International Monetary Fund

Annual Report

Making the Global Economy Work for All

2003

International Monetary Fund

Annual Report 2003

Working to Strengthen Global Growth

Uncertainties in the world economic environment, coupled with the economic and financial difficulties faced by many member countries, posed numerous challenges for the IMF during the 2002/03 financial year.

Despite some signs in early 2002 that global economic growth was strengthening from the 2001 slowdown, the recovery subsequently faltered. Demand and activity were weakened by geopolitical uncertainties in the run-up to the war in Iraq, which affected both oil prices and confidence among consumers and businesses, as well as by continuing fallout from the collapse of equity markets during 2000–02. Monetary and fiscal policy actions taken by a number of countries provided support for demand, but world output growth in calendar year 2002, though somewhat higher than in 2001, was again well below trend. World trade growth picked up in 2002 from its 2001 low but was weaker than in any other year since the global recession of the 1980s.

In this environment, the IMF continued to work with its member countries to foster stronger sustainable growth through its policy advice and surveillance activities; its financial support for the efforts of members to tackle balance of payments problems; its financial assistance to low-income countries, promoting growth and poverty reduction; its technical assistance; and its continuing work on the reform of the international monetary system and of its own operations.

Surveillance and Crisis Prevention

The IMF oversees the international monetary system to ensure that it operates efficiently and it exercises surveillance over the exchange rate policies of its member countries. The Fund carries out these responsibilities by consulting with members on their economic and financial policies, and by regularly reviewing economic and financial developments at the global, regional, and country levels.

During FY2003, the IMF held bilateral (country) discussions with 136 members. It also took a number of steps to enhance the effectiveness of its surveillance and crisis prevention work. Among these efforts, it continued to develop a system to assess countries' vulnerability to balance of payments crises. The Board also proposed improvements to assessment exercises under the IMF's standards and codes initiative and the joint IMF–World Bank Financial Sector Assessment Program (FSAP); supported proposals to enhance data provision for surveillance; adopted a new framework for debt sustainability assessments; and endorsed further measures to strengthen surveillance in program countries. The IMF also advanced its contribution to combating money laundering and the financing of terrorism.

The Democratic Republic of Timor-Leste (formerly East Timor) became the IMF's 184th member in July 2002. His Excellency Mari Alkatiri, Prime Minister of Timor-Leste (left), is welcomed by IMF Managing Director Horst Köhler at the signing ceremony.

Crisis Resolution

Crisis *prevention* has always been the primary focus of the IMF's reform agenda. But because it is not likely that all crises can be prevented, the Fund has also worked to develop a more robust framework for crisis *resolution*.

Specifically, the IMF has sought to combine a clearer policy on access to its resources and greater selectivity in its lending with a strengthening of mechanisms for restructuring sovereign debt.

In recent years, the IMF has supported some member countries' efforts to resolve capital account crises by providing large amounts of financing, often well above normal access limits. During FY2003, the Board discussed this policy and set more clearly defined criteria for such exceptional access in capital account crises.

The Board also reviewed recent experience in the restructuring of sovereign bonds and the policy of lending IMF resources to countries in arrears to private creditors, discussed the design and effectiveness of collective action clauses to facilitate debt restructuring, and considered a proposal for a sovereign debt restructuring mechanism to resolve unsustainable sovereign debt situations.

Lending Policies and Practices

The IMF provides financial support to member countries under a variety of policies and lending instruments. Most forms of IMF financing are made conditional on the recipient country's adopting policies to correct the underlying problems that gave rise to its need for support.

During FY2003, the IMF concluded a two-year review of the conditions attached to IMF-supported programs and approved new guidelines for designing and implementing such conditionality to enhance country ownership and program effectiveness.

The Board also discussed a progress report on strengthening collaboration with the World Bank in this area and concluded a discussion on prolonged use of IMF resources, based on a report by the Fund's Independent Evaluation Office (see below).

Fight Against Poverty in Low-Income Countries

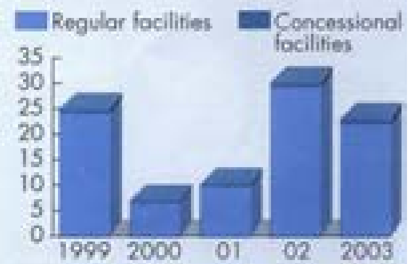
The main objective of the IMF's work with low-income countries is to promote deep and lasting poverty reduction. In this work it follows the "two-pillar" strategy, endorsed by the international community in the Monterrey Consensus, which refers to the need both for low-income countries themselves to accept responsibility for pursuing sound policies, including good governance, and for the international community to provide stronger support for these efforts.

The Fund complements its policy advice with financial support for its poorest members through low-interest loans under the Poverty Reduction and Growth Facility (PRGF) and debt relief through the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. It also offers technical assistance to help countries build institutional capacity. The Board reviewed PRGF lending and the Poverty Reduction Strategy Paper (PRSP) process in FY2002. During FY2003, the IMF followed up on this review by paying increased attention in country programs to creating the right environment for investment and growth, bringing poverty and social impact analysis more systematically to bear in helping countries formulate poverty reduction strategies and PRGF-supported programs, and strengthening public expenditure management.

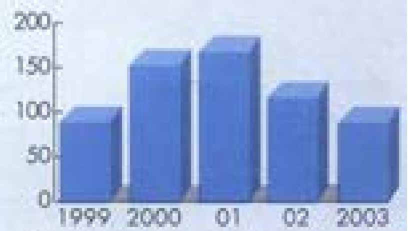
The IMF also advocated greater market access for developing country exports, including the phasing out of trade-distorting subsidies in industrial countries. As part of this work, it cooperated with the World Trade Organization on ways to enhance the coherence of the work of the two organizations, and stood ready to contribute to developing proposals for an agricultural trade

The Ghanaian authorities are signposting construction projects to highlight the tangible benefits of their participation in the IMF–World Bank Heavily Indebted Poor Countries Initiative. Ghana published a Poverty Reduction Strategy Paper in February 2003.

Regular and Concessional Lending
(In billions of SDRs, financial year)

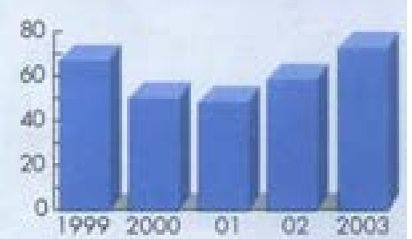


IMF Liquidity Ratio*
(In percent, end of financial year)



*Ratio of net uncommitted usable resources to liquid liabilities.

IMF Credit Outstanding
(In billions of SDRs, end of financial year)



An IMF team meets a senior tax official and his staff in Afghanistan. The Fund provided the equivalent of 356 person-years of technical assistance in FY2003.

agenda for Africa. The IMF also supported calls for more international aid and the system for monitoring actions aimed at achieving the United Nations' Millennium Development Goals.

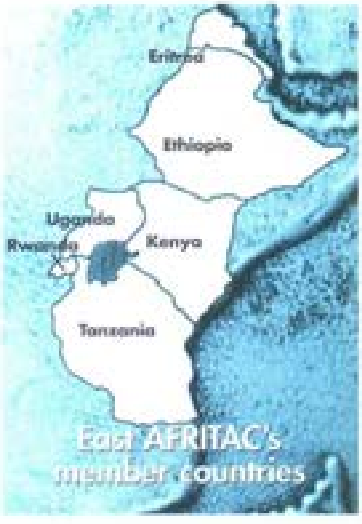
Technical Assistance and Training

IMF technical assistance and training aim both to help countries strengthen their policymaking capacity and to assist them in designing particular policies.

In FY2003, the IMF provided 356 person-years of technical assistance. Reflecting new needs, technical assistance increased in FY2003 for post-conflict cases, regional initiatives, crisis prevention, and crisis resolution and management. Sub-Saharan Africa continued to receive the largest share. The IMF established two regional Africa Technical Assistance Centers (AFRITACs), in Tanzania (October 2002) and Mali (May 2003), to increase the volume, range, and coordination of assistance from various providers within the respective regions.

The IMF reviewed its technical assistance policies in FY2003. The Board endorsed measures to introduce an institution-wide methodology for monitoring and evaluation, and to set up a comprehensive accounting system to capture the full cost of technical assistance.

External financing is an important source of support for technical assistance. In FY2003 such external financing accounted for about 30 percent of total IMF-directed technical assistance, with Japan the largest donor.



The IMF worked with donor partners and participating countries in FY2003 to establish two Africa Regional Technical Assistance Centers (AFRITACs). The first, based in Dar es Salaam, was inaugurated in October 2002.

Transparency

Many of the reforms introduced by the IMF in recent years have been based on a recognition that the Fund's effectiveness is improved by *transparency* in its development and provision of policy advice, *accountability* for the advice it provides, *responsiveness* to lessons drawn from past experiences, *openness* to outside views, and *cooperation* with other members of the international community.

In September 2002, the Board reviewed its transparency policy and discussed the next steps. Directors welcomed the increased release of country documents and other materials, but stressed that the IMF's transparency should not lessen the candor of its dialogue with members or of the staff's reporting.

In March 2003, the Board considered the IMF's external communications strategy. The review recognized that key objectives were to improve public understanding of the IMF's work and support for its policies, and to be more open to analysis and criticism of its work from outside. Directors agreed that more might be achieved by better focusing communications, including through more contact with legislatures and civil society organizations in member countries.

Independent Evaluation Office

The Independent Evaluation Office (IEO) was set up in July 2001 to conduct objective and independent assessments of issues related to the IMF's mandate. During FY2003, the IEO conducted three evaluation projects. These were on the prolonged use of IMF resources, the role of the IMF in three recent capital account crises (Brazil, Indonesia, and Korea), and fiscal adjustment

in IMF-supported programs. After the Board broadly endorsed the first report in September 2002, IMF management set up a task force on ways to address the issues raised.

Financial Operations and Policies

In FY2003 a Stand-By Arrangement for Brazil amounting to SDR 22.8 billion ($31.5 billion)—the largest arrangement in IMF history—dominated new IMF lending commitments to its member countries. This arrangement, plus other large arrangements for Colombia and Argentina, and the augmentation of an existing arrangement for Uruguay, kept commitments in FY2003 relatively high. New commitments totaled SDR 29.4 billion ($40.7 billion), SDR 10 billion lower than commitments in FY2002.

During the financial year, the IMF disbursed SDR 21.8 billion in loans from its General Resources Account. This total exceeded loan repayments of SDR 7.8 billion. Consequently, IMF credit outstanding at end-April amounted to a record high of SDR 66 billion ($91.3 billion), SDR 13.9 billion higher than a year earlier.

At the same time, the IMF's liquidity position remained adequate to meet the needs of its members. The one-year forward commitment capacity (FCC) amounted to SDR 61 billion at the end of FY2003. (The FCC—a new measure of liquidity, introduced in FY2003—indicates the amount of quota-based resources available for lending over the next 12 months.)

The IMF's concessional assistance is provided under the PRGF and the HIPC Initiative. Ten new PRGF arrangements were approved during the financial year, with commitments totaling SDR 1.2 billion, and one existing loan was increased. Total PRGF disbursements in FY2003 amounted to SDR 1.2 billion. At end-April, the adjustment and reform efforts of 36 countries were being supported by PRGF arrangements, with commitments totaling SDR 4.5 billion and undrawn balances of SDR 2.5 billion. By the end of FY2003, eight countries had reached their completion points under the enhanced HIPC Initiative, and another 18 had passed their decision points and had begun to receive interim debt relief.

The IMF also provides emergency assistance through loans to countries emerging from conflict. By the end of FY2003, seven donor countries had pledged SDR 11.5 million in subsidies for such loans, and disbursements to seven affected countries totaled SDR 1.4 million.

Membership

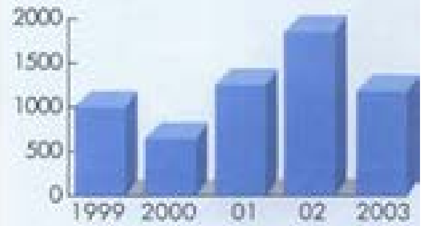
The Democratic Republic of Timor-Leste (formerly East Timor) became the 184th member of the IMF on July 23, 2002. Timor-Leste's initial quota in the IMF was set at SDR 8.2 million (about $11 million).

Organization, Budget, and Human Resources

FY2003 saw a number of institutional changes. The Monetary and Financial Systems Department replaced the Monetary and Exchange Affairs Department, reflecting its expanded responsibilities. The Treasurer's Department was renamed the Finance Department. It was announced that Deputy Managing Director Eduardo Aninat would leave his post in June 2003, and that Economic Counsellor and Director of the Research Department Kenneth Rogoff would return to Harvard University in fall 2003. They will be succeeded, respectively, by Agustín Carstens, Mexico's Deputy Secretary of Finance, and Raghuram Rajan of the University of Chicago Graduate School of Business.

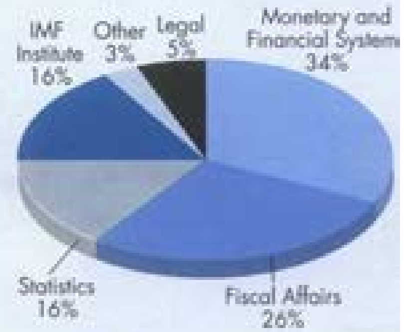
Independent Evaluation Office staff present their first report—on prolonged use of IMF resources—to the press in September 2002.

PRGF—New Commitments*
(In millions of SDRs, financial year)



*Includes augmentations less approved reduction.

Technical Assistance
(By function, as a percent of total resources, in effective person-years, FY2003)



HIPCs—Debt Reduction**
(Net present value of debt, in billions of U.S. dollars, in decision-point terms)

**Countries that reached their decision point as of April 30, 2003.

Managing Director Horst Köhler

World economic growth picked up modestly in 2002, following the 2001 slowdown. However, relatively strong growth in the first quarter of 2002 was followed by a gradual weakening, extending to the end of the IMF's 2002/03 financial year. In this context of tepid global recovery, it has been incumbent on the advanced economies, in particular, to gear their policies toward restoring confidence and sustainable growth. The commitment of the major industrial countries, at the June 2003 G-8 summit in Evian, to do so—following stimulative policy measures already taken in a number of cases—is welcome.

Promoting policies to support economic recovery and raise growth prospects for all continued to be a prime focus of the IMF's work in FY2003. Strengthening the framework for surveillance and crisis prevention remained central to the Fund's efforts. In our surveillance at the country, global, and regional levels, we paid closer attention to the external implications of national policies. We also sharpened our analysis of vulnerabilities, concentrating on assessments of debt sustainability and crisis risks, and increasing our emphasis on financial sector surveillance (including through our joint Financial Sector Assessment Program with the World Bank) and on institution building (through our Reports on the Observance of Standards and Codes).

When crises occur, in spite of these heightened efforts to prevent them, we need effective mechanisms to resolve them and limit their costs. IMF management's proposal for a sovereign debt restructuring mechanism catalyzed a debate on ways to deal with unsustainable debt, and we are continuing to work toward a more orderly resolution of such situations within the existing legal framework. The increased use of collective action clauses in recent sovereign bond issues is encouraging, and we support efforts by debtors and creditors to develop a voluntary code of conduct during debt restructuring.

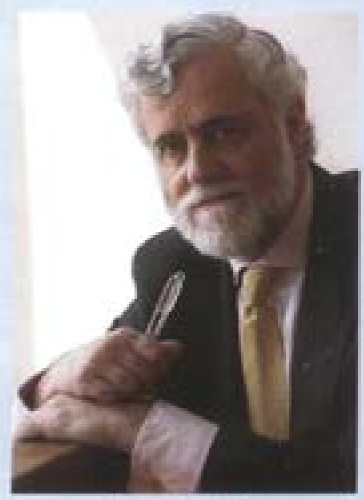
Meanwhile, to make IMF lending decisions in crises more predictable for members and markets, we clarified criteria for access to Fund resources. We also revised our guidelines for the policy conditionality associated with IMF lending to enhance the country ownership and effectiveness of the economic programs the Fund supports.

Deputy Managing Directors

on April 30, 2003

First Deputy Managing Director
Anne Krueger

Deputy Managing Director
Shigemitsu Sugisaki



Deputy Managing Director
Eduardo Aninat

The IMF is committed to playing its full part in the fight against poverty in low-income countries. These countries are benefiting from increased macroeconomic stability thanks to both the implementation of good policies and stronger support from the international community—a combination known as the two-pillar approach. Reform efforts must now shift focus to raising the potential for higher growth needed to reach the Millennium Development Goals. The IMF remains fully engaged in these objectives through its low-interest Poverty Reduction and Growth Facility (PRGF) and its joint participation with the World Bank in the Heavily Indebted Poor Countries debt-relief initiative. We are also improving the alignment of the Fund's programs supported by PRGF lending with country-driven Poverty Reduction Strategy Papers, now widely accepted as the operational framework for these endeavors.

Technical assistance and training strengthen local capacity to design and implement policy. During the past year, the IMF opened two Africa Regional Technical Assistance Centers, in Tanzania and Mali, and provided technical assistance to countries reestablishing institutions after prolonged periods of conflict, including Afghanistan, Iraq, and Timor-Leste.

A successful conclusion of the Doha Round is a singularly important priority for boosting global confidence and growth. Countries worldwide would help themselves by lowering trade barriers. And industrial countries, by doing this, would also help developing countries integrate into the global economy. A reduction in trade-distorting subsidies, particularly in industrial countries' agricultural sectors, would raise the growth prospects of developing countries significantly. The IMF will continue to work to promote the balanced growth of world trade, in close cooperation with our members and other multilateral bodies.

The past financial year also saw a consolidation of the reforms of the IMF itself, a key element of which has been to strengthen our ability to listen and learn. The first reports from our new Independent Evaluation Office made valuable contributions to improving the quality of Fund policy advice and support. We have also continued to increase the transparency of the IMF's own operations and finances.

H. Köhler

Executive Board on April 30, 2003

United States

Nancy P. Jacklin
Meg Lundsager

Japan

Ken Yagi
Haruyuki Toyama

Germany

Karlheinz Bischofberger
Ruediger von Kleist

Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, FYR Macedonia, Moldova, Netherlands, Romania, Ukraine

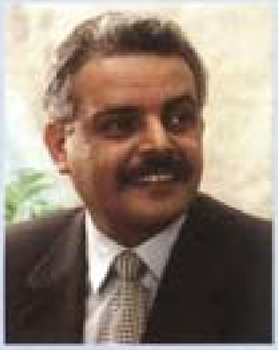
Jeroen Kremers
Yuriy G. Yakusha

Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, Venezuela

Hernán Oyarzábal
Mario Beauregard

Albania, Greece, Italy, Malta, Portugal, San Marino, Timor-Leste

Pier Carlo Padoan
Harilaos Vittas

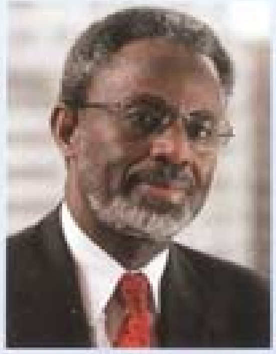


Saudi Arabia

Sulaiman M. Al-Turki
Abdallah S. Alazzaz

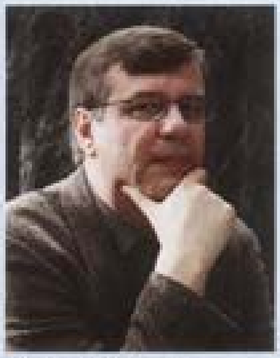
Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao P.D.R., Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, Vietnam

Sri Mulyani Indrawati
Ismail Alowi



Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe

Ismaila Usman
Peter J. Ngumbullu



Russian Federation

Aleksei V. Mozhin
Andrei Lushin

Brazil, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, Trinidad and Tobago

Murilo Portugal
Roberto Steiner

Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Morocco, Pakistan, Tunisia

Abbas Mirakhor
Mohammed Dairi

France

Pierre Duquesne
Sébastien Boitreaud

United Kingdom

Tom Scholar
Martin A. Brooke

Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovak Republic, Slovenia, Turkey

Willy Kiekens
Johann Prader

Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines

Ian E. Bennett
Nioclás A. O'Murchú

Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden

Vilhjálmur Egilsson
Benny Andersen

Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Palau, Papua New Guinea, Philippines, Samoa, Seychelles, Solomon Islands, Vanuatu

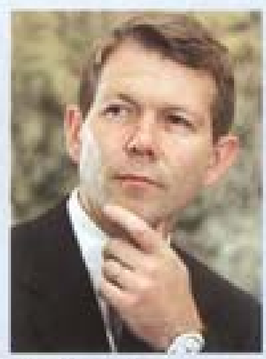
Michael J. Callaghan
Michael H. Reddell

Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Yemen

A. Shakour Shaalan
Oussama T. Kanaan

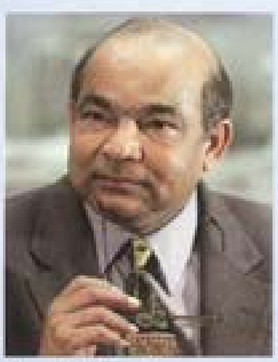
China

WEI Benhua
WANG Xiaoyi



Azerbaijan, Kyrgyz Republic, Poland, Serbia and Montenegro, Switzerland, Tajikistan, Turkmenistan, Uzbekistan

Fritz Zurbrügg
Wieslaw Szczuka

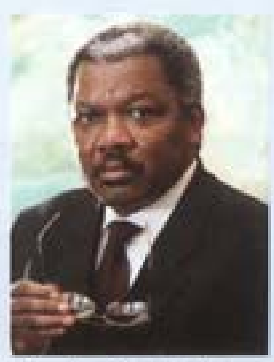


Bangladesh, Bhutan, India, Sri Lanka

Yaga V. Reddy
R.A. Jayatissa

Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay

Guillermo Le Fort
A. Guillermo Zoccali



Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Dem. Rep. of Congo, Rep. of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé and Príncipe, Senegal, Togo

Damian Ondo Mañe
Laurean W. Rutayisire

SENIOR OFFICERS on April 30, 2003

Gerd Häusler
Counsellor

Kenneth S. Rogoff
Economic Counsellor

Area Departments

Abdoulaye Bio-Tchané
Director, African Department

David Burton
Director, Asia and Pacific Department

Michael C. Deppler
Director, European I Department

John Odling-Smee
Director, European II Department

George T. Abed
Director, Middle Eastern Department

Anoop Singh
Director, Western Hemisphere Department

Functional and Special Services Departments

Eduard Brau
Director, Finance Department*

Teresa M. Ter-Minassian
Director, Fiscal Affairs Department

Mohsin S. Khan
Director, IMF Institute

Gerd Häusler
Director, International Capital Markets Department

François P. Gianviti
General Counsel, Legal Department

Stefan Ingves
Director, Monetary and Financial Systems Department*

Timothy F. Geithner
Director, Policy Development and Review Department

Kenneth S. Rogoff
Director, Research Department

Carol S. Carson
Director, Statistics Department

Information and Liaison

Thomas C. Dawson II
Director, External Relations Department

Hiroyuki Hino
Director, Regional Office for Asia and the Pacific

Flemming Larsen
Director, Offices in Europe

Reinhard Munzberg
Director and Special Representative to the UN, Office at the United Nations

Support Services

Margaret R. Kelly
Director, Human Resources Department

Shailendra J. Anjaria
Secretary, Secretary's Department

Brian C. Stuart
Director, Technology and General Services Department

Offices

Barry Potter
Director, Office of Budget and Planning

Alain Coune
Director, Office of Internal Audit and Inspection

Claire Liuksila
Director, Office of Technical Assistance Management

Montek Singh Ahluwalia
Director, Independent Evaluation Office

Jeanette Morrison
Chief, Editorial Division

*The Treasurer's Department became the Finance Department and the Monetary and Exchange Affairs Department became the Monetary and Financial Systems Department on May 1, 2003.

