 1983

(In thousands of SDRs)

(Note 1)

	1983	1982
ASSETS		
Currency	73	18
Interest-earning deposits	31,498	30,890
Accrued income	1,104	1,536
Total	32,675	32,444
RESOURCES AND LIABILITY		
Resources—Account balance	28,075	29,183
Borrowing (Note 2)	4,600	3,261
Total	32,675	32,444

The accompanying notes are an integral part of the financial statements.

/s/ DAVID WILLIAMS
Acting Treasurer

/s/ J. DE LAROSIÈRE
Managing Director

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INTERNATIONAL MONETARY FUND

SUPPLEMENTARY FINANCING FACILITY
SUBSIDY ACCOUNT
STATEMENT OF CHANGES IN RESOURCES
for the year ended April 30, 1983

(In thousands of SDRs)

(Note 1)

	1983	1982
Balance at beginning of year	29,183	—
Transfers from Special Disbursement Account	33,808	14,991
Contributions (Note 1)	6,862	34,265
Investment income	2,548	2,785
Exchange valuation gain (loss)	(56)	63
Balance before subsidy payments	72,345	52,104
Subsidy payments (Note 3)	44,270	22,921
Balance at end of year	28,075	29,183

The accompanying notes are an integral part of the financial statements.

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INTERNATIONAL MONETARY FUND

SUPPLEMENTARY FINANCING FACILITY
SUBSIDY ACCOUNT
NOTES TO THE FINANCIAL STATEMENTS

Purpose

The Supplementary Financing Facility Subsidy Account, which is administered by the Fund, was established in December 1980 to assist the low-income developing members to meet the cost of using resources made available through the Fund's supplementary financing facility and under the policy on exceptional use. The assets of the Supplementary Financing Facility Subsidy Account are separate from the assets of all other accounts of the Fund and are not used to discharge liabilities or to meet losses incurred in the administration of other accounts. The Supplementary Financing Facility Subsidy Account became operational in May 1981 and the first subsidy payments were made in December of that year. The resources of the Account arise from contributions and loans from members, interest income earned on investments, and transfers of amounts received in interest and loan repayments from the Trust Fund through the Special Disbursement Account.

1. Accounting Practices

Unit of Account

The accounts of the Supplementary Financing Facility Subsidy Account are expressed in terms of the SDR, the currency value of which is determined daily by the Fund, at present, by summing the values in U.S. dollars, based on market exchange rates, of a basket of five specified currencies, as follows:

Currencies	Amount
U.S. dollar	0.54
Deutsche mark	0.46
French franc	0.74
Japanese yen	34
Pound sterling	0.071

Basis of Accounting

The accounts are maintained on an accrual basis and, accordingly, income is recognized as it is earned and expenses are recorded as they are incurred. It is the practice of the Fund to make all calculations on the basis of the exact number of days in the financial year.

Contributions

Contributions to the Supplementary Financing Facility Subsidy Account are made in currencies which are valued in terms of SDRs on the basis of exchange rates against the SDR at the time of receipt. Cumulative contributions to the Supplementary Financing Facility Subsidy Account at April 30, 1983 amounted to SDR 41.13 million.

2. Borrowing

Certain members have made loans to the International Monetary Fund in its capacity as trustee of the Supplementary Financing Facility Subsidy Account. These loans, which are without interest, are to be repaid on December 31, 1984.

3. Subsidy Payments

The amount of the subsidy is calculated as a percentage per annum of the average daily balances in each year of the Fund's holdings of recipient members' currencies subject to the schedule of charges applicable to the supplementary financing facility and the policy on exceptional use. The rate of subsidy to be paid is determined by the Fund in the light of the resources available and the subsidy may not exceed the equivalent of 3 per cent per annum of the currency holdings to which the supplementary financing facility and exceptional use charges apply nor reduce the effective charge on such holdings below the rate of charge which would have been applicable had they been acquired under the Fund's policies on the regular use of its resources.

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INTERNATIONAL MONETARY FUND

TRUST FUND

BALANCE SHEET

as at April 30, 1983

(In thousands of SDRs)

(Note 1)

	1983	1982
ASSETS		
Loans (Note 2)	2,972,886	2,991,335
Accrued interest on loans	4,894	4,917
Investments, at cost (and approximate market value)	3,724	3,600
Accrued interest on investments	111	47
Total	2,981,615	2,999,899
TRUST RESOURCES AND LIABILITIES		
Trust resources	2,975,589	2,994,030
Liabilities—		
Undistributed profits from sale of gold (Note 3)	3,690	3,533
Borrowing (Note 4)	2,332	2,332
Accrued interest on borrowing	4	4
Total	2,981,615	2,999,899

The accompanying notes are an integral part of the financial statements.