IMF Governance and the Annual Report

This ***Annual Report of the Executive Board of the IMF*** reports on the activities of the Board during the financial year May 1, 2002, through April 30, 2003. Most of the Report consists of reviews of Board discussions of the whole range of IMF policy and operations.

Responsible for conducting the day-to-day business of the IMF, the Board is composed of 24 Directors, who are appointed or elected by member countries or by groups of countries, and the Managing Director, who serves as its Chair. The Board usually meets several times each week. In 2002/2003, the Board spent the bulk of its time on member country matters and much of its remaining time on global economic and financial surveillance and policy issues.

The Board carries out its work largely on the basis of papers prepared by IMF management and staff. Typically, a staff paper includes background factual and analytical material on various aspects of the issue at hand and requests the Board's views on the main issues involved. It may also present proposals by the IMF's management on how the Board and the institution should move forward on an issue. Although a staff paper presents the positions of staff and management, it does not necessarily represent the IMF's position on the issue. The Board may or may not agree with the analysis or the proposals. The position of the IMF is, rather, the position of the Board as reflected in a decision, or as explained in a statement summarizing the discussion (usually referred to in the IMF as the "summing up"). A great many of these summaries are published as Public Information Notices (PINs) on the Fund's website: *www.imf.org*.

The Executive Board exercises all the powers for conducting the IMF's business except those that the Articles of Agreement have reserved for the ***Board of Governors,*** which is the supreme organ of the IMF. It consists of one governor and one alternate governor for each member country. The governor is appointed by the member country and is usually the minister of finance or the governor of the central bank. The Board of Governors normally meets once a year.

The ***International Monetary and Financial Committee*** of the Board of Governors (formerly the Interim Committee on the International Monetary System) is an advisory body made up of 24 IMF governors, ministers, or other officials of comparable rank, representing the same constituencies as in the IMF's Executive Board. The International Monetary and Financial Committee normally meets twice a year, in April or May, and at the time of the Annual Meeting of the Board of Governors in September or October. Among its responsibilities are to provide ministerial guidance to the Executive Board and to advise and report to the Board of Governors on issues regarding the management and adaptation of the international monetary and financial system, including sudden disturbances that might threaten the international monetary system, and on proposals to amend the IMF's Articles of Agreement.

The ***Development Committee*** (the Joint Ministerial Committee of the Boards of Governors of the World Bank and the IMF on the Transfer of Real Resources to Developing Countries) is a joint World Bank–IMF body composed of 24 members—finance ministers or other officials of comparable rank. It generally meets the day after the International Monetary and Financial Committee.

Letter of Transmittal to the Board of Governors

August 27, 2003

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, 2003, in accordance with Article XII, Section 7 *(a)* of the Articles of Agreement of the International Monetary Fund and Section 10 of the IMF's By-Laws. In accordance with Section 20 of the By-Laws, the administrative and capital budgets of the IMF approved by the Executive Board for the financial year ending April 30, 2004, are presented in Chapter 9. The audited financial statements for the year ended April 30, 2003, of the General Department, the SDR Department, and the accounts administered by the IMF, together with reports of the external audit firm thereon, are presented in Appendix IX.

H. Köhler

Horst Köhler
Chairman of the Executive Board

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Boxes

Tables

Figures

The IMF's financial year is May 1, 2002, through April 30, 2003.

The unit of account of the IMF is the SDR; conversions of IMF financial data to U.S. dollars are approximate and provided for convenience. As of April 30, 2003, the SDR/U.S. dollar exchange rate was US$1 = SDR 0.722589, and the U.S. dollar/SDR exchange rate was SDR 1 = US$1.383913. The year-earlier rates (April 30, 2002) were US$1 = SDR 0.788826 and SDR 1 = US$1.267706.

The following conventions are used in this Report:

- ... to indicate that data are not available;
- — to indicate that the figure is zero or less than half the final digit shown or that the item does not exist;
- – between years or months (for example, 1999–2000 or January–June) to indicate the years or months covered, including the beginning and ending years or months;
- / between years or months (for example 1999/00) to indicate a fiscal or financial year.

"Billion" means a thousand million; "trillion" means a thousand billion; minor discrepancies between constituent figures and totals are due to rounding.

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

International Monetary Fund

Annual Report 2003

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Chapter 1

IMF Surveillance in Action

The IMF's Articles of Agreement call for it to oversee the international monetary system in order to ensure its effective operation, and to exercise firm "surveillance"—that is, oversight, including monitoring and analysis—over its member countries' exchange rate policies. As decided by the Executive Board, this appraisal of a country's exchange rate policies must involve a comprehensive analysis of the economic situation and policies of the country, including domestic as well as external policies.

The IMF exercises this responsibility of surveillance—over the system and over individual countries' policies—in several ways:

- *Country (or "Bilateral") Surveillance.* As mandated by Article IV of the IMF's Articles of Agreement, the Executive Board holds regular consultations with each of its members on the country's economic and financial policies, including their international repercussions. These "Article IV" consultations, based on staff reports, are known as bilateral or country surveillance. Through this surveillance, the IMF can identify policy weaknesses, signal dangers on the horizon, and advise countries on corrective policy actions. The consultations are complemented by continuous monitoring and analysis of economic and financial developments by IMF staff, informal contacts between staff and national authorities, and informal interim Board discussions as needed.
- *Global (or "Multilateral") Surveillance.* The IMF's Executive Board regularly reviews major global economic and financial market developments. The reviews are based partly on the *World Economic Outlook* reports, prepared by IMF staff usually twice a year, and on the *Global Financial Stability Report*, also prepared twice a year, on the health of the world's financial system. In addition the Board holds frequent, informal discussions about world economic and financial market developments, and all Directors and staff receive a daily report covering key financial developments in mature and emerging markets.
- *Regional Surveillance.* To supplement country consultations, the IMF also examines policies pursued under regional arrangements. It holds regular discussions with such regional economic institutions as the European Union, the European Central Bank, the West African Economic and Monetary Union, the Central African Economic and Monetary Community, and the Eastern Caribbean Currency Union.

IMF management and staff also take part in policy discussions of finance ministers, central bank governors, and other officials in such country groups as the Group of Seven major industrial countries, the Group of 24, the Asia-Pacific Economic Cooperation forum, the New Partnership for Africa's Development, the Gulf Cooperation Council countries, and the Maghreb countries associated with the European Union.

The IMF's approach to surveillance has evolved to keep pace with new challenges. For a comprehensive discussion of steps taken to strengthen IMF's surveillance, see Chapter 2.

Country Surveillance

To conduct country surveillance in accordance with Article IV, an IMF staff team visits the member country to meet government and central bank officials, and collect economic and financial information. The consultations cover recent economic developments and the monetary, fiscal, and relevant structural policies the country is pursuing. The Executive Director for the member country usually participates as an observer. The team generally also meets other groups—such as trade unions, employer associations, academics, legislative bodies, and financial market participants. The IMF staff team normally prepares a concluding statement, or memorandum, summarizing the findings and policy advice of the staff team, and leaves this statement with the national authorities, who have the option of publishing it.

On their return to headquarters, IMF staff members prepare a report describing the economic situation in the country and the nature of the policy discussions with the national authorities, and evaluating the country's policies. The Executive Board then discusses the report. The views of the country's authorities are conveyed to the Board by the country's Executive Director. The views expressed by Executive Directors

during the meeting are summarized by the Chair or Acting Chair of the Board, and a written summing up is produced. Subject to the approval of the member country concerned, the full Article IV consultation report and a Public Information Notice (PIN), containing a summary of the Board discussion and background material, are released to the public. The country authorities may authorize release of a PIN even if they do not wish to release the full report. In FY2003 the Board conducted 136 Article IV consultations with member countries (see Table 1.1). All PINs and the Article IV reports that the authorities have agreed to release are published on the IMF website.

In addition, the Board assesses economic conditions and policies of member countries borrowing from the IMF in the context of its discussions on the lending arrangements that support the member countries' economic programs.

Global Surveillance

The Executive Board's conduct of global surveillance relies heavily on two staff reports—the *World Economic Outlook* and the *Global Financial Stability Report*—as well as on regular sessions on world economic and market developments.

World Economic Outlook

The *World Economic Outlook* reports offer a comprehensive analysis of prospects and policies for the world economy, individual countries, and regions. They also examine topical issues. These reports are prepared by the staff and discussed by the Executive Board usually twice a year (and later published), but they may be produced and discussed more frequently if rapid changes in world economic conditions warrant.

In FY2003, the Board discussed the *World Economic Outlook* on two occasions—in September 2002 and in March 2003. (See Box 1.1 for a chronology of key economic developments during FY2003.)

World Economic Outlook: September 2002 Session

At its *September 2002* meeting, the Executive Board noted that economic and financial market developments had been mixed since the spring. Negative developments had occurred on several fronts, Directors noted, including the sharp decline in global equity markets since the end of March 2002; the deterioration in financing conditions facing most emerging market borrowers—notably in Latin America; and weaknesses in a number of current and forward-looking indicators for the United States, Europe, and several other regions. These developments were especially disappointing in light of the strengthening of several global economic indicators, including trade and industrial production, seen since the end of 2001, as well as first-quarter growth that exceeded expectations in several regions.

The world economy and financial market activity had shown considerable resilience in the face of multiple shocks, Directors observed, and, going forward, several factors should support a steady strengthening in global growth—including the continuing stimulus from earlier macroeconomic easing in many regions, the winding down of inventory corrections, and the recent signs of greater stability returning to global financial markets. Nonetheless, Directors expressed concern about the strength and sustainability of the recovery and agreed that the outlook for the remainder of 2002 and for 2003 was likely to be weaker than had been anticipated in the April *World Economic Outlook*.

The risks to the short-term outlook, the Board assessed, were predominantly on the downside. In particular, Directors noted that equity price falls could have a more marked impact on domestic demand than expected—especially in the United States, which had led the global recovery. Movements in major exchange rates would be appropriate from a medium-term perspective, they observed, although in the short term some negative impact on the recovery in Japan and the euro area, which had been led by external demand, should not be ruled out. Many Directors also saw the persistently high U.S. current account deficit and the still high U.S. dollar value as posing some risk of an abrupt and disruptive adjustment. In addition, tight emerging market financing conditions could further weaken growth prospects and increase vulnerabilities in a number of countries. Directors also noted the potential for further volatility in oil prices in the event of a deterioration in the security situation in the Middle East.

World Economic Outlook: March 2003 Session

The pace of the global recovery had slowed by the time of the Board's second session on the *World Economic Outlook* in *March 2003*, amid rising geopolitical uncertainties related to Iraq, the continued adverse effects of the fallout from the bursting of the equity market bubble, and rapidly changing conditions.

The global economy had been resilient, Directors noted, and in many industrial countries the fundamentals remained sound. They agreed that a global recovery should gradually reassert itself, achieving global GDP growth of just over 3 percent in 2003 under the baseline scenario of the *World Economic Outlook*. Such an outcome would be supported by a pickup in confidence, the abating of the headwinds to growth from the bursting of the equity bubble, the policy stimulus in the pipeline, and the inventory cycle. In addition, with corporations in both the United States and Europe having relatively high cash balances, investment could respond relatively quickly. Nonetheless, Directors acknowledged that considerable uncertainties and risks gave cause for concern for the

Table 1.1
Article IV Consultations Concluded in FY2003

Country Name	Board Date	PIN Issued	Staff Report Published
Albania	February 26, 2003	March 7, 2003	March 7, 2003
Algeria	February 24, 2003	March 5, 2003	March 12, 2003
Argentina	January 8, 2003	July 25, 2003	July 25, 2003
Armenia	September 25, 2002	October 9, 2002	October 17, 2002
Aruba	February 24, 2003	March 3, 2003	March 3, 2003
Australia	September 16, 2002	September 18, 2002	September 18, 2002
Austria	August 8, 2002	August 14, 2002	August 14, 2002
Bahrain	May 31, 2002		
Barbados	February 7, 2003	February 21, 2003	March 5, 2003
Belarus	April 16, 2003	April 30, 2003	April 30, 2003
Belgium	February 21, 2003	March 4, 2003	March 4, 2003
Belize	November 1, 2002	November 14, 2002	November 22, 2002
Benin	July 15, 2002	August 5, 2002	August 5, 2002
Bhutan	February 21, 2003	March 31, 2003	
Botswana	October 9, 2002	November 1, 2002	November 5, 2002
Brazil	March 14, 2003	March 24, 2003	
Brunei Darussalam	April 30, 2003		
Bulgaria	July 22, 2002	August 5, 2002	August 7, 2002
Burundi	October 9, 2002	October 30, 2002	November 6, 2002
Cambodia	February 20, 2003	February 28, 2003	March 6, 2003
Cameroon	September 18, 2002	December 24, 2002	November 22, 2002
Canada	January 31, 2003	February 25, 2003	February 25, 2003
Cape Verde	December 16, 2002	June 13, 2003	June 13, 2003
Chile	July 19, 2002	July 31, 2002	July 31, 2002
China	August 5, 2002	September 3, 2002	
Colombia	January 15, 2003	January 23, 2003	January 24, 2003
Comoros	October 30, 2002		
Congo, Dem. Rep. of	March 24, 2003	April 16, 2003	June 16, 2003
Costa Rica	March 3, 2003	March 7, 2003	March 21, 2003
Croatia	August 5, 2002	August 8, 2002	August 12, 2002
Cyprus	January 31, 2003	February 14, 2003	February 14, 2003
Czech Republic	July 26, 2002	August 7, 2002	August 7, 2002
Denmark	May 8, 2002	May 21, 2002	May 21, 2002
Dominica	August 28, 2002	October 9, 2002	October 10, 2002
Dominican Republic	June 7, 2002	June 26, 2002	
Ecuador	March 21, 2003	April 7, 2003	April 7, 2003
Egypt	November 13, 2002		
El Salvador	July 19, 2002		
Estonia	July 1, 2002	July 3, 2002	July 3, 2002
Ethiopia	September 23, 2002	October 3, 2002	October 7, 2002
Fiji	August 9, 2002	September 12, 2002	January 8, 2003
Finland	August 13, 2002	August 15, 2002	August 15, 2002
France	October 28, 2002	November 13, 2002	November 13, 2002
Gambia, The	July 10, 2002	October 8, 2002	
Germany	October 23, 2002	October 31, 2002	October 31, 2002
Grenada	January 27, 2003	February 4, 2003	February 10, 2003
Guatemala	October 2, 2002		
Guinea	July 24, 2002		
Guinea-Bissau	June 26, 2002	July 26, 2002	July 26, 2002
Guyana	September 13, 2002		
Haiti	January 24, 2003	March 3, 2003	
Hong Kong SAR	May 1, 2002	May 15, 2002	May 15, 2002
Hungary	May 22, 2002	June 5, 2002	June 5, 2002
Iceland	June 21, 2002	July 3, 2002	July 3, 2002
India	June 28, 2002	August 29, 2002	
Iran, Islamic Rep. of	September 18, 2002	September 26, 2002	September 27, 2002
Ireland	July 31, 2002	August 7, 2002	August 7, 2002
Israel	March 7, 2003	March 13, 2003	March 17, 2003
Italy	October 21, 2002	October 25, 2002	October 25, 2002
Jamaica	August 7, 2002	September 11, 2002	September 11, 2002
Japan	July 24, 2002	August 8, 2002	August 8, 2002
Korea	March 3, 2003	March 6, 2003	March 19, 2003
Kuwait	December 13, 2002	January 2, 2003	January 21, 2003
Kyrgyz Republic	February 20, 2003	March 7, 2003	March 7, 2003
Lao People's Dem. Rep.	August 26, 2002	October 4, 2002	October 7, 2002
Latvia	April 23, 2003	April 28, 2003	April 28, 2003
Lebanon	February 28, 2003	March 20, 2003	
Liberia	March 5, 2003		
Libya	May 6, 2002		
Luxembourg	June 5, 2002	June 17, 2002	June 17, 2002

Table 1.1 (*concluded*)

Country Name	Board Date	PIN Issued	Staff Report Published
Macedonia, FYR	April 30, 2003	May 20, 2003	May 20, 2003
Madagascar	December 23, 2002	January 9, 2003	January 9, 2003
Malawi	August 5, 2002	August 16, 2002	August 16, 2002
Malaysia	October 16, 2002	December 10, 2002	
Maldives	January 8, 2003	February 19, 2003	
Mauritania	June 7, 2002	October 11, 2002	December 4, 2002
Mauritius	May 24, 2002	July 15, 2002	July 15, 2002
Mexico	September 23, 2002	September 26, 2002	October 30, 2002
Micronesia	January 24, 2003	February 10, 2003	February 10, 2003
Moldova	July 10, 2002	August 26, 2002	August 26, 2002
Mongolia	October 25, 2002	November 14, 2002	November 14, 2002
Morocco	April 28, 2003	May 9, 2003	May 28, 2003
Mozambique	June 17, 2002	July 9, 2002	July 9, 2002
Myanmar	October 23, 2002		
Namibia	April 23, 2003		
Nepal	September 4, 2002	September 12, 2002	September 24, 2002
Netherlands	June 10, 2002	June 19, 2002	June 19, 2002
New Zealand	April 30, 2003	May 2, 2003	May 2, 2003
Nicaragua	December 4, 2002	December 12, 2002	February 10, 2003
Nigeria	December 18, 2002	January 2, 2003	January 3, 2003
Norway	March 7, 2003	March 18, 2003	March 18, 2003
Oman	October 2, 2002	November 6, 2002	
Pakistan	November 1, 2002	November 6, 2002	November 11, 2002
Panama	July 10, 2002	July 18, 2002	
Papua New Guinea	June 5, 2002		
Paraguay	March 10, 2003	March 27, 2003	April 8, 2003
Peru	December 13, 2002	December 23, 2002	March 14, 2003
Philippines	September 25, 2002	November 14, 2002	
Poland	June 7, 2002	June 26, 2002	June 26, 2002
Portugal	March 26, 2003	April 9, 2003	April 9, 2003
Qatar	June 24, 2002	September 10, 2002	
Romania	January 8, 2003	January 17, 2003	January 17, 2003
Rwanda	July 24, 2002	September 20, 2002	September 25, 2002
St. Kitts and Nevis	June 7, 2002	June 14, 2002	
St. Lucia	January 27, 2003	May 9, 2003	May 23, 2003
St. Vincent and the Grenadines	January 27, 2003	February 14, 2003	February 14, 2003
Saudi Arabia	October 9, 2002	October 25, 2002	
Senegal	April 28, 2003	June 19, 2003	June 19, 2003
Serbia and Montenegro[1]	May 13, 2002	May 23, 2002	May 23, 2002
Seychelles	July 31, 2002		
Singapore	December 9, 2002	January 6, 2003	
Slovak Republic	August 9, 2002	August 13, 2002	September 26, 2002
Slovenia	April 16, 2003	April 25, 2003	April 25, 2003
Solomon Islands	January 24, 2003		
South Africa	July 1, 2002	July 19, 2002	January 23, 2003
Spain	February 10, 2003	February 26, 2003	February 28, 2003
Sri Lanka	September 3, 2002	September 11, 2002	September 13, 2002
Suriname	October 16, 2002	November 1, 2002	
Swaziland	December 19, 2002	December 23, 2002	January 31, 2003
Sweden	July 31, 2002	August 7, 2002	August 7, 2002
Switzerland	May 29, 2002	June 3, 2002	June 3, 2002
Syrian Arab Republic	February 24, 2003		
Tajikistan	December 11, 2002	January 3, 2003	January 15, 2003
Tanzania	November 18, 2002	January 6, 2003	January 6, 2003
Thailand	August 2, 2002	August 29, 2002	
Togo	May 17, 2002		
Tonga	February 5, 2003	February 24, 2003	February 27, 2003
Tunisia	June 5, 2002	June 19, 2002	June 19, 2002
Uganda	February 12, 2003	March 20, 2003	March 26, 2003
United Arab Emirates	February 12, 2003	March 11, 2003	March 12, 2003
United Kingdom	February 26, 2003	March 3, 2003	March 3, 2003
United States	July 29, 2002	August 5, 2002	August 5, 2002
Vanuatu	November 22, 2002	December 11, 2002	December 11, 2002
Venezuela	September 11, 2002		
Yemen, Republic of	July 31, 2002	August 12, 2002	
Zambia	November 27, 2002		

[1]Effective February 4, 2003, the Federal Republic of Yugoslavia changed its name to Serbia and Montenegro.

economic outlook, given the fragility of the global recovery and the likelihood that the resiliency of the world economy to shocks might have weakened. Developments in the oil market, in particular, would need to be monitored closely.

The economic impact of a conflict in Iraq was very difficult to quantify, Directors recognized. They considered that the balance of the other risks to the outlook was principally on the downside, and that sluggish growth could persist even in the absence of a war. Three elements underpinned this caution. First, the global recovery remained heavily dependent on the United States, and there was no obvious candidate to take up the slack if growth in the United States faltered. A disorderly adjustment in response to global imbalances—involving a sharp depreciation of the U.S. dollar—remained a risk. Second, the possibility of further declines in mature equity markets could not be ruled out, as earnings expectations remained relatively optimistic, and an adjustment in housing prices in some industrial countries was also possible. Third, despite progress, a number of emerging market countries remained vulnerable to a deterioration in the global environment. Notwithstanding these downside risks, Directors regarded sustained global deflation as unlikely, although they did not rule out price declines in individual countries.

With inflationary pressures in general quite moderate, Directors agreed that monetary policies in major industrial countries would need to remain accommodative. With regard to fiscal policies, the situation differed by country. In the short run, Directors acknowledged that the scope for fiscal tightening was constrained by the cyclical situation. Automatic fiscal stabilizers should generally be allowed to operate, although fiscal consolidation remained a clear medium-term priority in many industrial countries with high levels of public debt and mounting pressures from aging populations. Directors urged an acceleration of structural reforms to boost confidence and domestic demand growth—particularly in Europe and Japan—in order to reduce global dependence on the United States and foster an orderly reduction in global imbalances.

Policymakers would need to remain vigilant to changing circumstances, Directors underscored, and be flexible and ready to adapt to them as events unfold. Close international cooperation and dialogue and concerted efforts would be required to confront global uncertainties and boost global confidence. Directors considered that a strong push to advance multilateral trade negotiations under the Doha Round (see Box 5.7) should be a key ingredient of such efforts.