/s/ DAVID WILLIAMS
Acting Treasurer

/s/ J. DE LAROSIÈRE
Managing Director

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INTERNATIONAL MONETARY FUND

TRUST FUND
STATEMENT OF INCOME AND EXPENSE
for the year ended April 30, 1983

(In thousands of SDRs)

(Note 1)

	1983	1982
Income:		
Interest income on loans	14,927	14,957
Investment income	447	547
Exchange valuation gain	5	10
	15,379	15,514
Less—Interest expense on borrowing (Note 4)	12	12
Net income	15,367	15,502

The accompanying notes are an integral part of the financial statements.

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INTERNATIONAL MONETARY FUND

TRUST FUND
STATEMENT OF CHANGES IN TRUST RESOURCES
for the year ended April 30, 1983

(In thousands of SDRs)

(Note 1)

	1983	1982
Balance, beginning of year	2,994,030	2,993,518
Net income for the year	15,367	15,502
Balance before transfers to the Special Disbursement Account	3,009,397	3,009,020
Transfers to the Special Disbursement Account (Note 5)	33,808	14,990
Balance, end of year	2,975,589	2,994,030

The accompanying notes are an integral part of the financial statements.

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INTERNATIONAL MONETARY FUND

TRUST FUND
NOTES TO THE FINANCIAL STATEMENTS

Purpose

The Trust, which is administered by the Fund as Trustee, was established in 1976 to provide balance of payments assistance on concessional terms to eligible members that qualify for assistance. The resources of the Trust are separate from the assets of all other accounts of the Fund and are not used to discharge liabilities or to meet losses incurred in the administration of other accounts.

1. Accounting Practices

Unit of Account

The accounts of the Trust Fund are expressed in terms of the SDR, the currency value of which is determined daily by the Fund, at present, by summing the values in U.S. dollars, based on market exchange rates, of a basket of five specified currencies, as follows:

Currencies	Amount
U.S. dollar	0.54
Deutsche mark	0.46
French franc	0.74
Japanese yen	34
Pound sterling	0.071

Basis of Accounting

The accounts are maintained on an accrual basis and, accordingly, income is recognized as it is earned and expenses are recorded as they are incurred. The expenses of conducting the business of the Trust Fund that are paid from the General Department of the IMF are reimbursed by the Trust Fund on the basis of an estimate of these expenses by the IMF. Following the termination of the Trust Fund on April 30, 1981, residual administrative costs have been absorbed by the General Department. It is the practice of the Fund to make all calculations on the basis of the exact number of days in the accounting year.

Valuation Adjustments

Valuation adjustments arising from changes in the SDR rate of currencies held by the Trust Fund are charged to net income.

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 Instrument. The final loan disbursements were made on March 31, 1981. Each loan disbursement is repayable in ten semiannual installments which shall begin not later than the end of the first six months of the sixth year, and be completed at the end of the tenth year, after the date of disbursement, except that most of the final loan disbursements made to members on March 31, 1981 that amounted to about 0.4 per cent of quotas are to be repaid in a single installment not later than ten years after the date of that disbursement. Interest on the outstanding loan balances is charged at the rate of ½ of 1 per cent per annum.

3. Direct Distribution of Profits

The International Monetary Fund decided that the Trustee make, through the Trust Fund, the direct distribution of part of the profits from the sale of gold for the benefit of developing members. The share of each developing member in this direct distribution of profits is calculated on the basis of its share in total IMF quotas as at August 31, 1975 and on the basis of the actual profits realized in the gold auctions.

The direct distribution of profits has been completed, except that an amount of US$3,990,776 representing the share of Democratic Kampuchea will continue to be held in the Trust Fund until relations with that member have been restored.

4. Borrowing

One beneficiary of the direct distribution of profits from the Trust Fund has lent a part of its entitlements to the Trust Fund. The amounts borrowed by the Trust Fund are repayable in ten semiannual installments beginning not later than the end of the first six months of the sixth year after the date of borrowing. Interest on the amounts outstanding is paid at the same rate as interest is charged on Trust Fund loans, provided that the rate shall not be less than ½ of 1 per cent per annum.

5. Termination and Transfer of Resources

The Fund, as Trustee, decided that upon the completion of the final loan disbursements, the Trust Fund shall be terminated as of April 30, 1981. After that date, the activities of the Trust Fund shall be confined to the completion of any unfinished business of the Trust Fund and the winding up of its affairs.