Major Currency Areas

Directors expected the *United States* to continue to lead the global recovery. They observed that while some U.S. economic fundamentals—notably productivity performance—remained strong, some U.S. economic data had been disappointing, reflecting weakening consumer confidence and spending. Several factors contributed to downside risks to the U.S. outlook. These included uncertainties about conflict in Iraq and about whether the bubble-period excesses had been fully worked out, and the emergence of fiscal deficits alongside the large current account deficit. The current stance of monetary policy was broadly appropriate, Directors observed, but further easing could be necessary if downside risks to growth were to materialize, although several noted that the scope for doing so was becoming increasingly limited. On fiscal policy, Directors viewed the U.S. administration's tax proposals as having some merit from a structural perspective, but believed that if they were implemented they would significantly worsen the medium-term fiscal position, and might be procyclical if the economy picked up as expected under the baseline scenario. They underlined the importance of restoring investor confidence to underpin the recovery, and called for strict enforcement of enhanced corporate governance rules.

While the *euro area* was not experiencing serious imbalances and its fundamentals remained generally strong, Directors viewed developments in the area with concern. Growth continued to disappoint, and forecasts for 2003 had been revised down sharply. The appreciation of the euro, balance sheet strains, and prospective fiscal tightening in a number of countries were all likely to weigh on the regional economy. Within this overall picture, Directors viewed the situation in Germany—where the economy had stagnated and the financial sector had come under increasing strain—with particular concern.

The recent move by the European Central Bank (ECB) to cut interest rates was welcomed, and many Directors saw scope for further monetary easing to reinvigorate growth. In the fiscal area, with budgetary positions in a number of countries in Western Europe having become more difficult over the past year, Directors noted that the challenge in the near term would be to avoid adding unduly to economic headwinds through fiscal retrenchment, while strengthening the credibility of the Stability and Growth Pact (SGP). To achieve this, Directors believed that structural deficits would need to be reduced toward the medium-term norm of a fiscal position close to balance or in surplus. Most Directors supported the full play of automatic stabilizers around the consolidation path, even if this were to result in deficits in 2003 above the 3 percent of GDP deficit limit. An overshooting of the deficit limit in the present circumstances was not warranted, in the view of a few Directors, however, as it might undermine confidence in the fiscal framework without bringing significant short-term benefit to economic activity.

Box 1.1

Key Economic and Financial Developments, April 2002 to May 2003

Global economic growth in 2002 was only modestly higher than in 2001. Relatively strong growth in the first quarter of 2002 was followed by a gradual slowdown extending to the end of FY2003. World trade volume picked up after stagnating in 2001, but its growth was the weakest since the global recession of the early 1980s (see Figure 1.1). Foreign direct investment inflows to developing countries fell during 2002. However, portfolio investment and bank financing exiting from developing countries also slowed, leading to a net gain in private capital flows into developing countries. Several emerging market economies took advantage of improving market conditions and the narrowing of interest rate spreads in the second half of FY2003 to issue sovereign bonds.

Among the industrial countries, the economies of the *United States, euro area*, and *Japan* initially showed improvement—because of private consumption in the United States, net exports in the euro area, and a combination of the two in Japan. But business investment failed to pick up and buttress the recovery. The aftermath of the equity price bubble continued to weigh on the real economy. In the run-up to the war in Iraq in late 2002 and early 2003, geopolitical concerns heightened and oil prices surged. Consumer and business confidence fell steadily throughout the first quarter of 2003, up to the start of the war on March 20. First-quarter 2003 GDP growth was weak in all three economic areas—with activity essentially flat in the euro area and Japan. Labor markets also weakened—unemployment rose across the three areas. The cessation of military conflict in mid-April 2003 lessened geopolitical uncertainty and oil prices fell dramatically, although by the end of FY2003 there was little evidence of a renewal of the recovery.

Emerging market economies grew at quite different rates. Generally, in comparison with the industrial countries, growth was higher and the slowdown occurred a little later and was less pronounced.

Growth in *Latin America* was highly variable, with Argentina starting to pull out of its deepest recession in 20 years, while in Venezuela political turmoil late in 2002 led to a drop in activity. At the end of FY2003, economic growth was generally subdued, but financial conditions were somewhat more stable across the region.

The *emerging market economies of Asia* were a bright spot—registering robust growth throughout 2002, driven primarily by exports. China, in particular, continued to grow strongly, providing an increasingly important destination for exports of other economies in the region. The spread of Severe Acute Respiratory Syndrome (SARS), recognized in early 2003, however, affected the region adversely, especially those economies dependent on tourism-related services and local spending. By the end of FY2003, the rate of increase in new cases of SARS had slowed, but the economic and health effects remained uncertain.

Central and Eastern Europe grew strongly through the second half of 2002, despite a slowdown in the euro area. Activity in many of the countries in the region was boosted by positive foreign direct investment inflows in anticipation of entry into the European Union. Higher oil prices in the latter part of 2002 spurred growth in the oil-exporting countries of the former Soviet Union—Azerbaijan, Kazakhstan, and Russia. The strong increase in demand in these countries supported growth in the other countries in the region.

Before the buildup in tensions surrounding the war in Iraq, activity in the *Middle East* had picked up, with higher oil prices aiding oil exporters' growth in particular. Despite the relatively short duration of the conflict, disruptions in trade and tourism and the dramatic fall in oil prices led to slower

Figure 1.1

World Real GDP Growth and Trade Volume (Goods and Services)

(Annual percent change)

Sources: Haver Analytics; and IMF, *World Economic Outlook* (April 2003).

[1]Average growth rates for individual countries, aggregated using purchasing-power-parity weights; the aggregates shift over time in favor of faster-growing countries, giving the line an upward trend.

growth in early 2003. Continuous geopolitical tensions in the region dampened activity throughout FY2003.

Growth in most *African* countries held up better than in other regions, supported by improved macroeconomic policies and debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative. Serious problems troubled parts of Africa, however—most important, deepening famine and drought in southern and eastern Africa. Economic conditions edged up in early 2003 reflecting developments in nonfuel commodity prices, which did not contract as much as in earlier global slowdowns, as well as debt relief, although the HIV/AIDS pandemic has remained a serious threat, reducing life expectancy and negatively affecting growth prospects.

Inflationary pressures across the globe remained subdued and wage increases were generally moderate. With the run-up to the war in Iraq and associated uncertainties, energy prices rose markedly toward the end of 2002 and at the beginning of 2003, but fell back at the end of the war. In *exchange markets*, the U.S. dollar depreciated during the financial year on a trade-weighted basis, while the euro appreciated.

Monetary policies remained accommodative in most industrial countries, with falls in policy interest rates in most cases. The stance of *fiscal policies* varied. Policy was loosened in the United States as a result of tax cuts, but policies were neutral in the euro area.

Regarding developments in *financial markets*, nominal government bond yields in mature markets declined sharply over the financial year, with the U.S. 10-year treasury note reaching a 41-year low of 3.56 percent on March 10, 2003. Slowing growth prospects and low inflation, declining equity prices, geopolitical uncertainty, and declines in central bank policy rates contributed to the fall in yields.

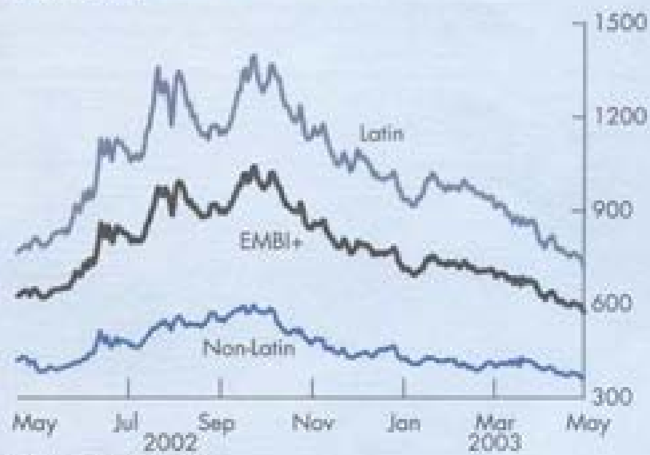
Mature equity markets remained under pressure throughout much of FY2003 (see Figure 1.2). Uncertain prospects for corporate earnings, lingering effects of the bursting of the high-tech bubble, and the war in Iraq weighed heavily on mature equity markets. Record numbers of bankruptcies in the United States, corporate fraud cases, and lapses in corporate governance hurt investor confidence. The S&P 500 lost 15 percent and closed FY2003 down 40 percent from its March 2000 peak, despite a postwar rally and an eventual easing of risk aversion. European equities fared worse. The Eurotop 300 lost 33 percent to close 50 percent below its March 2000 peak. Japanese shares ended FY2003 at a 19-year low. In local currency terms, the Topix lost 26 percent in FY2003, to close 72 percent below its December 1989 high.

Emerging debt markets recovered in the second half of FY2003—with considerable differences across regions—and bond spreads narrowed to historical lows in many cases. Concerns over policy continuity, especially in Latin America, triggered a pronounced sell-off of emerging debt markets during the first half of the year. Investors regained confidence after elections in Brazil and Turkey and following policy pronouncements and reform initiatives. These developments combining with investors seeking higher-yielding investments in global markets paved the way for one of the longest emerging market bond rallies in history. The EMBI+ spread tightened from a high of 1,040 basis points in September 2002 to 576 basis points by the end of FY2003 (see Figure 1.3). In tandem, primary debt markets reopened in October 2002, after a long period of inactivity, and many emerging market governments met their 2003 market financing targets early in the year.

Figure 1.2
Equity Market Performance
(May 2002 = 100)

Source: Bloomberg L.P.

Figure 1.3
Sovereign Spreads
(In basis points)



Source: J.P. Morgan Chase.

Directors called for a greater sense of urgency by European countries to address structural rigidities in product and labor markets. While a number of important steps had been taken, European unemployment rates generally remained high, and participation rates were much lower than in other advanced countries. Labor market rigidities, most Directors agreed, played an important role in explaining the persistent unemployment in a number of industrial countries. This was shown by the contrasting experiences of countries that had undertaken comprehensive reforms—and observed a steady decline in structural unemployment—and those that had made little progress—and seen further increases in unemployment rates. They called for comprehensive labor market reforms in the euro area that, particularly if complemented with product market reforms, would yield significant gains in the form of lower unemployment and higher output. Proposals recently put forward by the German authorities to improve incentives to work and begin dismantling excessive job protection were welcome. If these measures were bold and implemented in full, Directors considered that they would have a favorable effect on business confidence and job creation.

The economic situation in *Japan* remained difficult, Directors noted. The economy experienced a modest cyclical recovery during 2002, but growth was expected to remain flat in 2003. Moreover, deflation continued, and survey evidence suggested that deflationary expectations were becoming more widespread and persistent. The Bank of Japan, most Directors urged, should be more aggressive in both its monetary policy actions and its communications strategy to arrest deflation. Also, the effectiveness of monetary policy would be improved by measures to strengthen the financial sector. Given the large budget deficit and high public debt levels, Directors emphasized the need for the authorities to establish a credible medium-term fiscal consolidation strategy and to implement key fiscal reforms. Most Directors believed that Japan should make a gradual start toward fiscal consolidation, unless the authorities were to push ahead with a much more aggressive structural reform agenda. Reforms to strengthen banks and corporations were welcomed, although Directors underscored that the reforms did not go far enough to resolve the long-standing problems in these sectors.

On asset price bubbles, Directors observed that the busts in equity markets of the past few years had been quite similar to earlier episodes in terms of magnitude, length, and cross-country synchronization of the price declines. The stock market booms in Europe and North America in the late 1990s led firms to borrow and invest well ahead of demand, thus increasing corporate vulnerability to a decline in stock prices and aggregate demand. Directors also noted concerns about the high levels of corporate debt compared with equity, especially in Europe, which could dampen investment spending during the recovery.

Emerging Markets

Growth prospects in emerging market countries generally remained relatively favorable, Directors observed, although performance and prospects varied significantly within this group. Many countries were implementing disciplined fiscal and monetary policies and advancing with structural reforms, and were in a better position to withstand external shocks. Nevertheless, downside risks remained, given the weaker outlook in industrial countries and uncertainties related to the situation in Iraq.

Recent signs of a pickup in activity in much of *Latin America* and the improvement in market sentiment were welcome, although Directors noted that the situation in a number of countries remained difficult. In Argentina, the economy might be over the worst, but policy continuity would be fundamental, and the market signals sent by presidential candidates would be crucial in shaping expectations. In Brazil, the new government's decisive actions to maintain macroeconomic stability and fiscal discipline had helped reduce uncertainties in financial markets. Chile and Mexico were relatively more sheltered from deterioration in external financing conditions, reflecting their strong policy record and relatively high degree of integration with the world economy. For the region as a whole, Directors emphasized the importance of sustained efforts to lower public sector debt levels and improve the maturity structure of the debt. Directors identified other key policy priorities for the region, including orienting monetary policy to achieve low inflation with exchange rate flexibility, deepening domestic financial intermediation, and introducing reforms to liberalize trade, improve social safety nets, and increase labor market flexibility.

Directors commended the impressive economic performance in *emerging Asia* underpinned by both exports and domestic demand, with countries moving most vigorously to implement structural reforms generally seeing the most robust growth, and noted that growth in emerging Asia will remain reliant on the global economic environment. The continuation of accommodative monetary policies was generally appropriate, in the Board's view, and automatic fiscal stabilizers should be allowed to operate in most countries. Further progress with structural reform, particularly in the financial sector, was seen by Directors as necessary to underpin stronger domestic demand and help contribute to a reduction in global imbalances, and the generally comfortable external sector positions in the region provided the foundation for pressing ahead with the unfinished agenda of structural reforms. In the near term, the oil-exporting countries faced the difficult task of managing very large balance

of payments inflows. Directors encouraged the authorities to permit flexibility in the exchange rate and target monetary policy on achieving a further reduction in inflation. Over the medium term, they noted, the challenge would be to manage the oil wealth appropriately.

In *Central and Eastern Europe*, strong foreign investment continued to underpin growth in some countries, as European Union accession grew nearer. Significant challenges lay ahead, Directors noted, as governments looked beyond accession to the requirements associated with adoption of the euro. They observed that, although the picture varies across countries, the need for fiscal restraint would likely remain a central focus of policy for most countries in Central and Eastern Europe to underpin market confidence and bolster growth. In Turkey, following a better-than-expected performance last year, economic and financial conditions had deteriorated in early 2003, and Directors underscored the urgent need for the government to pursue fiscal restraint and structural reforms to sustain confidence.

Growth in oil-exporting countries of the *Commonwealth of Independent States* (CIS) had been buoyed by rising energy prices. Slowing structural reforms could dampen investment spending, particularly in Russia, Directors cautioned, and could weaken medium-term prospects. Directors called upon the authorities in the CIS countries to reinvigorate the reform process, including by strengthening banking systems. They suggested that the seven low-income CIS countries (Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan, and Uzbekistan) give priority to accelerating structural reforms to strengthen the investment climate in order to ensure the sustainability of the uptick in growth seen in many of the countries and to help address the high public debt levels that threaten fiscal sustainability in several of the countries.

Growth in the *Middle East* weakened in 2002, although countries where reforms had progressed fastest experienced more rapid growth. Many countries in the region were benefiting from the increase in oil prices, Directors observed, but the regional security situation was weighing on foreign investment and tourism. The key policy challenge over the medium term across the region, Directors noted, would be achieving sustained high GDP growth in order to reduce unemployment and absorb the rapidly growing labor force. Efforts to energize the private sector, liberalize trade, and develop human resources should remain at the core of the reform agenda.

Macroeconomic policy and structural reform implementation had improved in many African countries. Nevertheless, growth in *Africa* slowed in 2002 owing to poor weather and continuing political turmoil affecting several countries. The central challenge in Africa, in Directors' view, was putting in place the conditions to reach the Millennium Development Goals (see Chapter 5). As stressed in the New Partnership for Africa's Development (NEPAD), this would require a substantial improvement in the climate for private investment, which in turn would depend on actions to restore peace and political stability; improve governance, infrastructure, health, and education; liberalize markets and trade; and address the HIV/AIDS pandemic. Achieving these goals, Directors underscored, would require the financial support of the international community and greater market access for the exports of African countries.

Impact of Institutions on Economic Performance

Directors observed that improvements in institutional quality are found to raise the level and growth rate of GDP per capita, and lower the volatility of growth. On the basis of these findings, Directors agreed that developing countries would significantly build up their economic performance if they improve the quality of their institutions, while maintaining sound macroeconomic policies. In the Board's view, some general principles might frame the strengthening of institutions. For example, successful market-based economies need institutions that protect property rights, uphold the rule of law, provide appropriate regulation of markets, support macroeconomic stability, and promote social cohesion and stability.

Institutional design and reform would inevitably have significant country-specific elements requiring adaptation and innovation to suit local conditions, Directors stressed. Some key elements of institutional reform include greater competition, including through trade openness, which can help rein in the power of vested interests, and broader information flows and transparency, which can improve policy choices and reduce the scope for corruption. In addition, external "anchors," such as those associated with the EU accession process, have also proved effective for strengthening institutions. In the final analysis, Directors felt, firm domestic ownership and commitment remain the most vital ingredients for institutional reform.

Global Financial Stability Report

The *Global Financial Stability Report* (GFSR) was introduced in March 2002 to provide timely and comprehensive coverage of both mature and emerging financial markets and to identify potential fault lines in the global financial system. The Executive Board discussed four issues of the report during FY2003, with the last discussion occurring in March 2003. Discussions covered both recent developments and topics of special interest.

Key Developments

At their *May 2002* discussion, Directors noted that, in the context of an improved global economic outlook,

no imminent threat to global financial stability was evident. Stock prices were broadly unchanged in the United States and Europe in the first quarter of 2002, even as concerns over the recovery and quality of reported earnings weighed heavily on the stock prices of highly leveraged firms and of firms that had been active in mergers and acquisitions. At the same time, emerging market bond and equity markets had rallied, reflecting new inflows from dedicated investors and increased interest from crossover investors. Bond market flows to emerging markets had increased during the first quarter of 2002, Directors noted, which, in spite of decreased overall capital flows, had allowed many governments to satisfy substantial portions of their 2002 financing needs.

Conditions in global financial markets had deteriorated significantly by the time of the Board's second session on the GFSR in *August 2002*, reflecting eroding investor confidence and heightened risk aversion. A combination of corporate earnings disappointments, increased investor pessimism and uncertainty about the earnings outlook, and further corporate accounting scandals had triggered repricings and volatility in a range of markets. Higher-risk borrowers, including those in emerging markets, faced tighter terms of market access as investors had reduced their appetite for risk. In addition, portfolio rebalancing by international investors appeared to have contributed to downward pressure on the U.S. dollar and on U.S. asset prices.

At their *November 2002* meeting, Directors noted that global investor sentiment in the third quarter had continued to be weighed down by concerns over the strength and durability of the global economic recovery, the prospects for corporate profits, and geopolitical conditions, and that this contributed to the tiering by credit quality and to continued difficult financing conditions for higher-risk corporate and sovereign borrowers. Emerging market countries had continued to face a difficult environment, characterized by unusually high financial market volatility and increased risk aversion, Directors observed. This environment, coupled with earlier concerns over policy continuity in some key emerging markets, resulted in a continuation of sharply reduced flows and tight external financing to emerging markets as a group, affecting in particular noninvestment-grade issuers. Although in the primary markets unsecured access had been effectively closed to noninvestment-grade issuers in Latin America, broad-based contagion had nevertheless been limited, with investment-grade issuers and Asian and Eastern European issuers benefiting from relatively open access.

In the *March 2003* session, Executive Directors observed that the global financial system had remained resilient, despite significant geopolitical uncertainties and a hesitant and uneven global economic recovery. Markets continued to work off the excesses of the equity asset price bubble, and the bursting of the bubble had revealed underlying structural weaknesses, which required carefully crafted policy responses.

In an unsettled international environment, Directors noted, consumers, businesses, and investors had remained on the sidelines. They felt that this uncertainty could persist for some time. In this difficult environment, policies to improve market confidence on a sustained basis would remain of critical importance. Directors underlined their endorsement of continued supportive macroeconomic policies and wide-ranging measures in the structural area to address underlying market vulnerabilities.

Major Financial Centers

In the March session also, Directors noted that a gradual improvement of financial conditions in mature markets had begun to take hold, and, in particular, U.S. household and corporate sectors' balance sheets had strengthened somewhat. This progress was still fragile, they cautioned, and underlying vulnerabilities would require continued vigilance and policy attention. The corporate sector in a number of countries faced growing funding gaps in defined-benefit pension plans, as a result of lower equity prices and higher present values of pension liabilities owing to lower interest rates. Directors observed that improvement in the U.S. household sector's balance sheet rested crucially on continued strength in the housing market.

The financial sector in the mature economies presented a mixed picture, Directors considered. While banks with a strong retail franchise had performed reasonably well, wholesale and investment banks had been hard hit. Despite the authorities' renewed initiative to tackle the situation, the persistent weaknesses of Japanese banks remained a matter of concern. A number of Directors also highlighted the difficult situation facing the German banks in a context of low earnings, high costs, a deterioration in loan quality, and an erosion of hidden reserves as a result of the decline in the German equity market. Close monitoring of the deteriorating financial condition in the insurance sector in several European countries was also needed. Directors noted that the protracted weakness of equity markets had resulted in lower returns on assets and prompted sales of equity holdings, in some cases, to comply with solvency regulations.

The tendency of investors to remain on the sidelines had resulted in a significant accumulation of high-quality, short-term cash balances by retail and institutional investors. Directors saw the potential for deployment of these balances into more productive assets once investor sentiment recovers as a generally positive factor in the outlook. At the same time, a number of Directors cautioned that a sudden shift in asset preferences and prices could expose the unhedged

positions of commercial banks and broker-dealers to considerable interest rate risk. Still others expressed concern about the capital strength of the government-sponsored mortgage agencies in the United States. A number of Directors also pointed to the increased sensitivity to interest rate differentials resulting from the sizable reallocation of net capital flows to the United States away from equities and direct investment toward fixed-income securities.

Emerging Market Financing

An unsupportive external environment, together with investor concerns over the risk of policy discontinuity in key emerging market borrowers, had limited the availability and raised the cost of capital for most emerging market borrowers throughout most of 2002. Directors were encouraged that the easing of global financial market conditions in the fourth quarter had led to a reopening of capital markets to many issuers, and that investor concerns about the direction of future polices in some major emerging market economies had abated. However, this recent development should be seen against the backdrop of the longer-term decline in capital flows to emerging market borrowers, which deserved further attention. The continued "feast or famine" dynamic in the primary market for emerging market bonds highlighted the importance of self-insurance to mitigate— through sound economic frameworks and institutions—externally induced market volatility.

Recent market developments provided evidence, Directors noted, that more discriminating investors were responding positively to the sustained pursuit of sound policies. Nevertheless, it would remain important to consolidate this encouraging development and further reduce risks of contagion. In particular, Directors highlighted the importance of further efforts, including by the IMF, to help investors distinguish among borrowers, and of policies aimed at promoting financial stability. They welcomed the improvements in banking sector regulation and capitalization in many emerging markets. Progress had varied by region, however, and they noted that further measures were needed to bolster domestic banking systems. Directors welcomed the recent issuance by Mexico of a bond that included collective action clauses (CACs; see Chapter 3), and encouraged other issuers to include CACs in future bond placements. They encouraged IMF staff to provide members with the necessary advice to further this aim.