The resources of the Trust Fund held on the termination date or subsequently received by the Trustee will be employed first to satisfy current administrative expenses, second to pay interest and principal as it falls due on loan obligations, and third to make transfers to the Special Disbursement Account, the first SDR 750 million of which will flow through to the Supplementary Financing Facility Subsidy Account. At April 30, 1983 SDR 48.80 million (SDR 14.99 million at April 30, 1982) had been transferred through the Special Disbursement Account to the Supplementary Financing Facility Subsidy Account.

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Report of the External Audit Committee
Staff Retirement Plan

Washington, D.C.
July 1, 1983

Authority and Scope of the Audit

In accordance with Section 20(b) of the By-Laws of the International Monetary Fund we have audited the financial statements of the Staff Retirement Plan for the year ended April 30, 1983, which consist of statements of

—Accumulated plan benefits and net assets available for benefits,
—Changes in accumulated plan benefits, and
—Changes in net assets available for benefits.

The audit was conducted in accordance with international auditing guidelines and, accordingly, included reviews of accounting and control systems, tests of accounting records, evaluation of the extent and results of work performed by the Internal Auditor, and other audit procedures.

Audit Opinion

In our opinion, the financial statements 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 position of the Staff Retirement Plan as at April 30, 1983 and of the financial results of operations and transactions during that year.

External Audit Committee:

/s/ Gerardo Rueda-Rábago, Chairman (Mexico)
/s/ Walter Scholz (Germany)
/s/ David G. Njoroge (Kenya)

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INTERNATIONAL MONETARY FUND

STAFF RETIREMENT PLAN
STATEMENT OF ACCUMULATED PLAN BENEFITS
AND NET ASSETS AVAILABLE FOR BENEFITS
as at April 30, 1983

(In thousands of U.S. dollars)

	1983	1982
Accumulated Plan benefits (Note 1):		
Actuarial present value of accumulated Plan benefits		
Vested benefits		
Retired participants	111,000	97,600
Other participants	89,500	86,600
Nonvested benefits	38,200	27,500
Total actuarial present value of accumulated Plan benefits	238,700	211,700
Net assets available for benefits:		
Investments, at current value (Note 1)		
Portfolio managed within the United States	316,755	212,631
Portfolio managed outside the United States	48,377	26,115
	365,132	238,746
Receivables:		
Contributions	596	523
Accrued interest and dividends (Note 1)	3,610	1,984
Other	—	1
	4,206	2,508
Cash on deposit	13	57
Total assets	369,351	241,311
Liabilities:		
Accounts payable	804	377
Net assets available for benefits	368,547	240,934
Excess of net assets available for benefits over actuarial present value of accumulated Plan benefits	129,847	29,234

The accompanying notes are an integral part of the financial statements.

/s/ DAVID WILLIAMS
Acting Treasurer

/s/ J. DE LAROSIÈRE
Managing Director

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INTERNATIONAL MONETARY FUND

STAFF RETIREMENT PLAN

STATEMENT OF CHANGES IN ACCUMULATED PLAN BENEFITS

for the year ended April 30, 1983

(In thousands of U.S. dollars)

	1983	1982
Actuarial present value of accumulated Plan benefits at beginning of year	211,700	175,300
Increase (decrease) during the year attributable to:		
Benefits accumulated	37,858	45,436
Benefits paid	(10,858)	(9,036)
Net increase	27,000	36,400
Actuarial present value of accumulated Plan benefits at end of year (Note 1)	238,700	211,700

The accompanying notes are an integral part of the financial statements.

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INTERNATIONAL MONETARY FUND

STAFF RETIREMENT PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
for the year ended April 30, 1983

(In thousands of U.S. dollars)

	1983	1982
Investment income (Note 1):		
Net appreciation (depreciation) in current value of investments (Note 3)	80,460	(18,745)
Interest	12,561	9,780
Dividends	7,726	6,575
	100,747	(2,390)
Contributions (Note 2):		
International Monetary Fund	30,515	28,945
Participants	7,378	7,082
Participants restored to service	28	42
Net transfers from (to) retirement plans of other international organizations	(197)	259
	37,724	36,328
Total additions	138,471	33,938
Benefits:		
Pensions	8,917	7,842
Withdrawal benefits	925	715
Commutation benefits	751	444
Death benefits	265	35
Total payments	10,858	9,036
Net additions	127,613	24,902
Net assets available for benefits at:		
Beginning of year	240,934	216,032
End of year	368,547	240,934

The accompanying notes are an integral part of the financial statements.