Promoting Stability

The GFSR's primary purpose is to point to weaknesses and vulnerabilities in the global financial system so that policymakers can take steps to prevent crises. During FY2003, the GFSR suggested a variety of policy actions, and Directors highlighted several policy measures that, taken together, should help ward off an excessive cutback in risk taking, rebuild investor confidence, and strengthen the markets' self-correcting mechanisms. At the *August 2002* Board meeting, Directors stressed the importance of continued financial surveillance by the IMF, including through such instruments as the Financial Sector Assessment Program (FSAP) and Reports on the Observance of Standards and Codes (ROSCs). They called on financial regulators to be vigilant for signs of further weakness in key institutions and markets. In advanced countries, policies should continue to support economic activity and an orderly reduction of imbalances over the medium term. In addition, Directors emphasized that strong implementation and enforcement of steps to improve corporate governance, accounting, disclosure, and transparency, together with close monitoring by national authorities and the IMF, would be helpful to strengthen markets' self-correcting forces. In emerging market countries, strong policies to bolster macroeconomic and financial stability would help investors to discriminate more clearly between countries as investment destinations. National authorities should also encourage the development of sound and diversified domestic financial systems.

In *November 2002,* Directors emphasized that macroeconomic policies in the advanced economies should remain responsive to any signs that economic recovery might be faltering. Speedy conclusion of the Doha trade negotiations and implementation of other trade liberalization moves would improve confidence in economic prospects, and provide emerging market countries with an opportunity to increase their export earnings and, ultimately, strengthen their debt-servicing capabilities. Supervisors of nonbank financial institutions, particularly insurance companies—and, in a number of cases, pension funds—should be vigilant for signs of significant capital erosion stemming from falling asset prices. Furthermore, the increased reliance of financial institutions upon credit risk transfer instruments to manage their risks warranted enhanced disclosure and regulatory scrutiny.

The continued ability of some emerging markets to tap international capital markets in the then-current environment, in Directors' view, illustrated the importance of strong commitment to the continued implementation of policies aimed at maintaining macroeconomic and financial stability and strengthening institutional frameworks. More generally, Directors stressed that firm commitment to the preservation of property rights, the rule of law, transparency, and stability in the legal and regulatory frameworks were key to fostering investor confidence and building a stable investor base.

In *March 2003,* Directors saw a continued need for strong confidence-building measures. In the structural area, Directors highlighted the need for legal and regula-

tory frameworks to support corporate and financial sector restructuring. In the case of Japan, the low profitability of Japanese financial institutions and the problem of nonperforming loans were in need of urgent corrective action. German banks, Directors also observed, would need to address their low earnings through cost reduction measures, including consolidation.

Directors observed that the "feast or famine" dynamic in emerging market financing and persistent credit tiering underscored the need for the consistent implementation of sound macroeconomic policies. In addition, they encouraged continued measures to deepen local securities markets, which could help provide a buffer against changing global financial conditions.

Financial Market Activities of Insurance and Reinsurance Companies

Another major theme highlighted by the GFSR was the role of insurers and reinsurers in global financial markets. At the *May 2002* Board meeting, Directors noted that such companies had become an increasingly important class of institutional investors and financial intermediaries, which conveyed important benefits to international financial markets by adding to market liquidity and the diversity of market participants. In this context, more information would need to be made available on the market activities of insurance and reinsurance companies, by category of insurance (such as life and non-life insurance), and particularly in newer market segments such as credit derivatives. In addition, Directors suggested that the regulatory and supervisory frameworks might need to be modified to reflect these companies' expanding asset-market activities and any attendant implications for financial stability.

The international systemic risks associated with insurers' financial markets activities, Directors broadly agreed, seemed relatively limited compared with those of the major internationally active investment and commercial banks. Nevertheless, uncertainties remained about whether insurers' capitalization and risk management systems fully reflected the risks associated with their expanding financial market activities. There were also questions about whether these activities contributed to a migration of financial risks from the banking to the insurance sector. These issues complicated an assessment of the potential systemic risks associated with the expanding financial markets activities of insurance and reinsurance companies, and underscored the importance of improved disclosure and transparency.

Promoting Local Securities Markets

In their *May 2002* meeting, Directors also noted that the experience with the banking crisis and the loss of access to international capital markets during the Asian crisis of the late 1990s had emphasized the need to develop local securities markets to provide a more stable source of sovereign and corporate funding. Directors considered that the relatively low dollar equivalent returns on *emerging market equities* over the past decade underlined the need both for more stable macroeconomic conditions and for an adequate domestic and international investor base for this asset class. The migration of top-quality emerging market corporates to major mature market financial centers, Directors noted, had taken a toll on the liquidity of emerging equity markets, and they emphasized that improvements in the trading infrastructure in emerging markets would be crucial for expanding emerging market equities as an asset class.

At the Board's *August 2002* discussion, Directors endorsed the development of *local bond markets* as an alternative source of financing, and were encouraged by progress made in this area since the Asian crisis. While by no means a panacea, local bond markets could mitigate the adverse effects of lost access to international capital markets or bank credit, while widening the menu of instruments to deal with inherent currency and maturity mismatches faced by emerging markets borrowers. Well-developed primary and secondary markets, and the roles of foreign investors in these markets, were important, Directors emphasized.

Despite their rapid growth, emerging local bond markets remained a small part of the increasingly global bond market. Directors stressed that the deepening of the local government bond market should not come at the expense of depth in the corporate bond market, where progress had often been slower in part as a result of crowding out by the government sector.

At the *November 2002* meeting, Directors welcomed the discussion of *financial derivatives in emerging market economies*, noting that the rapid expansion of these instruments over the past decade was among the key factors facilitating the increase in global cross-border capital flows. Emerging derivatives markets present opportunities as well as certain risks, they observed. While derivatives could play a positive role in contributing to a more efficient allocation of risks in financial markets, these instruments could also be used to avoid prudential safeguards and take on excessive leverage. In some of the recent emerging market crisis episodes, Directors noted, the rapid unwinding of derivative positions had accelerated capital outflows and exacerbated the crisis dynamics, although it was stressed that derivatives were not the ultimate cause of the crises. Moreover, deep and liquid local derivatives markets could help market participants to price and manage the risks associated with investing in emerging markets more efficiently.

Measures to *ensure the smooth functioning of local securities markets*—through, among other moves,

improving market infrastructure and transparency, strengthening corporate governance, developing liquid benchmarks, and promoting a domestic institutional investor base—were highlighted at the *March 2003* session. Directors stressed that steps to develop local securities markets needed careful sequencing, with the development of money markets typically being a crucial first step in developing bond and derivatives markets.

Directors cautioned against heavy resort to bonds indexed to foreign currencies, which could increase vulnerability to external shocks and contribute to unstable debt structures. However, inflation-indexed bonds could be a useful instrument to deepen local bond markets. While local derivatives markets could facilitate the management of financial risk, Directors stressed that the development of such markets needed to be based on a strong supervisory and regulatory foundation.

Although local securities and derivatives markets had grown substantially over the last years, Directors observed that they had not yet developed enough to provide full insurance against the closure of banking or international markets, which in many cases may remain a remote prospect. Directors supported continued efforts to develop these markets given their potential to improve emerging markets' resilience.

Finally, the Executive Board agreed with IMF Management's suggestion to shift the GFSR from a quarterly to a semiannual publishing schedule beginning in March 2003.

Regional Surveillance

Central African Economic and Monetary Community

In June 2002, the Board discussed developments in the Central African Economic and Monetary Community (CAEMC), whose members are Cameroon, the Central African Republic, Chad, the Republic of Congo, Equatorial Guinea, and Gabon. Directors commended the authorities of the CAEMC countries for their continued efforts to intensify regional economic integration and surveillance and to harmonize macroeconomic policies. Directors welcomed, in particular, the adoption of new convergence criteria and of a framework for surveillance over macroeconomic policies—while noting the need to build on this progress by strengthening aspects of implementation. The IMF's dialogue with CAEMC, in Directors' opinion, was a valuable complement to its bilateral surveillance over the member countries of the region.

Developments in world oil markets had permitted CAEMC countries to sustain satisfactory—albeit somewhat uneven—economic growth, and to increase their international reserves substantially. Nonetheless, Directors considered that domestic demand had been allowed to grow too strongly—reflecting a rapid expansion in credit granted by the regional central bank and a procyclical fiscal policy. This had led to a rise in inflation and a deterioration in the external balance. Directors believed that the international reserve position and external competitiveness of the region remained broadly adequate. However, they stressed that the macroeconomic situation warranted a tightening of financial policies.

Discipline in the public finances must be the foundation of price and exchange rate stability, Directors underscored. While recognizing that the current fiscal position is strong, they considered that the management of the public finances could be improved. In particular, they urged that the relevant convergence criteria be adjusted to take into account the importance of oil revenues for most of the economies in the region: at present, a significant increase in the world oil price resulted in a procyclical rise in public expenditure. They suggested, for example, that fiscal goals could be based on a longer-term trend of oil prices, instead of the current price.

There was potential merit, Directors observed, in the planned establishment of an oil revenue stabilization fund, which could serve as a buffer against oil price fluctuations. For such a fund to be effective, regional surveillance over fiscal policy must be geared to avoiding procyclical spending and take into account developments in the non-oil deficit. There was support for the creation of a long-term savings fund as one of the routes available to benefit future generations—provided it were set up with appropriate safeguards and offered adequate returns.

Turning to monetary policy, Directors welcomed the plan to phase out statutory central bank financing of government deficits, although it was questioned whether 10 years was not too long a time frame for doing so. Regional financial markets were not well developed, Directors noted, and this inhibited the use of open market operations and other indirect monetary policy instruments. The sale of government bonds to substitute for central bank financing would help develop domestic money and capital markets and thus further strengthen monetary control. However, this reform would require a number of legal and institutional changes and would need to be prepared carefully. Directors supported the increase of commercial bank reserve requirements, provided these were adequately remunerated, as an important step to enhance the effectiveness of monetary policy by reducing excess liquidity. Changes along these lines would allow the regional central bank to pursue its goals more effectively and counter the recent unduly rapid growth of credit.

Regional financial integration requires a well-functioning banking system, Directors noted. Progress had been made in strengthening bank soundness in

recent years, but there was scope for further improvement. They commended the authorities for their efforts to put in place an efficient regional payments system. Nonetheless, they stressed the need to go further in making effective the common banking license and developing a well-functioning interbank market—thereby creating a fully fledged regional monetary zone. The authorities' determination to address problems of the arbitrary attachment of bank deposits was welcome, but Directors urged further steps to strengthen the financial framework and infrastructure, and they called for additional resources to be provided to the regional supervisory agency (the Central African Banking Commission, or COBAC) to enable it to work effectively.

Much remained to be done to implement fully the goal of a single market in the region, Directors noted. Thus, they welcomed the member countries' decision to further liberalize trade through a simplification of the structure of the common external tariff and a reduction of average tariff rates. Directors stressed the importance of reducing barriers to trade in order to achieve an outward-looking customs union, and they welcomed a project to take stock of remaining regional barriers, with the help of donor countries. Member countries needed to fully implement the agreements they had reached, and thus demonstrate their commitment to putting regional integration goals above sectoral interests. Several Directors also noted that the region's exports of cotton were adversely affected by subsidies in advanced economies.

Technical assistance to CAEMC members—especially in the areas of trade reform and monetary management—was important to strengthen the regional integration process, Directors underscored. They welcomed the amendment of the CAEMC Treaty to create an action group to combat money laundering and the financing of terrorism, and urged speedy passage and implementation of the proposed regional law addressing these activities.

Monetary and Exchange Policies of the Euro Area and Trade Policies of the European Union

In October 2002, the Board discussed the monetary and exchange rate policies of the euro area and the trade policies of the European Union.

With regard to the *monetary and exchange rate policies of the euro area*, Directors congratulated the authorities for the smooth and successful changeover to euro notes and coins at the beginning of the year, which marked another milestone in European integration. However, overall economic performance in the euro area had been disappointing, with growth weaker and inflation higher than had been expected. While unanticipated shocks—including oil price increases, animal diseases, the external slowdown, and financial market turmoil—contributed to this setback, the euro area showed a greater-than-anticipated vulnerability to shocks. In particular, structural rigidities were underlying factors responsible for the continued dependence of activity on foreign demand and for the persistence of inflationary pressures despite weak domestic demand.

In Directors' estimation, the recovery would be rather gradual, with indicators pointing to continued tepid growth in the near term. The recovery was expected to pick up in 2003, led by consumption, as past price shocks dissipated, and in step with global developments. This would be helped by the overall sound economic fundamentals and the progress achieved on structural reform, as reflected in the relative robustness of the labor market. Nevertheless, Directors noted considerable downside risks, including those related to the fragile external environment and the impact of the recent turbulence in financial markets. Policies should focus on increasing both the pace and robustness of the area's performance, Directors agreed, thus helping to strengthen world growth and facilitate an orderly adjustment of international payments imbalances. Macroeconomic policy in the period ahead would need to take account of possibly heightened uncertainty, and decisive action on structural reforms would be key to lifting the euro area's growth potential and reducing its vulnerability to shocks.

Monetary policy had continued to strike the right balance between the risks of inflation stemming from adverse one-off supply shocks and the ongoing weakness of activity, Directors considered. With the recovery expected to be gradual and inflation expected to move back below the European Central Bank's 2 percent upper limit for price stability, Directors agreed that monetary policy should maintain an accommodative stance. In view of the predominance and recent increase of downside risks to the recovery, they considered that a clear bias toward further monetary easing would be appropriate.

The steps taken by the ECB to further clarify to market participants the relationship between the monetary framework and the policies that issue from that framework were welcomed by Directors. They saw the de facto narrowing of the range of desired inflation outcomes to the upper half of the 0–2 percent official definition of price stability as a useful step toward balancing the benefits of an ambitious inflation objective against the benefits of providing for easier adjustment to shocks and guarding against the risks of deflation. Directors also welcomed the ECB's move toward integrating broader financial market and real developments into its analysis of monetary developments. However, a number of Directors considered that developments in the monetary aggregates are useful for predicting inflation only in the longer term. Therefore, these Directors suggested that less emphasis be placed on the role of

developments in monetary aggregates, which should be used primarily as long-term information variables to support policy decisions. Several Directors highlighted, in this context, that money and credit developments can provide valuable signals of emerging financial imbalances that could lead to asset price bubbles.

The appropriateness of the Stability and Growth Pact (SGP) as a fiscal framework for the euro area was discussed by the Board, and in particular how it should best guide the adjustment of members that had not yet met the Pact's consolidation objectives. Directors generally considered the SGP to be basically in line with the requirements of both the area members and the fiscally decentralized monetary union and to provide a forward-looking framework that is reasonably well-tuned to the long-term pressures and debt sustainability issues stemming from the costs of aging populations. However, several Directors considered that the SGP's standing had been hurt by public perceptions that countries were held accountable for achieving nominal balance targets regardless of cyclical developments, resulting in procyclical fiscal policy responses. Therefore, these Directors welcomed recent announcements emphasizing the focus on structural balances, although a few Directors cautioned that these may be more difficult to explain to the public.

The recent collective reaffirmation by the euro area authorities of their commitment to avoid excessive deficits and to uphold the SGP objective of achieving and maintaining budgetary positions close to balance or in surplus over the economic cycle was welcomed by the Board. A coordinated consolidation approach would be helpful for further enhancing the credibility of the Pact. Directors also noted the positive role that the Pact had played in supporting most members of the euro area in achieving an underlying fiscal position that was close to balance or in surplus. They welcomed these fiscal consolidation efforts, and urged that fiscal policies in these countries allow the automatic stabilizers to operate fully, as envisaged by the Pact.

In several countries, most notably the three largest, fiscal adjustment had lagged, in particular during periods of strong growth. These countries, Directors suggested, faced the particular challenge of striving to maintain the ambitious medium-term target of achieving fiscal balance while being cognizant of the shorter-term fragility of the cyclical outlook and the demand implications of adjustment. Meeting this challenge would require choosing a path of adjustment to medium-term fiscal targets that both signals credible adherence to SGP rules and maintains a sustainable pace of consolidation. In light of this, Directors endorsed the view that the best way forward would be a concerted and credible commitment by the three largest countries to adjust their underlying fiscal positions by at least ½ of 1 percent of GDP per year over the next several years until they reached close-to-balance structural positions. Such an approach would impart needed fiscal credibility at both the national and area-wide levels, which could significantly lessen the short-term negative demand effects of the adjustment, particularly if fiscal consolidation is anchored in expenditure reforms. They also saw a need for a comprehensive understanding that—provided the 3 percent limit is not breached—the automatic stabilizers should be allowed to play fully around those adjustment paths.

The scope for raising the area's potential through structural reforms remained large, Directors stressed, and it had become increasingly urgent to implement the remaining reform agenda with perseverance, in particular to support the reabsorption of labor. Directors welcomed the "new European paradigm" of employment-intensive growth, but noted that as the employment-generating effects of past reforms wear off, further labor market reforms—together with continued wage restraint—would become an increasingly pressing priority to maintain the paradigm and bolster the area's resilience. Priority should be given, Directors also emphasized, to the further integration of product markets—a long-standing rationale for the EU's existence that continues to be hindered by the slow progress in liberalizing trade in services. The new impetus to, and awareness of gains from, financial sector integration was welcomed, and, in this context, Directors noted, in particular, the agreement on the Lamfalussy process for speeding up the implementation of the Financial Services Action Plan in securities markets, and the recent agreement on its extension to the banking and insurance sectors.

Directors acknowledged that area-wide statistics were adequate for surveillance purposes but called for improving the timeliness of quarterly national accounts data, and the quality of labor market and short-term business cycle statistics.

With respect to *trade policies of the European Union* (EU), Directors emphasized that, given its prominent role in world trade, the EU has a special responsibility to pursue liberal trade and agricultural policies, improve access to developing country exports, and advance the agenda of multilateral trade liberalization. They welcomed the leading role played by the EU in the successful launch of the Doha round of trade negotiations and the priority given by EU trade policy to further liberalization and better trade rules in the multilateral context. They were encouraged by the fact that further escalation over transatlantic trade disputes, which could have undermined progress under the Doha round, had so far been avoided. Reform of the Common Agricultural Policy (CAP) should be a key policy priority for the EU, Directors considered, given the costs it imposes on EU consumers, trading part-

ners, and agricultural markets. The proposals under the mid-term review of the CAP, which involve delinking financial support from production, were seen as a first crucial step in this direction. Directors called for determined political leadership in order to pursue reform comprehensively, including elimination of agricultural export subsidies.

The EU's commitment to increase developing countries' access to its market was welcomed by Directors, and they urged the EU to go further by being prepared to eliminate or reduce tariff peaks and tariff escalation, especially on exports of developing countries. In textiles and clothing trade, quota removals should be accelerated in order to help smooth the adjustment in both EU industries and in those developing country suppliers currently protected by the quota system.

Eastern Caribbean Currency Union

In January 2003, the Board discussed recent economic and policy developments in the Eastern Caribbean Currency Union, which comprises Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

The region had faced a series of harmful shocks, Directors observed, including natural disasters, repercussions from the events of September 11, 2001, and the global economic slowdown. In particular, the weakness of the tourism sector had contributed to an unprecedented overall decline in GDP in both 2001 and 2002. These developments had worsened the region's difficult economic challenges, but Directors stressed the urgency of addressing these challenges with determination. Priority would need to be given to correcting the deepening fiscal imbalances and to safeguarding the stability of the currency board arrangement and the financial system. At the same time, structural reforms should aim at strengthening the region's competitiveness and growth potential.

Efforts at fiscal consolidation and stabilizing public debt ratios, Directors noted, require a range of actions. Expenditure measures should include wage restraint, improved public expenditure management (informed by World Bank public expenditure reviews), and greater focus on public sector investment projects that are geared to growth and poverty reduction and funded largely by grants and concessional loans. To strengthen the revenue effort, Directors urged an early reduction in tax exemptions and discretionary concessions, and a broadening of the tax base, preferably on a regional basis and through the introduction of a VAT-type tax and reduced reliance on trade tariffs. Strengthened public debt management will also play a crucial part in improving fiscal outcomes and lessening vulnerabilities.

The ongoing work coordinated by the Eastern Caribbean Central Bank (ECCB) in the tax, expenditure, and debt management areas was welcomed by Directors. They commended the ECCB for its efforts to support fiscal reforms in the region, particularly in the context of stabilization programs, and saw the fiscal benchmarks being developed as a useful commitment mechanism to improve fiscal performance. The fiscal authorities needed to take full ownership of these regionally coordinated initiatives, Directors stressed, and their full and determined implementation would be key to ensuring fiscal sustainability. Peer review and the regular monitoring of members' performance against the benchmarks would help ensure that all members achieve—at a minimum—the benchmarks over the medium term. Directors also underscored the need to improve fiscal transparency and governance in the region, and suggested that fiscal ROSCs for the members of the ECCB would be helpful in this regard.

Directors noted the mixed assessment of the health of the financial systems in the member countries, and called for measures to ensure bank soundness going forward. They welcomed plans to strengthen the domestic bank supervisory and regulatory regime in accordance with the Basel Core Principles, as well as the amendments to the Banking Act and the ECCB Agreement Act, and looked forward to their early enactment. Establishing uniform agencies in each jurisdiction to regulate nonbank financial institutions and the offshore financial sector was a matter of urgency, Directors stressed. Problem banks needed to reduce their nonperforming loans and would, in some cases, have to be recapitalized.

Recent progress toward strengthening regulation and supervision in the offshore financial sector was welcomed by Directors, but prospects remained dim for sustaining a vibrant offshore industry over the medium term in the region. While efforts to raise supervision to international standards needed to continue, it would also be important to work toward mechanisms to prevent the cost of supervision from outweighing the overall economic benefits of the sector. Directors encouraged the authorities to keep up the momentum in their efforts to strengthen the mechanisms to combat money laundering and the financing of terrorism. They supported the provision of IMF technical assistance for this purpose, and looked forward to the FSAP exercise, to be conducted later in 2003.

The monetary and exchange rate system operated by the ECCB had generally served the region well in the past, Directors considered, and they noted the ECCB's high currency backing ratio and comfortable level of international reserves. They cautioned, however, that preserving the exchange rate peg going forward would require sustained fiscal consolidation and a decline in public sector debt, a sound and well-regulated financial sector, and strengthened efforts to increase the region's competitiveness. Some Directors encouraged the

authorities to keep the currency peg under review. The authorities were also encouraged to abolish the floor on savings deposit rates in order to increase the responsiveness of interest rates to liquidity conditions.

Determined efforts to strengthen external competitiveness and achieve sustainable growth were important, Directors underscored. This would require strong wage restraint, and efforts to increase the flexibility of the labor market and enhance the skill composition of the labor force. Directors also highlighted the benefits that members of the currency union would obtain from deeper structural reforms to improve efficiency as they advanced toward greater regional and global integration. They supported the goal of creating an economic union by 2007, and encouraged the authorities to accelerate integration plans that would position the region to take full advantage of the anticipated Free Trade Area of the Americas and facilitate adjustment to the prospective loss of EU trading preferences for key agricultural products. Stronger efforts toward privatization, trade liberalization, civil service and public sector reforms—including pension reform—and improvements in the business environment were also needed, Directors noted. The region would need appropriate technical assistance to support its integration efforts.

Directors underscored the importance of strengthening economic statistics and addressing remaining weaknesses that hamper the quality of economic analysis. Improvement is most urgent in the national accounts and labor statistics, while further efforts are required to improve the quality, transparency, and timeliness of economic data.

West African Economic and Monetary Union

In March 2003, the Board discussed the recent economic developments and regional policy issues with the West African Economic and Monetary Union (WAEMU), which comprises Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

The strong economic expansion in the WAEMU region in the aftermath of the 1994 devaluation of the CFA franc had slowed, Directors observed. The continued uncertainties posed by the unsettled political and economic situation in Côte d'Ivoire (the largest economy in the WAEMU), the delayed global economic recovery, and the possibility of high oil prices resulting from war in the Middle East, along with persistent structural and institutional rigidities across the WAEMU membership, weighed on the region's growth prospects. An early economic recovery and reestablishment of political stability in Côte d'Ivoire would be essential for regional GDP growth to resume at a pace consistent with poverty reduction in the region, Directors recognized. They considered that the WAEMU was at a crossroads: member governments needed to match their political commitment to WAEMU with strong actions to deepen the regional integration process in the face of the serious uncertainties about the economic outlook.

Directors commended the authorities of the WAEMU for the progress achieved in regional integration since 1994, including the establishment of a customs union and an economic union. However, some important regional reforms remained to be implemented. Directors therefore concurred with the decision to extend the timetable for economic convergence of the member states to 2005. They stressed that determined further fiscal consolidation by all the WAEMU members over the next few years would be necessary to meet the ambitious timetable. The strengthening of regional institutions and greater political commitment on the part of member countries would also facilitate the removal of the remaining obstacles to intraregional trade and the creation of a full-fledged customs union and a single market.

The prudent monetary policy of the Central Bank of West African States (BCEAO) had kept inflation low and the coverage of base money by foreign reserves adequate, Directors noted, despite the weakening of economic performance of the WAEMU member countries. They considered that further steps would be required to streamline monetary policy instruments and to improve the functioning of the regional interbank market. They urged the authorities to pursue a more flexible interest rate policy, and to lay the basis for replacing the current differentiation of reserve requirements with a uniform reserve requirement ratio for all members at the appropriate time. The shift in government budget financing from central bank direct advances to the issuing of securities on the regional capital market was welcomed by Directors, but they noted that for the market to work optimally, close coordination of monetary and fiscal policies across the WAEMU members, as well as strict observance of the fiscal convergence criterion, would be called for. Development of a deep and effective regional capital market would greatly enhance the efficacy of monetary policy, Directors considered.

Directors noted the moderate improvement in the financial position of the WAEMU banking system and emphasized the importance of further improvement. Measures to ensure the observance of prudential ratios by banks, and to strengthen loan recovery mechanisms and the judicial environment, would help to raise the standard of banks' portfolios. Reinforcement of the authority of the Regional Banking Commission would be essential to ensure the effectiveness of bank supervision and the adherence by financial institutions to prudential norms.

The adoption by the WAEMU Council of Ministers of an anti-money-laundering directive and a draft com-

munity regulation on the freezing of funds linked to terrorist activities was supported by Directors, who also urged member states to enforce strictly the relevant laws and regulations.

Directors welcomed the initiatives undertaken in the past few years to harmonize taxation, budget laws, and government accounts, and they noted that these initiatives and the steadfast implementation of the remaining reform agenda will be crucial if the full benefits of economic integration are to be reaped. The authorities were encouraged to pursue the harmonization of exemptions and the adoption of a common investment code, which would help level the playing field and remove residual distortions. Directors welcomed the establishment of structural funds, which should help reduce regional disparities. They also encouraged the establishment of a regional solidarity bank, which should complement rather than compete against the lending activities of microfinance institutions in the context of poverty reduction efforts.

The external competitiveness of the WAEMU economies is so far adequate, Directors agreed, but these economies remained vulnerable to fluctuations in the terms of trade. To maintain the region's external competitiveness and its share in export markets, Directors recommended policies aimed at broadening the productive base and diversifying the economies, improving factor productivity, and reducing high nonlabor domestic costs, along with continued sound macroeconomic policies. The authorities were also urged to pursue regional sectoral policies aimed at addressing the underlying structural rigidities of the WAEMU economies.

The steps taken toward the implementation of a common trade policy by WAEMU members and the encouragement of intraregional trade were welcomed by the Board. A common external tariff (CET) was being set in place in all members. Directors also welcomed the increase in volume in intraregional trade resulting from the internal trade liberalization undertaken so far. At the same time, considerable scope for further liberalization remained, and Directors encouraged the authorities to eliminate nontariff barriers to intraregional trade, as well as the exceptions to the CET.

Directors recalled the decision by the Heads of State of the Economic Community of West African States (ECOWAS) to create a large single regional market, and ultimately to establish a common monetary framework. Achievement of this objective would require a high degree of macroeconomic convergence among the member countries, which at present was lacking. Directors acknowledged the strong political support underpinning the integration process within ECOWAS, and considered that the goal of achieving a single monetary union in West Africa could serve as a useful anchor for economic policy, even though convergence remained an ambitious objective and would take time. Member countries of the WAEMU and the ECOWAS were encouraged to intensify their cooperation in the areas of macroeconomic and sectoral policies and trade in order to set a firm foundation for monetary and economic union at the appropriate juncture.

Chapter 2

Strengthening Surveillance and Crisis Prevention

Surveillance lies at the heart of the IMF's efforts to help prevent economic and financial crises. The Fund has taken a variety of measures in recent years to strengthen its surveillance, reflecting the changing global environment, including the increased importance of international capital flows, and drawing on the lessons of international financial crises. These initiatives aim to encourage members to adopt policies and institutional reforms that make their economies more resilient to potentially harmful developments and financial stress, support sustained and balanced global growth, and contribute to a more stable international financial system.

Issues related to economic and financial globalization were the subject of two IMF conferences and an informal Board seminar in FY2003 (see Box 2.1).

During FY2003, the IMF reviewed several of these key measures and took a number of additional steps to enhance its surveillance and contribution to crisis prevention:

- The Board undertook reviews of the IMF's *strategy for enhancing the effectiveness of its surveillance*, and determined ways to carry the agenda forward.
- Management and staff continued to develop a system for *assessing crisis vulnerabilities* in countries that are potentially exposed to capital account shocks. This system enables the staff to pull together, for internal use, information on global economic and market developments, analyses of vulnerabilities and financing scenarios, early warning indicators, financial soundness indicators, information on vulnerabilities in specific sectors, and market intelligence to judge the likelihood of incipient crises and consider policies to forestall them.
- The Board proposed several improvements to assessment exercises under the IMF's *standards and codes initiative* and the joint IMF–World Bank *Financial Sector Assessment Program (FSAP)*.
- Executive Directors broadly supported proposals to enhance *data provision for surveillance purposes*.
- A new analytical framework for *debt sustainability assessments* was adopted in June 2002 and by end-April 2003 was being used in surveillance reports for members with significant capital market access, as well as in reports on members' requests for use of the IMF's general resources.
- In April 2003, the Board endorsed further measures to strengthen *surveillance in program countries*, partly in response to the Independent Evaluation Office's report on the prolonged use of IMF resources. (See Chapter 4 for more details on the IEO report.)
- The IMF took steps to *clarify the signals it conveys to official and private creditors* about the strength of a member's policies.
- The IMF significantly advanced its contribution to *combating money laundering and the financing of terrorism*, including through the start of a 12-month pilot program in October 2002.

Follow-Up to 2002 Biennial Surveillance Review and Steps Forward

The financial year saw two follow-up discussions by the Executive Board of the 2002 Biennial Review of Surveillance. The first, in July 2002, led to several conclusions: endorsement of a new guidance note for staff on surveillance, agreement on a first step toward enhanced assessment of the impact of the IMF's policy advice, and measures to strengthen surveillance in program countries. The second discussion, in March 2003, was a more comprehensive follow-up: the Board revisited the conclusions of earlier reviews, took stock of the range of initiatives already undertaken to strengthen surveillance, and discussed a number of areas where further work would be helpful.

Past reviews, Directors noted, pointed to five key ingredients of effective surveillance:

- timely, comprehensive, and accurate information;
- focused, high-quality analysis;
- openness to different perspectives to minimize the risk of "tunnel vision";
- effective communication of assessments to the authorities and the public; and
- desired impact on members' policy decisions.

They observed that, building on the lessons learned from the Mexican and Asian crises of the 1990s, a range of steps has been taken in recent years to shape

Box 2.1
Research on Globalization

The debate continues on globalization's benefits and costs and about the policies that can best ensure that its net benefits are maximized and shared by all. During the financial year, research on issues directly related to globalization was discussed at three meetings at the IMF.

The IMF held its *Third Annual Research Conference* in November 2002. The theme was *Capital Flows and Global Governance*. The conference provided a forum for economists from the Fund and elsewhere to exchange views on recent research related to globalization and the IMF's work. All research papers presented at the conference can be found at *www.imf.org/external/pubs/ft/staffp/2002/00-00/arc.htm*.

A *Global Linkages Conference* was held in Washington, D.C., in January 2003, to explore how economic linkages across countries have changed in recent years and what implications these changes have for policymakers in advanced and developing economies. The presentations and the discussions are available at *http://web.mit.edu/kjforbes/www/GL-Website/index.htm*.

In March 2003, the Executive Board discussed in an informal seminar a paper by the staff on the *Effects of Financial Globalization on Developing Countries: Some Empirical Evidence*, which was subsequently published on the IMF website. The document is available at *www.imf.org/external/np/res/docs/2003/031703.htm*.

IMF surveillance to better meet these criteria. Nevertheless, there is scope for further progress in these ongoing efforts, including the following:

- improving data provision to the IMF and data dissemination to the public;
- achieving more systematic financial sector surveillance—in particular, through the Financial Sector Assessment Program (FSAP); and
- strengthening assessments of policy frameworks and institutions against internationally recognized standards and codes.

In addition, vulnerability assessments have been significantly bolstered, with better analyses of debt sustainability and capital account developments, and more consideration of market participants' perspectives. Surveillance in program countries is being strengthened by ensuring that economic conditions and policies are reassessed from a fresh perspective. Moreover, regional surveillance is being reinforced by the multilateral surveillance missions to major emerging market financial centers conducted by the International Capital Markets Department to gather market participants' views on the vulnerabilities facing emerging market economies.

Agenda for Further Improvement

Directors were generally of the view that the strengthened architecture of surveillance put in place in recent years remains a sound framework for the conduct of the IMF's surveillance activities. The priority now was to take full advantage of the potential of the present framework by ensuring that progress with implementation was sustained and that the various surveillance outputs were adequately linked. In addition, Directors identified six areas in which further work and reflection would be useful.

First, while a broad consensus has emerged on the types of policies that help to provide buffers against outside shocks, questions remain about the appropriate *calibration of the IMF's policy advice in these areas*. For instance, recent experience in some emerging market countries suggests that prudent debt levels are lower than previously thought, and has focused new attention on the size of risks in highly dollarized economies. The IMF will be working to improve the analytical basis for policy advice in such areas, and to identify criteria for gauging the soundness of policies. However, many Directors saw considerable difficulty in developing such criteria without falling into a one-size-fits-all approach, and cautioned against allowing such criteria to transform Article IV consultations into a rating exercise. They also observed that this approach should apply to the whole membership as relevant.

Second, in order to strengthen policy advice, the IMF will be looking at ways to integrate *insights from cross-country experiences more systematically* into surveillance.

Third, experience in a number of recent crises suggests that whether a country can implement policies that reduce vulnerabilities depends on the robustness of its political institutions and capacity to mobilize political consensus in favor of needed adjustment measures. Given the importance of these political factors—reiterated in the IEO's evaluation of prolonged use of IMF resources—the Board encouraged the staff to enhance its *analysis and reporting of political economy issues*. This effort is to proceed in an evolutionary manner, based on close dialogue with member countries and building on treatment already accorded to such issues in post-conflict cases and in countries facing severe governance issues. Many Directors cautioned, however, that the staff has limited expertise in political analysis and that political economy considerations should not undermine the technical quality of its policy advice.

Fourth, policy initiatives on transparency, global and regional surveillance, and surveillance over systemic effects of members' trade policies have been designed, in part, to *enhance the impact of the IMF's advice to systemically and regionally important countries*—particularly the major industrial countries, whose trade,

macroeconomic, and financial policies have major repercussions on other members and the system as a whole. However, in view of the widespread concern that the views of the IMF on such members' policies are still not taken sufficiently into account, Directors saw scope for further efforts to draw attention to the positive and negative effects of systemically and regionally important countries' policies, including the global impact of their trade policies.

Fifth, the IMF must continue to grapple with the *trade-offs between the goals of transparency and candor* in the IMF's policy assessments and prescriptions. Directors agreed that a key challenge is to preserve full candor in the staff's diagnoses and prescriptions to the Board. Subject to that overriding objective, efforts should be made to continue boosting rates of publication of staff reports.

Sixth, Directors supported the ongoing efforts to *enhance the role of surveillance in program countries*, including through a special guidance note to staff that will bring together the various steps taken to help ensure an independent assessment of economic conditions and policies and to present this fresh perspective at a time when it is most beneficial.

Several steps are already planned to move the policy agenda forward, Directors noted. These include the review of the framework for debt sustainability assessments; work on the feasibility and desirability of adapting the Contingent Credit Line (CCL) eligibility framework for possible use in surveillance; the review of progress on financial soundness indicators as well as a seminar discussion on the balance sheet approach to financial crises; the review of the IMF's transparency policy; and implementation of the conclusions of the review on prolonged use of IMF resources.

Building on the Success of the Standards and Codes Initiative and the FSAP

The Executive Board conducted reviews of both the *Standards and Codes Initiative* and the *Financial Sector Assessment Program* in March 2003 (see Box 2.2). These initiatives were significantly enriching IMF surveillance, Directors found, and member countries indicated that they had benefited from participation in the initiatives.

For the standards and codes initiative, Directors agreed that going forward, coverage should be more selective, focusing on the countries and standards expected to have the highest payoff in improving domestic and international financial stability and strengthening institutional capacity. In addition, Reports on the Observance of Standards and Codes (ROSCs) will be expected to focus more sharply on main conclusions and recommendations, with greater attention to follow-up.

In the case of the FSAP, Directors observed that there is scope for streamlining the assessment exercises. In addition, priority should continue to be given to industrial countries and emerging market economies of systemic importance, while maintaining a balanced coverage of countries. The program remained the foundation for strengthened financial sector surveillance, Directors agreed, but it should be complemented with other tools—such as FSAP updates, more participation of specialized financial sector staff in Article IV missions, and off-site monitoring, including through financial soundness indicators—to achieve more continuous surveillance, especially of systemically important countries. To make resources available for these activities, Directors proposed a moderate reduction in the annual number of FSAP assessments and reassessments—while continuing to expect that the entire membership would participate in the program over time—coupled with greater variation in the scope of FSAP assessments according to country circumstances. The proposed greater focus on medium-term and structural issues in low-income countries with small financial systems was welcomed by Directors. It was also noted that for least developed countries with nascent diversified financial systems, the more immediate need might be technical assistance to develop the financial sector, rather than a resource-intensive detailed FSAP.

Data Provision for Surveillance Purposes

The IMF's member countries supply the data that the Fund needs to oversee their economic policies. Members are required to provide such data under the IMF's Articles of Agreement. Crises in emerging market economies since the mid-1990s have made clear the importance of comprehensive, timely, and accurate economic and financial data—including on international reserves, external debt, and capital flows—for assessing countries' external vulnerabilities and as an essential element of surveillance.

To guide members in disseminating their economic and financial data to the public, the IMF created data standards, the Special Data Dissemination Standard (SDDS) and the General Data Dissemination System (GDDS); see Box 2.2. These standards contribute to the pursuit of sound macroeconomic policies and the smooth functioning of financial markets.

In May 2002, the Board met to discuss the *provision of data to the IMF for surveillance purposes*. Directors welcomed recent improvements in members' data provision to the IMF for surveillance purposes. They reaffirmed the IMF's policy on data provision whereby all members are required to provide a minimum set of core data, consistent with their capacity. Beyond this, member countries are expected to supply the data

Box 2.2

The Standards and Codes Initiative and Financial Sector Assessment Program

In 1999–2000, the IMF, with the World Bank, introduced two initiatives as part of the international community's strategy to improve the stability of the global financial system. Under the standards and codes initiative, the Fund and Bank assess member countries' adherence to internationally recognized standards and codes of good economic and financial practices that contribute to sound national and international economies. *Reports on the Observance of Standards and Codes (ROSCs)* are a key output of the initiative. Work under the second initiative, the Financial Sector Assessment Program (FSAP), examines a country's financial sector institutions, policies, and vulnerabilities in a comprehensive manner, including possible systemic risks. These are detailed in a *Financial Sector Stability Assessment* report.

Typically, in both programs, which are interrelated, joint teams of IMF and Bank staff—supported by experts from a range of national agencies and international standard-setting bodies—make at least one in-country visit and work with government authorities and/or the representatives of the private sector. Countries' participation in the programs is voluntary.

Reports on the Observance of Standards and Codes (ROSCs)

A ROSC is an assessment of a country's observance of one of 12 areas and associated standards useful for the operational work of the Fund and Bank. The reports—about 70 percent of which are subsequently published—examine three broad areas: transparency, financial regulation and supervision, and market integrity (including corporate governance, accounting, auditing, and insolvency).

Transparent government operations and policymaking: *Country reports on Data Dissemination, Fiscal Transparency, and Monetary and Financial Policy Transparency.* The underlying assumption is that better-informed publics are more likely to hold their governments accountable for their policies and that investors, armed with better data and a standard against which to evaluate them, are more likely to invest wisely. Key tools are the IMF's statistical initiatives (SDDS and GDDS) and codes of transparency in monetary, financial, and fiscal policies.

Special Data Dissemination Standard (SDDS). Created in 1996, the SDDS is a voluntary standard whose subscribers—countries with market access or seeking it—commit to meeting internationally accepted levels of data coverage, frequency, and timeliness. Subscribers also agree to issue calendars on data releases and follow good practices with regard to data quality and integrity. Information on subscriber data dissemination practices is posted on the IMF's website on the Data Standards Bulletin Board, which is linked to subscriber websites.

General Data Dissemination System (GDDS). For countries that do not have market access but are eager to improve the quality of their national statistical systems, the GDDS offers a "how to" manual. Voluntary participation allows countries to set their own pace but provides a detailed framework that promotes the use of widely accepted methodological principles, the adoption of rigorous compilation practices, and ways in which the professionalism of national systems can be enhanced. Participating countries post their detailed plans for improvement on the Data Standards Bulletin Board, thus permitting both domestic and international observers to view their progress.

Financial sector standards: *Country reports on Banking Supervision, Securi-*

appropriate to their individual characteristics and circumstances.

Directors broadly supported IMF staff proposals to enhance the provision of data needed by the Fund for surveillance purposes. Highlights of the discussion included:

Issues regarding moving to weekly dissemination of data on international reserves under the SDDS. Frequent and timely disclosure of reserves data to the public is emerging as a best practice for many countries, Directors remarked. However, increasing frequency and timeliness in the data requirements of the SDDS is not now necessary, most Directors considered, noting also that moving to weekly data would raise technical and resource constraints for most subscribers and could deter new subscribers. Directors will have an opportunity to return to this issue later in 2003.

Improving provision of fiscal data. Directors stressed the critical importance of the IMF's being provided with adequate fiscal data, and asked the staff to continue working on improving the provision of these data. They welcomed the recent completion of the *Government Finance Statistics Manual*, which represents a major advance in the development of an analytical framework for fiscal data, and they supported giving IMF technical assistance to countries to help them adopt the practices set out in the new manual.

Identifying gaps in data for vulnerability assessments and national policymaking. Recent improvements in Article IV report discussions of countries' vulnerabilities, particularly for countries with access to international capital markets, were welcomed by the Board. Nevertheless, data deficiencies in many cases continued to hamper vulnerability analysis, and most Directors agreed that staff reports should more clearly identify gaps in data and technical assistance priorities during Article IV consultations and discuss progress in compiling data needed for vulnerability assessments, as relevant.

ties Regulation, Insurance Supervision, Payments Systems, and Combating of Money Laundering and Terrorist Financing. The IMF and the World Bank each year undertake at members' requests a certain number of financial system "health checkups" under the Financial Sector Assessment Program (see below). As part of this checkup, staff prepare detailed assessments of the country's observance of relevant financial sector standards and codes such as the Basel Core Principles for Effective Banking Supervision; summaries of these assessments may be issued as individual ROSCs as well as included in a comprehensive *Financial Sector Stability Assessment* report on the country.

Market-integrity standards for the corporate sector: *Country reports and assessments on Corporate Governance, Accounting and Auditing, and Insolvency and Creditor Rights.* With the private sector serving as the engine of growth in most economies, the health of the corporate sector is a critical concern. The World Bank typically takes the lead in assessing the quality of corporate governance, the adequacy of accounting and auditing standards, and the state of insolvency procedures and creditor rights.

The standards initiative has attracted growing participation from members and attention from financial market participants and ratings agencies. By end-April 2003, over 388 ROSCs had been prepared for 91 countries. Most systemically important countries are participating in ROSCs, though country coverage of the assessments remains uneven across regions.

Financial Sector Assessment Program (FSAP)

The FSAP is a comprehensive health checkup of a country's financial systems. Financial systems comprise the whole range of financial institutions, such as banks, mutual funds, and insurance companies, as well as the financial markets themselves—that is, securities, foreign exchange, and money markets. Also included are the payments system and the regulatory, supervisory, and legal frameworks that underlie the financial institutions and markets.

The Checkup. FSAP teams (IMF and Bank staff and experts from central banks, national supervisory agencies, and international standard-setting bodies) seek to alert member countries to likely vulnerabilities in their financial sector and to help the IMF and the Bank—and the international community—formulate the appropriate assistance. Teams use a variety of analytical tools (including stress tests and financial soundness indicators) to review financial sectors, evaluate how risks are managed, weigh possible technical assistance needs, and help countries prioritize policy responses. The FSAP assessment is an important input to IMF surveillance. By end-April 2003, reports under the program had been completed for 48 countries or regions, another 22 were under way, and a further 31 countries had committed to future participation.

Offshore Financial Centers

The IMF uses many of the diagnostic tools developed for the FSAP in its work on offshore financial centers. This work helps members to identify gaps and reduce potential vulnerabilities in their financial systems and improves the statistical coverage of the activities of offshore financial centers. Assessments of offshore financial centers evaluate financial regulation and supervision in jurisdictions with significant offshore financial activity to help safeguard the stability and integrity of their financial systems.

The Board noted that the cost implications of these enhancements for member countries as well as for the IMF will require careful prioritization and sequencing. They stressed that efforts to increase the frequency of data provision should not come at the expense of quality.