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INTERNATIONAL MONETARY FUND

STAFF RETIREMENT PLAN

NOTES TO THE FINANCIAL STATEMENTS

Description of Plan

General

The Staff Retirement Plan (Plan) is a defined benefit pension plan covering nearly all staff members of the International Monetary Fund (employer). All assets and income of the Plan are the property of the employer and are held and administered by it separately from all its other property and assets and are to be used solely for the benefit of participants and retired participants or their beneficiaries. The account is valued in U.S. dollars.

Benefits

Participants are entitled to an annual pension beginning at normal retirement age (65). The amount of the pension is based on number of years of service and highest average gross remuneration. Participants who have reached the age of 55 may retire with a reduced pension (or with an unreduced pension if the sum of their age and years of service equals 90 or more). The Plan also provides for disability retirement and death benefits to a surviving spouse and minor children. Upon termination before age 55 a participant with at least three years of eligible service may elect to receive either a withdrawal benefit (accumulated contributions of the participant plus an amount equal to a percentage of such accumulated contributions, the percentage being based on number of months of eligible service) or a deferred pension to commence after the participant has reached the age of 55. A participant 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 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.

Contributions

As a condition of participation, regular staff members are required to participate in the Plan and to contribute 7 per cent of their gross remuneration to the Plan. Certain other categories of staff members may elect to participate in the Plan. The employer meets the administrative costs of the Plan, such as actuarial, management, and custodial fees, and is to contribute any additional amounts not provided by the contributions of participants to pay costs and expenses of the Plan not otherwise covered. In 1983, the administrative costs for actuarial, management, and custodial fees were approximately $1.1 million.

1. Accounting Practices

Valuation of Investments

Investments in securities listed in stock exchanges are valued at the last reported 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 year. Purchases and sales made by U.S. investment managers are recorded on the settlement date basis and transactions made by the non-U.S. investment manager are recorded on the trade date basis.

Accumulated Benefits—Vested and Nonvested

The actuarial value of vested benefits is shown for two categories. For retired participants, the amount shown 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 other participants, the amount shown 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 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 for all participants with less than three years of eligible service.

Other

Dividend and interest income from investments are recorded as earned.

2. Funding

The empoyer makes normal contributions to the Plan equal to 14 per cent of gross remuneration. Whenever the cost of living for a financial year increases, pensions shall be augmented by a pension supplement, which shall be the lesser of the increase in the cost of living for the financial year or 2 per cent. If the increase in the cost of living for a year exceeds 2 per cent, pensions shall be augmented by an additional supplement to be paid from contributions from the employer equal to the difference between 2 per cent and the increase in the cost of living. The employer has the right for good cause to reduce the additional supplement to not less than 1 per cent.

3. Investments

The net appreciation (depreciation) in the current value of investments for the periods ending April 30, 1983 and 1982 were as follows:

	In thousands of U.S. dollars	
	1983	1982
Portfolio managed within the United States	70,817	(15,387)
Portfolio managed outside the United States:		
—Net market appreciation (depreciation)	11,698	(2,197)
—Net exchange valuation loss	(2,055)	(1,161)
	9,643	(3,358)
Total appreciation (depreciation)	80,460	(18,745)

The net exchange loss was calculated by converting the book value of securities in currencies other than U.S. dollars to U.S. dollars at the exchange rates in effect at both the beginning and the end of the accounting period (or at the time a security was purchased or sold if this occurs during the accounting period) and subtracting one from the other to determine the exchange gain or loss.

There were no investments which represented 5 per cent or more of the net assets available for benefits.

4. Actuarial Valuation

The most recent valuation of the Plan by the actuary engaged by the Pension Committee was made as at April 30, 1982.

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Actuarial assumptions used in the valuation were (a) life expectancy of participants as based on the 1960 United Nations Service Tables, (b) certain percentages of staff, differing by sex, would retire at each age between 55 and 65, and (c) an assumed average rate of return on investments of 6 per cent per annum. The valuation method used is a projected benefit cost method. The purpose of the annual valuation is to determine, on the basis of the actuarial assumptions used, the level of additional employer contributions necessary to fund experience losses and cost of living increases beyond the first 2 per cent. It is further assumed that the Plan will continue to exist and that participants will continue to earn pension benefits beyond the date of the valuation until the date of withdrawal, disability, death, or retirement. This valuation therefore differs from that in which the actuarial value of vested benefits is determined (Note 1).

Experience gains and losses of the Plan, as determined by the actuary, are amortized over a period of 15 years. The most recent valuation (at April 30, 1982) showed an experience gain of $9.1 million for the year then ended. Unamortized experience losses amounted to $61.6 million at April 30, 1983, of which $7.5 million was paid by the employer on May 2, 1983.

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