Signaling Assessments of Members' Policies

The IMF's interactions with member countries can have an important signaling function. Most of these interactions take place in the context of IMF surveillance and the IMF's financial support of policy programs. However, on occasion the IMF has responded to requests from member countries for special monitoring that goes beyond surveillance but does not involve an IMF financial arrangement. Some of these monitoring mechanisms were specifically intended to provide signals to official or private creditors. In recent years, such monitoring has mainly taken the form of staff-monitored programs (SMPs), under which no funds are lent but IMF staff follow a member's economic program and meet regularly with the country's authorities to discuss economic developments and policies.

During the discussion of the 2002 Biennial Review of the IMF's Surveillance, Directors expressed concerns about certain aspects of these programs. A follow-up discussion took place in January 2003 based on a paper entitled *Signaling Assessments of Members' Policies.* Experience with another signaling mechanism—assessments of members' policies provided in response to ad hoc requests from various official creditors or donors—was also discussed.

Concerns about SMPs relate mainly to SMPs that are used to convey signals on a member's policies to official and/or private creditors, Directors agreed. Given the close formal resemblance to IMF-supported programs, these "signaling" SMPs risk being misinterpreted as carrying the IMF's seal of approval. Moreover, relatively lax standards for reporting on perfor-

mance have allowed members to use the positive signal of initiating an SMP without adequate follow-up on implementation.

In light of these concerns, Directors felt that the existing framework for SMPs is not well suited to situations where members see a need for monitoring by IMF staff to provide assessments of their economic policies to official and/or private creditors. Consequently, they supported a proposal to discontinue such "signaling" SMPs. However, Directors concluded that the SMP framework remains suitable for circumstances where members need to establish a policy track record based on strong ownership before moving to an IMF arrangement or after an arrangement has gone off track.

Views differed, however, on establishing a new mechanism for this purpose. Given their differences on the matter, Directors agreed that, for the time being, the IMF will use existing mechanisms, including the Article IV consultation process and precautionary arrangements, for signaling purposes. If later it becomes evident that there is a demand for a more specific signaling mechanism, the staff will come back to the Board with a new proposal.

On the future role of SMPs, Directors were of the view that, in cases where SMPs are used to build a policy track record toward an IMF arrangement, the risk of misinterpretation is relatively low. In these cases, Directors concluded, the SMP framework remains suitable.

IMF staff also provide assessments of members' macroeconomic conditions and policies in response to various ad hoc requests from other international financial institutions, creditors, or donors. While recognizing the need for flexibility in meeting such demands, Directors nevertheless saw merit in general guidelines for the preparation of these assessments. They stressed that these assessments should be sufficiently nuanced to take account of different country circumstances, but written clearly so that the boards of other international financial institutions or other donors would be able to distinguish between countries with strong macroeconomic policies and those without. The assessments should also provide a brief history of the IMF's relationship with the member country.

Review of the Contingent Credit Line

The IMF designed and introduced its Contingent Credit Line (CCL) in 1999 as a way to enhance incentives for sound policies and provide a better safety net for good performers. It offers precautionary short-term financing under a Stand-By Arrangement primarily to help a member overcome the balance of payments financing need arising from a sudden and disruptive loss of market confidence due to contagion, and largely generated by circumstances beyond the member's control. At the end of FY2003, Directors were engaged in a review of the CCL, addressing reasons why it had not been used to date, especially:

- Concerns by members that a CCL request could be viewed as a sign of weak, rather than strong, policies;
- The possibility that a country's withdrawal from the CCL (or a determination that it no longer met the requirements) might trigger adverse market reactions; and
- An impression that the CCL might not provide greater assurances of timely financing than other IMF facilities and policies.

Besides its consultations with members and Directors, the staff has engaged in extensive outreach with market participants on these and other issues related to the CCL. The Board expects to continue its discussions in the period prior to the scheduled expiration of the facility in November 2003. In the interim, it has asked the staff to explore ways in which it might be possible to use strengthened IMF surveillance and precautionary arrangements to achieve the goals of the CCL in helping member countries with sound policies to confront the challenges of globally integrated capital markets.

Improving Sustainability Analysis

Assessments of the sustainability of a country's external and public debt are a key element in the IMF's work with many member countries. Judgments about debt sustainability—whether the debt can be serviced without an unrealistically large correction to the balance of income and expenditure—underpin the IMF's decisions in program contexts, in particular by helping to determine when financing is appropriate and, if so, the appropriate amount of financing to provide. These judgments become critical—and in many cases, particularly finely balanced—in cases of emerging market countries that are highly integrated into global capital markets and may have large financing needs.

In June 2002 the Board discussed and endorsed a new framework for judging debt sustainability. The new framework provides a reality check on the baseline projections on the basis of which sustainability is assessed, by clarifying the underlying assumptions regarding key variables including growth, real interest rates, exchange rates, and primary fiscal or external imbalances, and by highlighting their implications. It introduces a set of standardized parameters for stress-testing the program baseline, to identify the extent to which sustainability hinges on the assumption of a macroeconomic outcome more favorable than experienced in the past and to help ensure the robustness of the program in the face of plausible shocks.

In their discussion, Directors noted that assessments of sustainability are necessarily based on judgment,

given that they depend upon a complex assessment of the interrelationships among several factors—including macroeconomic developments, political and social constraints on adjustment, and the availability and cost of private and official financing. The new framework helps strengthen the analytical basis for making these judgments. It does not provide a mechanistic approach, which would be inappropriate given the wide variation in the debt-bearing and adjustment capacities of different economies over time. Rather, it is a framework for informing these judgments and expressing them in a transparent manner. As greater experience is gained, efforts will continue on further refining the framework.

Combating Money Laundering and the Financing of Terrorism

In July 2002, the Board discussed proposals to advance the IMF's contribution to international efforts to combat money laundering and the financing of terrorism (AML/CFT). The IMF had begun a new chapter in its work on this subject, Directors noted, by taking two key steps:

- conditionally adding the Financial Action Task Force (FATF) 40 Recommendations and the 8 Special Recommendations (FATF 40+8) to the list of areas and associated standards and codes useful to the operational work of the IMF (see Box 2.3); and
- endorsing a 12-month *pilot program* of AML/CFT assessments and accompanying ROSCs that would involve participation of the IMF and the World Bank, the FATF, and FATF-Style Regional Bodies (FSRBs).

Governing Principles

In moving forward, Directors emphasized that four key principles should guide the IMF's role in AML/CFT assessments and accompanying reports:

- the IMF staff's involvement in assessing non-prudentially regulated financial sector activities should be confined to those that are macroeconomically relevant and pose a significant risk of money laundering or terrorism financing;
- all assessment procedures should be transparent and consistent with the mandate and core expertise of the different institutions involved, and compatible with the uniform, voluntary, and cooperative nature of the ROSC exercise;
- the assessments should be followed up with technical assistance, if requested by a member, to build its institutional capacity and develop its financial sectors; and
- the assessments would be conducted in accordance with the comprehensive and integrated methodology being developed jointly by IMF and World Bank staff and the FATF.

Box 2.3

Money Laundering and the FATF

Money laundering is the hiding or hidden movement of assets resulting from criminal activity to muddy the connection between the crime and the assets. In turn, this laundered money is sometimes used to finance terrorism.

The harmful effects of money laundering on countries could include a range of severe macroeconomic consequences, such as unpredictable changes in money demand, risks to the soundness of financial institutions, and contamination effects on legal financial transactions. And money laundering can inhibit foreign direct investment if a country's commercial and financial sectors are perceived as being under the influence of organized crime. From a wider perspective, the financing of terrorism threatens the stability of individual countries and of the international financial system. Because financial market integrity is closely linked to financial stability, setting out guidelines for financial sector supervision is an important role for the IMF, which has expertise in assessing and providing technical assistance in financial sectors and overseeing members' exchange systems.

Financial Action Task Force

The Financial Action Task Force on Money Laundering (FATF) is an intergovernmental body established by the G-7 summit in Paris in 1989 to develop and promote policies, at national and international levels, against money laundering. The task force monitors its members' progress in carrying out anti-money-laundering measures, reviews money-laundering techniques and countermeasures, and promotes the global adoption of anti-money-laundering measures, collaborating with other international bodies. In April 1990 the task force issued a set of "40 Recommendations," which provide a comprehensive blueprint of the actions needed to fight money laundering. After the terrorist attacks of September 11, 2001, the scope of the FATF was expanded to include terrorist financing. At a Plenary on the Financing of Terrorism, the task force issued 8 Special Recommendations on Terrorism Financing to supplement the original 40. The recommendations are now referred to as the FATF 40+8.

The IMF's Executive Board agreed in April 2001 that the FATF 40 Recommendations be recognized as the appropriate standard for combating money laundering and that work should be conducted to determine how the Recommendations could be made operational in the IMF's work. In July 2002 Executive Directors conditionally approved adding the FATF 40+8 to the IMF list of standards and codes (see text); they were formally added in November 2002.

Pilot Program

A 12-month pilot program of AML/CFT assessments was initiated in October 2002, with participation of the IMF, World Bank, FATF, and many of the FSRBs. The Fund and the Bank are undertaking the assessments of

the FATF 40+8 and accompanying ROSCs in the context of the Fund/Bank Financial Sector Assessment Program and the Fund's Offshore Financial Center assessments. They are following the AML/CFT assessment methodology endorsed by the FATF in October 2002 and also approved by the IMF Executive Board as part of the pilot project's launch. (This methodology was reviewed by the Board in July 2002.) About 50 assessments using the methodology could be undertaken under the pilot program, including up to 8 by the FATF, 12 by the FSRBs, and at least 36 by the IMF and the World Bank.

The FSRBs are generally cooperating in the pilot program, although there is still some uncertainty about how many assessments they will undertake. Three regional bodies have endorsed the methodology, and two others are expected to do so shortly. The Caribbean FATF, while not fully endorsing the methodology, has acknowledged that it will be used in assessments of member countries during the pilot project in IMF/World Bank assessments.

The assessments are identifying weaknesses in AML/CFT regimes, and technical assistance has been significantly stepped up in response. Areas of weakness include legislative drafting and review, especially in combating the financing of terrorism, and the effectiveness of supervisory arrangements. The IMF and the World Bank have completed, initiated, or agreed to 52 AML/CFT technical assistance programs, comprising direct technical assistance to 40 jurisdictions and 12 regional technical assistance projects. In March 2003, they published a Joint Interim Progress Report. The participating parties will undertake a full review of the pilot program early in 2004.

Chapter 3

A Better Framework for Crisis Resolution

While crisis prevention has been the main focus of the IMF's reform agenda, the Fund has also been working to improve the management and resolution of the financial crises that do occur, where it also has a central role. Indeed, a stronger and clearer framework for crisis resolution should make an important contribution to crisis prevention in addition to lessening the number and severity of crises. Evolving reforms of the framework for crisis resolution have been designed to reinforce incentives for countries and their creditors to reach voluntary, market-oriented solutions to their financing problems. To this end, the IMF has sought to combine a clearer policy on access to Fund resources and greater selectivity in its lending with an examination of possible approaches to strengthening the mechanisms for the restructuring of sovereign debt. This chapter describes progress made in these areas during the past financial year.

Access Policy in Capital Account Crises

Increasing international integration of financial markets in recent decades has facilitated the financing of investment and economic activity in emerging market countries but has also exposed these countries to the risk of crises caused by rapid reversals of capital flows. In some cases, the IMF has supported members' efforts to resolve such crises by providing large amounts of financing. Beginning with Mexico in 1995, during the Asian crises of 1997–98, and subsequently, the IMF has in several cases provided financing in amounts that have been well above the access limits normally applying to Stand-By Arrangements and arrangements under the Extended Fund Facility (EFF).

The Executive Board held discussions on access policy in the context of capital account crises in September 2002 and January/February 2003. Most of the programs supported by exceptional access have been quite successful in helping the member achieve external viability, resume growth with limited vulnerability, and regain access to private markets, Directors noted, although in some cases more slowly than at first expected. But in a few cases, the combination of adjustment and exceptional access in the context of the associated political and external environment was insufficient to avoid a restructuring of obligations. However, in all cases, the borrowing members have remained current on their repayment obligations to the IMF. From a broader perspective, Directors also observed that, while some moral hazard is bound to be present in IMF lending, there is little empirical evidence that the use of exceptional access in general has had large moral hazard effects by increasing investor or country risk taking.

During the Board discussion in September 2002, Directors agreed that more clearly defined criteria for exceptional access in capital account crises were needed to help shape the expectations of members and markets, set up benchmarks for difficult decisions about program design and access, safeguard IMF resources, and ensure uniform treatment of members. Directors generally considered that (at a minimum) the following criteria would need to be met to justify exceptional access for members facing a capital account crisis:

- The member is experiencing exceptional balance of payments pressures on the capital account, resulting in a need for IMF financing that cannot be met within the normal limits.
- A rigorous and systematic analysis indicates there is a high probability that debt will remain sustainable.
- The member has good prospects of regaining access to private capital markets within the time IMF resources would be outstanding, so that the Fund's financing would provide a bridge.
- The policy program of the member country provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.

During the January/February 2003 discussions, Directors agreed on stronger procedures for decision making on all exceptional access proposals. These procedures include a higher burden of proof in program documentation, early consultations with the Board on program negotiations in exceptional access cases based on a concise staff note outlining the considerations, and ex post evaluation of programs with exceptional access within a year of the end of the associated arrangement. The ways in which these criteria and

procedures are applied in practice in reaching judgments about access will, however, be decisive, and an assessment of implementation is planned by early 2004.

Policy on Lending into Arrears to Private Creditors

When a member is experiencing difficulties in servicing its debt obligations to its external private creditors, discussions on the restructuring of its debt may be a difficult and protracted process, and an agreement may not be reached before the emergence of arrears. The IMF stands ready to provide resources to members that are in arrears to private creditors when prompt support is essential for the success of the member's adjustment policies and the member is making a good-faith effort to reach a collaborative agreement with its creditors.

In September 2002, the Board reviewed recent experience gained with the restructuring of sovereign bonds and the application of the good-faith criterion under the policy on lending into arrears. Greater clarity about the good-faith dialogue between a debtor and its creditors during the restructuring process, Directors agreed, could better guide the application of the lending into arrears policy and, more generally, promote a better framework for the engagement of debtors and creditors in the restructuring of sovereign debt.

Greater clarity on the framework for possible debt restructuring would strengthen the capacity of investors to assess recovery values under alternative scenarios, thereby facilitating the pricing of risk and improving the functioning of the capital markets. At the same time, however, Directors stressed the need for continued flexibility in applying the good-faith criterion to accommodate the characteristics of each specific case; to avoid putting debtors at a disadvantage in the negotiations with creditors; and to avoid prolonged negotiations that could hamper the ability of the IMF to provide timely assistance. Indeed, any clarification of the good-faith criterion should serve primarily to support the difficult judgments that will continue to have to be made in each case, and should be made operational in a manner that does not impair market discipline.

The following principles would strike an appropriate balance, Directors considered, between clarity and flexibility in guiding the dialogue between debtors and their private external creditors:

- When a member has reached a judgment that a restructuring of its debt is necessary, it should engage in an early dialogue with its creditors, which should continue until the restructuring is complete.
- The member should share relevant, nonconfidential information with all creditors on a timely basis.
- The member should provide creditors with an early opportunity to give input on the design of restructuring strategies and the design of individual instruments.

Although, as a general premise, the form of the dialogue would be left to the debtor and its creditors, Directors expected that a member in arrears would initiate a dialogue with its creditors before agreeing on an IMF-supported program, consistent with the above principles. In cases in which an organized negotiating framework is warranted by the complexity of the case and by the fact that creditors have been able to form a representative committee on a timely basis, there would be an expectation that the member would enter into good-faith negotiations with this committee, though the unique characteristics of each case would also be considered. By the same token, in less complex cases, where creditors have not organized a representative committee within a reasonable period, or where for other reasons a formal negotiation framework would not be effective, the member would be expected to engage creditors through a less structured dialogue.

In assessing whether the member is making good-faith efforts to negotiate, judgments would continue to be required in a number of important areas. These include a consideration of the complexity of the restructuring case, the extent to which a creditor committee is sufficiently representative, and whether a reasonable period has elapsed to allow for the formation of a representative committee. Directors also noted that, to the extent that negotiations become stalled because creditors are requesting terms that are inconsistent with the adjustment and financing parameters that have been established under an IMF-supported program, the Fund should retain the flexibility to continue to support members notwithstanding the lack of progress in negotiations with creditors.

Finally, all loans made while a member has outstanding arrears to private creditors will continue to be subject to financing reviews, which will provide an opportunity for the IMF to monitor relations between a debtor and its creditors, and for the Board to be kept informed about developments in this area at an early stage.

Dealing with Unsustainable Sovereign Debt

The IMF has also been engaged in an active debate on how best to deal with the relatively rare cases in which sovereign debts have become unsustainable. The challenges to a successful restructuring are several. Sound macroeconomic and structural policies are clearly critical. Transparency and predictability in the restructuring process are also important, to permit better-informed due diligence and decision making, and ease the task of achieving adequate intercreditor equity. Another challenge is effective collective action by creditors. In particular, there is a danger that individual creditors

will decline to participate in a voluntary restructuring in the hope of recovering payment on the original contractual terms, even though creditors as a group would be best served by agreeing to a restructuring.

The IMF has been working with its members and other representatives of the international financial community on possible approaches to improving the framework for the resolution of sovereign restructuring cases, and in particular on:

- The inclusion of *collective action clauses* (CACs) in sovereign bond contracts; and
- The establishment of a statutory framework through a *sovereign debt restructuring mechanism* (SDRM).

These approaches could be complemented through the development of a *voluntary code of conduct*—a set of standards for transparency and best practices—that could help guide the conduct of debtors and their creditors across a broad spectrum of circumstances, ranging from relative tranquility to acute stress. The IMF welcomes the private and public sector initiatives in this area and supports their development. It is clear, in this context, that a code could be effective only to the extent that it is able to attract broad support among debtors and their creditors.

Collective Action Clauses

CACs in international sovereign bond instruments are designed to facilitate more orderly and rapid debt restructuring in the rare cases when a sovereign needs to restructure its debt. CACs are provisions in bond contracts that enable the sovereign and a qualified majority of its bondholders to make decisions that become binding on all bondholders within the same issuance.

The IMF has long recognized the role of CACs in helping to resolve the collective action problem. This financial year, the Board held two discussions on CACs. In June 2002, Directors discussed two staff papers focusing on the design and effectiveness of CACs and ways to encourage their greater use. The discussion was advanced during April 2003, when Directors considered a staff paper reviewing issues and developments in promoting the use of CACs more actively.

The IMF's most effective strategy, Directors reiterated, is to promote the more widespread use of those types of provisions that already exist in many international sovereign bond contracts. Perhaps the most important provision is the *majority restructuring provision*, which enables a qualified majority of bondholders within the same issuance to bind all bondholders to the terms of a restructuring agreement, either before or after default. In addition, *majority enforcement provisions* enable a qualified majority of bondholders to prevent individual creditors from taking disruptive legal action before a restructuring agreement is reached. While majority restructuring provisions currently exist in sovereign bonds that are governed by English law, bonds governed by New York law (which represent the largest portion of the emerging market sovereign bond market) have not traditionally included these provisions.

Developments over the past year were encouraging, Directors noted, with respect to both the design of majority restructuring and majority enforcement clauses, and the incorporation of such clauses into bonds governed by New York law, which represents an important breakthrough in this area (see Box 3.1). However, given the outstanding stock of bonds that do not include CACs, Directors acknowledged that it will take some time before CACs are included in most international bonds. Moreover, because of the contractual nature of CACs, any decision as to the inclusion and design of CACs will ultimately be made by the debtor and its creditors.

The IMF should more actively promote the use of CACs through its bilateral and multilateral surveillance, Directors emphasized, and all member countries, both advanced and developing, should be encouraged to include CACs in their international bond instruments. Directors welcomed the proposals to continue several forms of outreach to encourage the use of CACs. They strongly encouraged the staff to hold a more active dialogue with emerging market issuers, with a view to encouraging the use of CACs in the New York market as well as in other markets, such as Germany, where CACs are not yet the norm. Progress by mature market economies in the use of CACs in international bond issuance, such as with recent issuance by Italy and the United Kingdom, would further strengthen these efforts. In addition, as part of a more concerted effort to encourage the use of CACs, Directors encouraged the staff to hold workshops with key issuers and legal practitioners later in 2003 on ways to promote CACs.

Sovereign Debt Restructuring Mechanism

The second approach pursued by the IMF for resolving unsustainable sovereign debt situations—a proposal for a sovereign debt restructuring mechanism (SDRM)—differed from the CAC approach in two key ways. First, an SDRM would create a legal framework that allows for collective action for all instruments, including those that required unanimity to restructure the financial terms. The adoption of such a legal framework would require an amendment of the Fund's Articles of Agreement. Second, the votes of similarly situated creditors holding participating debt instruments would be aggregated, allowing a single vote to restructure *multiple debt instruments*.

The period after the 2002 Annual Meetings witnessed a vigorous debate regarding the need for, and design of, an SDRM. A Board discussion in December

Box 3.1
Collective Action Clauses: Latest Developments

Collective action clauses (CACs) in debt instruments allow a qualified majority of lenders to amend key financial terms of the debt contract and bind a minority to these new terms. Incorporating CACs in bonds, as is the norm under English law, contributes to more orderly and rapid agreement on restructuring terms, ensures that the rights of the majority are respected, and prevents a minority of dissident creditors from pursuing disruptive litigation.

There have been several important developments in the design and use of CACs in the past financial year.

Proposals on the Design of Model Clauses

In June 2002, the official community through a G-10 working group consulted with market participants, issuers, and legal experts to recommend improvements to the debt-restructuring process. In its September 2002 report, the working group proposed a set of clauses based on existing practices with respect to bonds governed by English law that reflect the principles of fostering early dialogue, ensuring effective recontracting, and minimizing litigation by minority creditors. In early 2003 the group published its work on a set of model clauses that are designed to illustrate that these recommendations could be implemented. A group of private sector capital trading associations also published proposals for developing model clauses.

CACs and Recent International Sovereign Bond Issuance

A number of mature market countries have taken steps to introduce CACs in their international sovereign bonds. In September 2002, European Union (EU) finance ministers stated that their member countries intended to include CACs in new sovereign bonds issued under a foreign jurisdiction. Although such bonds represent a small part of the overall bonds issued by EU countries, the EU represents a sizable portion of the global bond market and, thus, could influence market practice in the jurisdictions of New York and Germany, which traditionally have not included majority restructuring provisions.

At the end of 2002, international sovereign bonds with CACs issued by emerging markets amounted to about 30 percent of total sovereign bonds issued by these markets. In March and April 2003, amid much discussion within the official and capital markets communities about the use of CACs, Mexico twice issued bonds governed by New York law that included both majority restructuring provisions and majority enforcement provisions. (Lebanon (2000), Qatar (2000), and Egypt (2001) had preceded Mexico in issuing bonds with majority restructuring provisions governed by New York law, but at the time the inclusion of these clauses went unnoticed by the markets.) Mexico's issuances were successful in that they were oversubscribed, and an analysis of the Mexican sovereign yield curve provided no evidence that the price, either at the launch or in secondary market trading, reflected a yield premium for the inclusion of CACs.

Also in April 2003, a global bond issuance by Brazil—governed by New York law and including CACs—was heavily oversubscribed and again showed no evidence that there was a cost associated with the use of CACs. Shortly after the end of the financial year, South Africa, Korea, Belize, and again Brazil followed with new international bond instruments that were governed by New York law and included CACs. In addition, CACs were included in Uruguay's new bonds following its debt exchange operation.

2002 reviewed issues associated with a possible design of an SDRM. In January 2003, the Board discussed a broad range of economic policy issues that might arise in connection with a member's decision to restructure its unsustainable sovereign debt obligations. A Board discussion in March 2003 further advanced the issue, in particular by considering a first draft of the Proposed Features of an SDRM that the International Monetary and Financial Committee had requested in September 2002 for consideration at its April 2003 meeting. The formulation of this proposal involved an extensive dialogue with private market participants, debt-restructuring practitioners and other workout specialists, academics, and members of the official community, and benefited from inputs received during a workshop and conference organized at the IMF in January 2003 (see Box 3.2). In addition to contributing to the design of an SDRM, this debate provided fresh impetus to efforts to promote the adoption of CACs in sovereign bonds, as well as proposals for a voluntary Code of Good Conduct.

While most Directors supported the establishment of an SDRM, not all were convinced of the need for, or the desirability of, such a mechanism. Moreover, views among Directors that supported an SDRM continued to differ on a number of design issues.

Directors who expressed support for an SDRM agreed that its objective should be to provide a framework that strengthens incentives for a sovereign and its creditors to reach a rapid and collaborative agreement on a restructuring of unsustainable debt in a manner that preserves the economic value of assets and facilitates a return to medium-term viability, thereby reducing the costs of the restructuring process. To achieve this objective, the SDRM must not only address collective action problems among creditors, but also catalyze an early and effective dialogue and exchange of information between the debtor and its creditors. By creating greater predictability in the restructuring process, the SDRM should also be expected to improve the working of international capital markets. Although a number of issues remained

Box 3.2

Sovereign Debt Restructuring Mechanism Conference

The IMF hosted a conference in January 2003 on its Sovereign Debt Restructuring Mechanism (SDRM) proposal to exchange views with country officials, representatives of the private sector, nongovernmental organizations, legal experts, and academics. In his opening remarks, Managing Director Horst Köhler stated the conference objectives as (1) to "remind ourselves" of the problem that a sovereign debt restructuring mechanism is trying to address; (2) clarify the state of the discussion, and the nature of the proposals that have been made; and (3) bring that work to a provisional close embodied in a single, clear, and understandable design.

The main topics discussed were the IMF proposal for sovereign debt restructuring; the context and content of the SDRM; the role of creditors and the IMF under the SDRM as well as its implications for the impact on capital markets; and ensuring integrity in the process.

Most speakers agreed that the sheer diversity of creditors and debt instruments had made the negotiation process between the sovereign and its creditors more complex, leading to delays in restructuring. However, they differed on the extent of the collective action problem and the design of the solution. Anne Krueger, IMF First Deputy Managing Director, underscored the need to establish a system that would promote a transparent, orderly, and expeditious debt restructuring. Some speakers thought that holdout creditors were only a minor problem, and called for more voluntary approaches to reaching a solution.

IMF staff argued that the scope of debt brought under the SDRM would generally be broad enough to ensure the future sustainability of debt and intercreditor equity, but that some carve-outs would be required to avoid undermining domestic insolvency procedures and protect secured financing. Other participants argued for wider coverage of debt under the SDRM, in order to better ensure economic viability of the sovereign following debt restructuring as well as fairer treatment of all creditors.

IMF staff also argued that the use of a stay on creditor litigation was not proportionate to the relatively low risks of such litigation. Moreover, an automatic stay would not be appropriate in the absence of a general cessation of payments. Staff maintained that other aspects of the SDRM—including the "hotchpot" rule to neutralize any benefits received by a litigating creditor following activation—would effectively discourage disruptive litigation. While some participants supported this view, others noted that the specter of early litigation could arise in response to changes in capital markets, and some feared that debtors would be forced to use up scarce resources in fighting litigation.

open, Directors expressing support for an SDRM viewed the Proposed Features as providing a balanced response to key questions. The main elements of the proposal included:

- A qualified majority of creditors across aggregated claims could vote to accept new terms under a restructuring agreement, thereby binding all affected creditors.
- The mechanism would contain provisions that would prevent creditor enforcement actions from disrupting the negotiating process, or delaying agreement on a restructuring that could be acceptable to a broad majority of creditors.
- An independent dispute resolution forum would be established to verify claims, ensure the integrity of the voting process, and adjudicate disputes that might arise following activation of the SDRM.

The International Monetary and Financial Committee considered a Report by the Managing Director on a Statutory SDRM at its April 2003 meeting. The IMFC emphasized in its Communiqué that the extensive analysis and consultation undertaken in developing the SDRM proposal have served to promote better understanding of the issues to be addressed in bringing about orderly resolution of crises. While recognizing that it was not feasible at that time to move forward to establish the SDRM, the Committee agreed that work should continue on issues raised in its development that are of general relevance to the orderly resolution of financial crises. These issues include intercreditor equity considerations, enhancing transparency and disclosure, and aggregation issues. The Managing Director will report on progress at the Committee's meeting in September 2003.

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Chapter 4

Improving Lending Policies and Practices

The IMF provides financial support to member countries under a variety of policies and lending instruments (see Table 8.1). Most forms of IMF financing are made conditional on the recipient country's adopting policy reforms to correct the underlying problems that gave rise to its need for support.

During FY2003, the Executive Board concluded a comprehensive, two-year review of conditionality (that is, the conditions related to IMF-supported programs) and approved new guidelines for the design and implementation of conditionality in IMF-supported programs. The new guidelines aim to streamline and focus IMF conditionality to promote the success of member countries' reform programs.

In the context of this major review of conditionality, the Board emphasized the need to establish a clear division of labor with other international institutions, especially the World Bank. In September 2002, Directors discussed the progress made on strengthening IMF–World Bank collaboration on country programs and conditionality under a new collaboration framework for the two institutions.

Also in September 2002, the IMF's Independent Evaluation Office (IEO) issued an evaluation report on the prolonged use of IMF resources by some member countries. Subsequently, the Board discussed the conclusions of a staff task force set up to make recommendations on how issues raised in the report might best be addressed.

New Conditionality Guidelines

To ensure continued effectiveness, the IMF regularly reviews developments in conditionality (see Box 4.1). In September 2002, the Board adopted new guidelines

Box 4.1

How IMF Conditionality Has Evolved

When the IMF commits its financial support to a member country, the country is expected to carry out policy adjustments and reforms to correct the underlying problems that gave rise to its balance of payments difficulties and its need for assistance. To this end, the IMF has attached conditions to its lending, focusing initially on monetary, fiscal, and exchange rate policies. Unsurprisingly, these conditions have evolved over the IMF's history as the circumstances and challenges facing its members have changed.

Structural Conditionality

Beginning in the late 1980s, the IMF increasingly emphasized the need to achieve adjustment through structural improvements in the economy. As a result of the greater focus on structural measures, the average number of structural conditions in a program, which was only 2 or 3 in the mid-1980s, climbed to 12 or more by the second half of the 1990s. Much of the increase was in the transition economies where, almost by definition, the programs had large structural content.

The increase in the number of conditions raised concerns that the IMF might be overstepping its mandate and expertise. Excessively detailed policy conditions can undermine a country's sense that it is in charge of its own reforms. Without such "ownership," reform is less likely to happen. Moreover, poorly focused conditionality can overburden countries attempting to implement nonessential reforms at the expense of reforms truly needed for achieving the program's objectives.

New Guidelines

In September 2000, the IMF's Managing Director issued interim guidelines on streamlining structural conditionality that set out general principles. From March 2001, papers prepared by IMF staff were posted on the IMF website to invite public comment on the principles and issues related to conditionality. Country officials, academic experts, and representatives of other organizations also added their views. Among their suggestions were the need to pay attention to the sequence and pace of policy implementation and the importance of a clear and coherent strategy for assistance from the international community.

In April 2002, the IMF's Executive Board agreed on the general principles to be embodied in new conditionality guidelines, and in September 2002 the Board approved the new conditionality guidelines, the first revision since 1979.

to encapsulate ongoing efforts to streamline and focus IMF conditionality. (The guidelines can be found on the IMF website.) An important objective of the new guidelines is to enhance country ownership and improve the prospects for sustained implementation of Fund-supported programs, most importantly by concentrating the IMF's policy conditions on areas that are critical to their success. The wholehearted implementation of these guidelines has also been identified in the IEO evaluation report on prolonged use of IMF resources as one of the key steps in avoiding the failure of Fund-supported programs.

The guidelines emphasize the need to focus conditionality on policies that are critical to achieving the macroeconomic objectives of Fund-supported programs. They also aim to establish a clearer division of labor with other international institutions, especially the World Bank. The guidelines are based on an increasing recognition of the importance of several interrelated principles:

- national ownership of policy reforms;
- parsimony in the application of program-related conditions;
- tailoring of programs to the member's circumstances; and
- clarity in the specification of program-related conditions.

The new guidelines introduce specific criteria for deciding whether conditions are appropriate in each case. Structural conditionality is regarded as an important element of Fund-supported programs, as long as it is critical to achieving the objectives of the program.

Box 4.2

A Framework for Bank-Fund Collaboration

In July 2001, Directors discussed the strengthening of IMF–World Bank collaboration on country programs and conditionality (see *Annual Report 2002*, page 41), and adopted a strengthened collaboration framework between the two institutions. The framework, which was also endorsed by the Executive Board of the World Bank, is based on three key principles:

- clarity about responsibilities,
- early and effective consultation, and
- the accountability of each institution for its own financing.

To implement the new framework, in the spring of 2002 the managements of both institutions issued a Guidance Note on *Operationalizing Bank-Fund Collaboration in Country Programs and Conditionality* to their staffs. Later in the year, the staffs of both institutions prepared a progress report examining their experience with collaboration under the Guidance Note.

The guidelines also spell out the roles of different types of program-related conditions, including performance criteria, structural benchmarks, and prior actions. A note by IMF staff providing additional explanation and context for the conditionality guidelines was released along with the guidelines.

An essential aspect of the IMF view of conditionality is that the member country will take primary responsibility for its own policies, and that documents setting out the country's reform agenda will be drafted by the authorities with the cooperation and assistance of Fund staff. The Board agreed during the course of its review that properly designed conditionality can complement and reinforce national ownership.

Strengthening IMF–World Bank Collaboration

In September 2002, the Progress Report on Strengthening IMF–World Bank Collaboration on Country Programs and Conditionality, prepared jointly by the staffs of the IMF and the World Bank, was discussed by the Board.

The progress report examined the experience with collaboration in relation to a Guidance Note issued in April 2002 (see Box 4.2). The report highlighted a survey of staff in the two institutions—World Bank country directors and IMF mission chiefs—examining their experience of collaboration. The survey found that, although collaboration was seen as satisfactory with no major problems indicated in most cases, a number of institutional factors were impeding fully effective collaboration—such as differences in working structures, time frames for achieving goals, and lending arrangements and instruments. These results con- firmed the need for continued efforts to strengthen collaboration.

In their discussion, Directors reaffirmed that close collaboration is indispensable for providing effective support to member countries, and forms an integral part of efforts to streamline and focus conditionality to enhance national ownership of reform programs. The move to strengthen collaboration in country programs is taking place against the background of progress achieved in a number of other areas, including the PRGF/HIPC framework and systematic joint analytic work such as that being done in the Financial Sector Assessment Program (FSAP) and Report on the Observance of Standards and Codes (ROSC) exercises.

The central principles of collaboration on country program design and conditionality, Directors noted, clearly designate one of the two institutions as a lead agency in particular policy areas and systematic information sharing between the two institutions. At the same time, they considered it essential that each institution retain ultimate responsibility for its own lending decisions.

The Guidance Note on *Operationalizing Bank-Fund Collaboration in Country Programs and Conditionality*

was beginning to play a positive role in strengthening collaboration, Directors observed, while noting the limited basis for assessing progress at this stage.

Effective collaboration with the World Bank is critical for the success of efforts to streamline and appropriately focus IMF conditionality, Directors emphasized: it is needed to ensure that important measures are adequately covered as the IMF applies conditionality more sparingly outside its core areas. At the same time, Directors generally considered that structural measures that do not fall in the core areas of the IMF, but are critical for macroeconomic stability, should remain part of the IMF's conditionality.

For the low-income countries, Directors noted that the PRSP process provides a natural framework for ensuring collaboration between the staffs of the two institutions in support of a country-led strategy for addressing poverty and fostering sustainable growth. For middle-income countries, collaboration has been more varied and based on a less formal approach, depending in part on the circumstances of the country, and stronger efforts are needed to ensure an effective approach in these cases also.

Looking forward, Directors encouraged the staff of both institutions to move ahead on the basis of the Guidance Note and the approach set out in the progress report, subject to another review no later than the end of 2003. They stressed that the views of the country authorities need to be taken into account in evaluating the effectiveness of collaboration, and they also suggested seeking input from donors, as well as a wider sample of IMF and World Bank staff.

Prolonged Use of IMF Resources

In March 2003, the Board concluded its discussions on prolonged use of IMF resources, based on the report of the IMF's Independent Evaluation Office (IEO) and the conclusions of a staff task force (see Box 4.3).

Directors appreciated the work of the task force as a key step in following up on the IEO's candid and comprehensive analysis. Thorough implementation and review of the measures proposed by the task force—

Box 4.3
Evaluation of Prolonged Use of IMF Resources

The Independent Evaluation Office (IEO) was set up by the IMF's Executive Board in July 2001 to provide objective and independent evaluation on issues related to the IMF. It operates independently of IMF management and at arm's length from the Executive Board. In September 2002 the IEO issued its first evaluation report—on the prolonged use of IMF resources.[1] Shortly afterward, the Managing Director issued a statement to the Executive Board welcoming the IEO's report, agreeing with many of its findings, and indicating that the IMF's management would establish a staff task force to recommend how issues raised in the report could best be addressed, building on the recommendations made by the IEO. Directors welcomed both the IEO report and the Managing Director's proposal. After receiving the conclusions of the staff task force, the Board discussed them in detail, concluding its discussion in March 2003.

Financial support from the IMF is intended to assist members in overcoming temporary balance of payments difficulties. Particularly under Stand-By and Extended Arrangements, IMF-supported programs aim to attain external viability, after which the IMF's financial support should no longer be needed. At times, prolonged use of IMF resources may signal a failure to achieve this key objective—which can impose costs on the member country, damage the IMF's credibility, and make it more difficult for the member to meet its external obligations (including its obligations to the IMF). In past discussions of prolonged use, the Executive Board has stressed the importance of distinguishing between countries that are making adequate progress toward achieving their program objectives and those that are not.

The IEO report concluded that prolonged use of IMF resources was substantial and could be associated with a number of problems. These included:

- risks to the revolving character of IMF resources;
- the possibility that prolonged use may be the result of weak program design and implementation;
- unwarranted intrusion on the development of domestic policies and institutions; and
- a possible blurring of the IMF's role and mandate, especially in relation to the work of the World Bank and other development institutions.

Follow-Up

The follow-up to the IEO report focused more generally on improving the prospects for successful implementation of all IMF-supported programs, through the adoption of policies and procedures that promote better program design and strong country ownership, along with accountability for outcomes. It also included measures aimed specifically at cases of prolonged use of IMF resources. The follow-up was aimed as well at ensuring that the Board's decisions on whether to provide Fund financial support for a member's adjustment program are taken transparently and with a clear understanding of the risks and constraints.

In its work, the staff task force benefited not only from the IEO report but also from comments received by the IEO through a process of external outreach, including seminars in Berlin, Cambridge, London, Manila, and Tokyo.

[1] The IEO's report on Evaluation of Prolonged Use of IMF Resources is available on the IMF's website at *http://www.imf.org/external/np/ieo/2002/pu/index.htm*.

along with timely attention to the IEO's future reports—would be critical to ensure that the work of the IEO makes its maximum contribution to enhancing the listening and learning culture within the IMF.

In their March discussion, Directors generally reaffirmed their observations during the Board's discussion of the IEO report, in September 2002, regarding the extent and nature of problems posed by the prolonged use of IMF resources. Under proper circumstances, most Directors agreed, long-term IMF financial engagement could be an appropriate response to help member countries address deep-seated problems that, by their nature, required many years to resolve. These problems have been particularly prevalent in low-income countries and countries in transition. Directors also observed, however, that at times prolonged use can be associated with inadequate progress in dealing with a country's key economic problems, and that, in some cases, prolonged use and the associated policy conditionality can hinder the development of domestic institutions.

The financial implications of prolonged use for the IMF's regular resources and for PRGF resources also were a possible concern. Directors broadly endorsed a number of measures aimed specifically at cases of prolonged use while stressing that attention should also focus on improving the prospects for successful implementation of all IMF-supported programs. This would be achieved through the adoption of policies and procedures that promote better program design and strong local ownership, along with accountability for outcomes. In that context, Directors also supported the recommendation that Board decisions on the provision of IMF financial support be transparently based on candid assessments by the staff of the risks and constraints involved.

The strategy outlined by the task force received the Board's broad support. This would entail:

- the rigorous implementation of IEO recommendations to improve surveillance, conditionality, and program design (including the need for greater realism in program objectives and assumptions);
- additional measures to strengthen "due diligence" for prolonged users (including more systematic ex post assessments) and enhance information for decision making; and
- further substantive consideration of issues raised by the IEO in the context of future discussions on surveillance, program design, and the role of the IMF in low-income countries.

As for the priority accorded by the IEO and the task force to making surveillance more effective, Directors felt the diligent implementation of the conclusions of the recent surveillance review (see Chapter 2) would be key to identifying economic weaknesses and building domestic support for sound policies. Directors stressed the need for the staff to combine clarity and candor with a recognition of the social and political realities that shape economic policy; to complement sound advice on economic objectives with discussions of alternative ways of achieving those objectives; and to reach out more broadly, including to legislative bodies.

In addition, Directors noted that the linkage of some forms of donor assistance to the existence of an IMF-supported program, and the IMF's catalytic role with respect to private financing sources, can result in pressures for IMF lending decisions that contribute to prolonged use. In that context, Directors confirmed the conclusions of their recent discussion on mechanisms for signaling the IMF's assessment of members' policies (see Chapter 2).

Systematically monitoring the timely implementation of the various elements of this strategy, in the context of the IMF's reviews of conditionality, would be important, Directors stressed.

The Fight Against Poverty in Low-Income Countries

The central objective of the IMF's operations in low-income countries is deep and lasting poverty reduction, which requires sustained economic growth and policies directed toward the needs of the poor. These are most likely to come about when, first, policies are sound, tailored to the needs and circumstances of individual countries, country-owned, and supported by strong institutions; and, second, when such national efforts are reinforced by a supportive global economic environment and international assistance. When these other conditions are in place, international assistance can be highly effective.

This "two-pillar" strategy was firmly endorsed by the international community in the Monterrey Consensus and reaffirmed at the Johannesburg Summit on Sustainable Development.[1] The strategy is based on the need for a sense of responsibility and determination in low-income countries to pursue sound policies and good governance, and it stresses that this must be matched by better and stronger international support—through increased and more effective aid, technical assistance, and a supportive international environment, including better market access for developing countries' exports and the phasing out of trade-distorting subsidies.

The IMF is committed to the fight against world poverty. The IMF's involvement in this crucial effort is within its mandate, pragmatic, and guided by considerations of effectiveness and practicality. First, the instruments, policies, and procedures that the IMF brings to this effort must not only be consistent with its institutional mandate but also be attuned to the special needs of low-income countries. Second, to be effective, the IMF must focus on its core areas of responsibility and competence, where it has a clear comparative advantage—macroeconomic policies and their supporting institutions, which are critical to establishing and maintaining conditions for sustainable growth, the promotion of sound financial sectors, the development of financial markets and the private sector, and the stability of the international financial system. In the process of its involvement in poverty reduction efforts, the IMF must also clearly define its expected contribution and delineate its role relative to those of other development partners, particularly the World Bank, which has the lead institutional role in poverty reduction. The Executive Board discussed a number of aspects of the IMF's support for low-income countries during the financial year—the subject of this chapter—and will be deepening this work program in FY2004.

As part of the second pillar of the poverty reduction strategy, the IMF supports its poorest members in several important areas:

- Helping them to develop and implement economic adjustment and reform programs aimed at accelerating sustainable growth. The IMF's contribution to these programs is in its areas of core expertise, set within the Poverty Reduction Strategy Paper (PRSP) approach (see Box 5.1), and supported in many cases through concessional loans from the IMF's Poverty Reduction and Growth Facility (PRGF). In recent years, the IMF has also contributed through its technical assistance activities—including through regional technical assistance centers delivering fiscal, financial, monetary, statistical, and institution-building training in the Pacific and Caribbean regions and in Africa (see Chapter 6). In addition, the IMF is cosponsor of a targeted effort to assist the seven poorest countries of the former Soviet Union—the CIS-7 Initiative (Box 5.2).
- Helping the Heavily Indebted Poor Countries (HIPC) address the burden of unsustainable debt through the enhanced HIPC Initiative.
- Advocating better market access for developing countries' exports and elimination of trade-distorting subsidies.
- Supporting the call for increased and better-targeted support by the international community, and the system for monitoring actions aimed at the achievement of the Millennium Development Goals (MDGs).

Other initiatives include collaborating with the World Bank on financial sector work in the areas of microfinance, finance for small and medium-sized

[1] The Conference on Financing for Development was held in Monterrey, Mexico, in March 2002. The World Summit on Sustainable Development took place in Johannesburg, South Africa, in late August 2002.

Box 5.1
What Is a PRSP?

Poverty Reduction Strategy Papers (PRSPs) are prepared by low-income countries through a participatory process involving domestic stakeholders and external development partners, and are endorsed by the IMF and the World Bank. Updated periodically (up to five years) with annual progress reports, PRSPs describe the country's macroeconomic, structural, and social policies and programs over a three-year or longer horizon to promote broad-based growth and to reduce poverty, as well as associated external financing needs and major sources of financing.

Recognizing that preparation of a PRSP is a lengthy process, the World Bank and IMF have agreed to provide concessional assistance on the basis of Interim PRSPs. I-PRSPs summarize the current knowledge and analysis of a country's poverty situation, describe the existing poverty reduction strategy, and lay out the process for producing a fully developed PRSP in a participatory fashion.

The country documents, along with the accompanying IMF/World Bank Joint Staff Assessments (JSAs), are made available on the IMF and World Bank websites in agreement with the member country. PRSPs and I-PRSPs, as well as policy documents related to the PRSP approach, can be found on the IMF's website.

enterprises, long-term finance, stock markets, and access to international capital markets, especially foreign direct investment. To promote private sector development, the World Bank and the IMF are setting up pilot investment councils. Such councils have been established in Ghana, Tanzania, and Senegal.

Aligning PRGF-Supported Programs and the PRSP Approach

The PRSP approach has become widely accepted by low-income countries and the donor community as an effective way to mobilize broad input to and ownership of national poverty reduction strategies. However, the PRSP is still a relatively new instrument, whose content and

Box 5.2
The CIS-7 Initiative

The CIS-7 Initiative was launched at the Spring Meetings of the IMF and World Bank in April 2002, following a seminar in London in February 2002. The initiative—sponsored by the IMF, World Bank, Asian Development Bank, and the European Bank for Reconstruction and Development—seeks to draw attention to the plight of the seven low-income members of the Commonwealth of Independent States (CIS)—Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan, and Uzbekistan. During FY2003, two international conferences were organized and a joint assessment of progress was made by the Initiative sponsors in April 2003.

Third Forum on Poverty Reduction Strategies for CIS-7 Countries

The Third Forum on Poverty Reduction Strategies for CIS-7 countries was held in Almaty, Kazakhstan, in December 2002. It was organized by the World Bank, the IMF, and the United Nations Development Program, and received financial support from the government of Switzerland. Representatives of the donor community also included the Asian Development Bank, the European Bank for Reconstruction and Development (EBRD), the European Union (EU), the International Labor Organization, the Islamic Development Bank, France, Germany, Japan, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

Forum participants shared experiences in designing and implementing poverty reduction strategies. Because most of the countries were close to finalizing, or had already finalized, their Poverty Reduction Strategy Papers (PRSPs), participants—especially the PRSP teams—were able to concentrate on the challenges they would face as they began to implement these strategies. In particular, the forum focused on:

- *Strategies for equitable growth*—the investment climate, trade as an engine of growth and poverty reduction, rural development strategies, and policies to support social inclusion.
- *Improvements in the design, implementation, and monitoring of PRSPs*—the use of poverty and social impact analysis systems for poverty monitoring, linking PRSPs to the budget, and donor alignment in support of PRSP implementation.
- *Institutionalization of the PRSP to strengthen governance and accountability*—the roles and responsibilities of various groups within civil society: community groups, parliament, local government, and the media.

A key message from the forum was the need to ensure that the PRSP becomes fully integrated into the regular business of government, including budget preparation. This effort would require continued capacity building for better analysis of the social impact of policies, and to support improved design and monitoring of policies. A particular concern for several countries was to ensure that disadvantaged groups—children, the disabled, women, internally displaced persons, and migrant workers—would benefit from economic growth.

Lucerne Conference on the CIS-7 Initiative

Meeting in Lucerne, Switzerland, in January 2003, representatives from the governments and civil society organiza-

procedures are evolving in response to lessons learned and the needs and capacities of individual countries. Following up recommendations in the Board's reviews of the PRSP and PRGF lending in FY2002 (see *Annual Report 2002*, Chapter 5), increased attention is being paid in country programs to creating the right environment for investment and growth. In addition, efforts are under way to bring poverty and social impact analysis (PSIA) more systematically to bear in the formulation of poverty reduction strategies and under PRGF lending, and to strengthen public expenditure management, especially in collaboration with the World Bank (Box 5.3).

The reviews of the PRSP and PRGF also focused on the tension between the ambitious objectives set out in the PRSP and the need for a realistic framework on which to base national budgets and PRGF-supported programs. In April 2003, the Board discussed important new steps to help align the PRSP approach and PRGF-supported programs, including:

- an effort to incorporate more realistic projections and assumptions;
- rationalization of documentation under the PRGF loan program to demonstrate clearly how the PRGF supports the goals of the PRSP plan, indicate how policy choices have been made, and reduce overall reporting requirements; and
- greater coherence between PRSP plans and the budget process in low-income countries, and closer synchronization of the cycle of PRGF-supported programs with those of the PRSP and national budgets.

The harmonization of donor procedures with the budget and PRSP processes will have a critical role to play in the success of this effort. Looking forward, staff will be deepening its work on related analytical issues, including the linkages between macroeconomic and structural policies and growth in low-income countries. A joint IMF-Bank research conference on this nexus of issues is planned for the first half of 2004.

tions of the CIS-7, multilateral organizations, donor countries, academia, and international nongovernmental organizations stressed donor coordination, good governance and country ownership of reforms, capacity building, and regional cooperation. The conference broadened and deepened the debate to include a range of economic, institutional, and social issues that must be tackled if the seven countries are to complete the transition process and secure a lasting reduction in poverty.

Although conference participants highlighted the long road ahead for the CIS-7 countries as they seek to become full-fledged market economies and improve living standards for their people, the country delegations were broadly optimistic about the future. Indeed, the pickup in growth during the past few years, despite weaknesses in the global economy, has led to some reduction in poverty, suggesting that these countries are on the right path.

The consensus that emerged at the Lucerne conference was that further concerted action would be needed to enhance donor coordination and financial assistance—including debt relief where necessary—for countries following appropriate policies.

Assessment of Progress

Progress under the CIS-7 Initiative was reviewed in an April 2003 report prepared jointly by the European II Department of the IMF, the Europe and Central Asia Region of the World Bank, the Banking Department and Office of the Chief Economist of the EBRD, and the East and Central Asia Regional Department of the Asian Development Bank.

The sponsors of the initiative found that results from its first year were promising. Most of the countries made significant advances in designing and carrying out programs in the context of the PRGF/PRSP process, and that process provided a useful framework for coordinating donor support. Progress was also made in addressing the debt issue, albeit at a slower pace than hoped for by some participants. Paris Club reschedulings for Georgia and the Kyrgyz Republic provided valuable cash-flow relief in those countries. Bilateral reschedulings—notably agreements between Russia and Armenia, and agreements signed by Kazakhstan, Russia, and Uzbekistan with Tajikistan—also provided essential relief. Fiscal positions in the region had generally improved, but debt burdens remained high in some countries.

The report noted that understanding of trade issues among the CIS-7 countries was improving due to the extensive analytical work, but concrete results were less visible in this area. Improving regional cooperation to promote rather than prevent transit trade is key to unlocking the growth potential of the countries. Access to the EU and other industrial country markets remains a pressing issue.

Finally, although the CIS-7 countries will continue to share many common issues for years to come, there is a growing divergence of policies and performance. The report concluded that it would be useful to reexamine the benefits of grouping all seven countries under the same initiative. The next meeting of the CIS-7, donor governments, and the sponsoring international financial institutions is slated for the spring of 2004.

Box 5.3
IMF–World Bank Collaboration on Public Expenditure Issues

Following the 2002 Monterrey Conference, the Development Committee of the World Bank and the IMF indicated that the two institutions would scale up and intensify efforts to assist countries to mobilize domestic resources and improve the quality of public spending. In March 2003, the IMF's Executive Board considered a joint IMF–World Bank staff paper on the two institutions' collaboration on public expenditure issues.

While each country has primary responsibility for its own economic and social development, Directors emphasized that the IMF and the Bank, guided by their respective mandates, had an important role to play in supporting country-led strategies on public spending reform. Although the two institutions have different approaches to public expenditure work, reflecting their different mandates and time horizons, their experience suggests that a clear government vision of reform could make their approaches more complementary. At the same time, Directors stressed that this vision would need to be buttressed by close World Bank–IMF collaboration to ensure that actual assistance and policy advice were consistent and complementary. Directors underscored the importance of developing processes that would enable a government and its development partners to formulate an agreed reform program and a common understanding of the sequencing of reforms.

Although a survey of stakeholders had rated Bank–IMF collaboration as between adequate and effective, Directors noted that there was scope for improvement. They highlighted, in particular, the need to better plan staff missions so as to reduce the burden on country authorities, to better coordinate the different time frames of IMF and Bank work on public expenditure issues, and to strengthen the collaboration with donors on country-led reform strategies.

Directors endorsed a new framework for better collaboration among development partners. Centered on strong country ownership, the framework focuses on:

- the articulation by the government of public expenditure reform strategies in PRSPs or other country-owned documents;
- an integrated and well-sequenced program of technical and financial assistance from development partners (including diagnostic work), to support countries' public expenditure reform strategies; and
- periodic reporting by countries of their performance in public expenditure policy, financial management, and procurement.

Directors observed, however, that in the absence of adequate government commitment, even enhanced collaboration between the IMF and the World Bank would not ensure substantial progress on expenditure reform.

Box 5.4
How the HIPC Initiative Works

To qualify for HIPC assistance, a country must pursue strong economic policies supported by the IMF and the World Bank. It needs to establish a track record of good performance (normally, for a three-year period), and develop a Poverty Reduction Strategy Paper or an Interim-PRSP. Its efforts are complemented by concessional aid from all relevant donors and institutions and traditional debt relief from bilateral creditors, including the Paris Club.

In this phase, the country's external debt situation is analyzed in detail. If its external debt ratio, after the full use of traditional debt relief, is above 150 percent for the net present value (NPV) of debt to exports (or, for small open economies, above 250 percent of government revenue), it qualifies for HIPC relief. At the *decision point*, the IMF and the World Bank formally decide on the country's eligibility, and the international community commits to reducing the country's debt to a sustainable level. A country reaches its *completion point* once it has met the objectives set up at the decision point. It then receives the balance of the debt relief committed. This means all creditors are expected to reduce their claims on the country, measured in NPV terms, to the agreed sustainable level.

Once it qualifies for HIPC relief, the country must continue its good track record with the support of the international community, satisfactorily implementing key structural policy reforms, maintaining macroeconomic stability, and adopting and implementing a poverty reduction strategy. Paris Club bilateral creditors reschedule obligations coming due, with a 90 percent reduction in NPV terms, and other bilateral and commercial creditors are expected to do the same. The IMF and the World Bank and some other multilateral creditors may provide interim debt relief between the decision and completion points.

Debt Sustainability in Heavily Indebted Poor Countries

Through the HIPC Initiative, the IMF and World Bank are assisting heavily indebted low-income countries to qualify for debt relief, within a policy framework that can contribute to long-term debt sustainability (Box 5.4). In addition, the IMF and World Bank are helping these countries to grapple with issues of incomplete creditor participation, HIPC-to-HIPC debt relief (that is, debt relief in the context of claims

held by one heavily indebted poor country against another), and creditor litigation.

To date, the HIPC Initiative, together with traditional and other debt relief initiatives, has resulted in debt reduction of about $40 billion in net present value terms for 26 countries—representing about two-thirds of these countries' outstanding stock of external debt. Commitments of HIPC assistance by the IMF have totaled SDR 1.6 billion thus far, or about $2.1 billion at the end-April 2003 SDR/dollar exchange rate (Table 5.1). The debt relief provided to date has helped these countries increase annual social spending

Table 5.1

Status of Commitments of HIPC Assistance as of April 30, 2003

(In millions of SDRs; for definitions, see below)

Member	Decision Point	Completion Point	Amount Committed	Amount Disbursed[1]
Benin	Jul. 2000	Mar. 2003	18.4	20.1
Bolivia	Sep. 1997[2]	Sep. 1998	21.2	21.2
Bolivia	Feb. 2000	Jun. 2001	41.1	44.2
Burkina Faso	Sep. 1997[2]	Jul. 2000	16.3	16.3
Burkina Faso	Jul. 2000	Apr. 2002	27.7[3]	18.1
Cameroon	Oct. 2000	Floating	28.5	2.5
Chad	May 2001	Floating	14.3	4.3
Côte d'Ivoire	Mar. 1998[2]	—	16.7[4]	—
Ethiopia	Nov. 2001	Floating	26.9	8.2
Gambia, The	Dec. 2000	Floating	1.8	0.1
Ghana	Feb. 2002	Floating	90.1	9.9
Guinea	Dec. 2000	Floating	24.2	5.2
Guinea-Bissau	Dec. 2000	Floating	9.2	0.5
Guyana	Dec. 1997[2]	May 1999	25.6	25.6
Guyana	Nov. 2000	Floating	30.7	10.3
Honduras	Jun. 2000	Floating	22.7	4.5
Madagascar	Dec. 2000	Floating	16.6	5.0
Malawi	Dec. 2000	Floating	23.1	2.3
Mali	Sep. 1998[2]	Sep. 2000	10.8	10.8
Mali	Sep. 2000	Feb. 2003	34.7	38.5
Mauritania	Feb. 2000	Jun. 2002	34.8	38.4
Mozambique	Apr. 1998[2]	Jun. 1999	93.2	93.2
Mozambique	Apr. 2000	Sep. 2001	13.7	14.8
Nicaragua	Dec. 2000	Floating	63.0	1.9
Niger	Dec. 2000	Floating	21.6	3.3
Rwanda	Dec. 2000	Floating	33.8	10.0
São Tomé and Príncipe	Dec. 2000	Floating	—	—
Senegal	Jun. 2000	Floating	33.8	8.2
Sierra Leone	Mar. 2002	Floating	98.5	47.3
Tanzania	Mar. 2000	Nov. 2001	89.0	96.4
Uganda	Apr. 1997[2]	Apr. 1998	51.5	51.5
Uganda	Feb. 2000	May 2000	68.1	70.2
Zambia	Dec. 2000	Floating	468.8	351.6
27 members, of which 26 members received commitments of enhanced HIPC assistance			1,570.3	1,034.3

Definitions: **Decision point**: Point at which the IMF decides whether a member qualifies for assistance under the HIPC Initiative (normally at the end of the initial three-year performance period) and decides on the amount of assistance to be committed. **Completion point**: Point at which the country receives the bulk of its assistance under the HIPC Initiative, without any further policy conditions. Under the enhanced HIPC Initiative, the timing of the completion point is linked to the implementation of preagreed key structural reforms (i.e., floating completion point). **Amount committed**: Amount of HIPC assistance determined, in consultation with the World Bank, at the decision point to be made available by the IMF. **Amount disbursed**: Resources disbursed to the member to help meet debt-service payments to the IMF. Disbursements are normally dependent on receipt of sufficient financing assurances from other creditors.

[1]Includes interest on amounts committed.

[2]Original HIPC decision point.

[3]Includes commitment of additional enhanced HIPC assistance of SDR 10.93 million subject to receipt of satisfactory financing assurances from other creditors.

[4]Equivalent to the committed amount of $22.5 million at decision point exchange rates (March 17, 1998).

Box 5.5
Social Aspects of IMF Financing

By pursuing its mandate to promote global monetary cooperation, the balanced growth of international trade, and a stable system of exchange rates, the IMF contributes to long-lasting economic and human development. The IMF recognizes that to be successful, a macroeconomic program must include policies that directly address poverty and social concerns. The reason for attention to social policy issues is twofold: it reflects the recognition both that "country ownership" is necessary if the programs are to succeed, and that good health and education contribute to, and benefit from, growth and poverty reduction.

The IMF is committed to integrating poverty and social impact analysis in programs supported by lending under the PRGF. The purpose of this analysis is to assess the implications of key policy measures on the well-being of different social groups, especially the vulnerable and the poor.

When analysis indicates that a particular measure (for example, currency devaluation) may harm the poor, the impact is addressed through the choice or timing of policies, the development of countervailing measures, or social safety nets. Safety nets built into IMF-supported programs have included:

- subsidies or cash compensation for particularly vulnerable groups;
- improved distribution of essential commodities, such as medicines;
- temporary price controls on some essential commodities;
- severance pay and retraining for public sector employees who have lost their jobs; and
- employment through public works programs.

In pursuing this aspect of its work, the IMF collaborates extensively with other institutions, including regional development banks, the United Nations Development Program, the International Labor Organization, the World Health Organization, and especially, as mentioned, the World Bank. Drawing on these institutions' expertise, the IMF advises countries on how social and sectoral programs aimed at poverty reduction can be accommodated and financed, both domestically and externally, within a growth-enhancing macroeconomic framework. It does so by identifying unproductive spending that should be reduced to make more money available for basic health care and primary education. At the same time, it highlights key categories of public spending that must be maintained or increased. Through policy discussions and technical assistance, the IMF also plays a role in improving the transparency of governments' decision making and their ability to monitor poverty-reducing spending and social developments.

from around 6 percent of GDP on average in 1999 to about 8½ percent in 2002, more than three times the amount of debt service (Boxes 5.5 and 5.6).

- By the end of April 2003, 8 countries had reached their completion points under the enhanced HIPC Initiative and received a reduction in the stock of debt. (Not all the envisaged debt relief has been delivered to these countries.)
- Another 18 countries have passed their decision points and begun to receive interim debt relief on a flow basis. Some of these countries have experienced delays in reaching their completion points, owing to the time needed to prepare high-quality PRSP plans, program interruptions, and slower-than-expected implementation of other completion point triggers.
- As expected, it is proving difficult to make progress in bringing the 12 countries remaining to be considered under the Initiative to their decision points, particularly because most of them have been affected by armed conflicts.

Debt indicators for a number of countries have worsened because of the weakened global economic environment. The HIPC Initiative has flexibility to provide additional debt relief at the completion point, if a country has suffered a fundamental change in economic circumstances owing to exceptional outside shocks. (At the request of both the World Bank and IMF Executive Boards, the IMF staff has undertaken further analysis of the costs and benefits of different calculations of "topping up" HIPC relief at completion points.) But, more generally, the economies of many HIPCs will continue to remain vulnerable to both domestic and external shocks. In addition to HIPC debt relief, the achievement and maintenance of a sustainable debt situation will require sound economic policies, good governance, and prudent debt management, as well as sufficiently concessional terms for all new financing. The IMF provides technical assistance in this regard (almost 17 person-years of HIPC-associated field delivery in FY2003); see Chapter 6. For details of the IMF's own financial contributions as well as the bilateral contributions from 94 countries, see "Financing of the HIPC Initiative and PRGF Subsidies" in Chapter 8.

Looking beyond the HIPC Initiative, IMF staff are developing an analytical framework for assessing debt sustainability in low-income countries, to complement the new procedures adopted during the financial year for other IMF members (see Chapter 2). In this context, staff will be working with the World Bank and interested partner agencies to reach a consensus on the ways in which debt sustainability concerns should be reflected in the design of these countries' financing strategies and the programs supported by the IMF—including decisions on borrowing limits and the appropriateness of loan versus grant financing.

Trade and Market Access

An essential element of the fight against world poverty is a greater effort to ensure that developing countries

Box 5.6

HIPC Initiative Debt Relief at Work in Ghana

Citizens of Ghana can assess for themselves how their country is benefiting from participation in the enhanced Heavily Indebted Poor Countries (HIPC) Initiative—because the authorities are publicly signposting some of the results of Ghana's HIPC involvement (see photograph in Highlights, page iii). As construction projects funded by HIPC relief have started, authorities have erected signs at the sites that designate the projects as HIPC Initiative benefits. Ghanaians therefore see, at an early stage, physical evidence that the $2.2 billion in HIPC assistance committed by all the country's creditors is producing tangible results and is not merely a ledger entry in the government accounts, thereby increasing a sense of public ownership of the country's poverty reduction strategy.

Ghana reached its HIPC "decision point" in February 2002, which means that the country has established a track record of adjustment and reform under IMF- and World Bank-supported programs and has been formally named as eligible for HIPC relief. By attaining its decision point, Ghana took a large stride toward reaching the final stage of qualification for full HIPC debt relief—its "completion point." At the decision point, Ghana agreed to adopt and implement a poverty reduction strategy developed through a broadly based participatory process. The government duly prepared a Ghana Poverty Reduction Strategy, which was published in February 2003.

At the decision point, Ghana also became eligible for interim debt relief, which is designed to sustain a reforming heavily indebted country until it qualifies for full debt relief at its HIPC completion point. It is this interim debt relief that is at work at the signposted construction sites and project locations around the country. In 2002, Ghana received a total of $276 million in interim HIPC assistance, comprising $10 million from the IMF, $33 million from the World Bank, $214 million from the Paris Club of official creditors, and $19 million from other creditors. Of the interim relief total, the authorities have treated $174 million as assistance that Ghana would have received under traditional debt relief mechanisms, and therefore have used the resources for general purposes. One-fifth of the remaining $102 million is devoted to reducing the stock of domestic debt, leaving just over $80 million earmarked specifically for increasing the level and proportion of spending on poverty reduction.

The Ghanaian authorities have specified that the country's poverty-related spending for the period 2001–03 will be devoted primarily to basic education, with funds also allocated to primary health care, agriculture, rural water supply and sanitation, feeder roads, and rural electricity provision.

secure improved market access for their exports and that trade-distorting subsidies are phased out. While action by industrial countries will be particularly important in this regard, developing countries will also benefit from a reduction of their own trade barriers. The IMF's work on trade issues during the financial year included Board discussion of a report on progress with the Doha agenda (Box 5.7); a review of the IMF's trade policy advice during the remainder of 2003; a greater focus in IMF surveillance on market access issues facing developing countries; and fuller inclusion of trade policy considerations in PRSPs. To enrich the last effort, joint PRSP learning events were planned with the World Bank and through the Integrated Framework for Trade-Related Technical Assistance to LDCs.

The IMF has also cooperated with the World Trade Organization (WTO) on ways to enhance the coherence of the work of the two organizations, and stood ready to contribute to developing proposals for an agricultural trade agenda for Africa.[2] The IMF staff has also provided the WTO with its analytical perspective in the Fund's areas of expertise on certain proposals for special and differential treatment.

Monitoring Progress Toward the Millennium Development Goals

At its Spring 2003 meeting, the Development Committee of the IMF and World Bank considered a framework, prepared jointly by World Bank and IMF staff, for regular monitoring, in the areas of Bank and IMF institutional mandates, of the main policies and actions that developing and industrial countries are implementing to promote the achievement of the MDGs and related development outcomes.

As proposed, the approach would assess the adequacy of policies, institutions, and governance in developing countries; the macroeconomic, aid, and trade policies of developed countries, which are essential for fostering the global partnership for development envisaged under Goal Eight of the MDGs; the quality and effectiveness of development assistance; and the effectiveness of the international financial institutions in promoting a strong global economic environment and supporting country efforts to meet their development goals. The approach was designed to complement and support the work of the United Nations and other agencies in monitoring progress toward the achievement of the MDGs.

[2] Proposals for such an agenda were made by President Chirac of France (also president of the G-8) at the 22nd conference of Heads of State of Africa and France on February 21, 2003, and covered harmonization of G-8 preferential trading regimes for sub-Saharan Africa; ensuring that OECD agricultural export support policies do not disrupt local production; and reducing the vulnerability of the poorest producers to commodity price volatility. The IMF has been requested to participate in a G-8 working group on the last topic.

Box 5.7
Improving Market Access for Developing Countries' Exports

The multilateral trade negotiations launched at the World Trade Organization (WTO) in late 2001 were termed the *Doha Development Agenda* to signify the importance of the role that developing countries and development objectives would play in the multilateral trading system. This role, however, depends on industrial countries lowering trade barriers and reducing trade-distorting subsidies, thus improving market access to the exports of developing countries. While the world's trading system is far more liberal than it was 40 years ago, it still discriminates against the poor, partly because they work in sectors such as agriculture that are most affected by industrial-country tariffs and subsidies.

Executive Directors considered a joint IMF–World Bank staff report, "Market Access for Developing Country Exports—Selected Issues," in September 2002. They agreed that the levels of protection in Organization for Economic Cooperation and Development (OECD) countries came at considerable cost both to the OECD countries and to developing countries. The Board noted that the estimated global welfare gains from the elimination of tariff and quota restrictions on merchandise trade—in both industrial and developing countries—ranged from $250 billion to $680 billion annually, with the gains to developing countries far outweighing annual aid.

At a September press conference marking the public release of the report, Nicholas Stern, Chief Economist of the World Bank, embodied the report's findings in more vivid terms. The average European cow, Stern said, receives about $2.50 a day in subsidy; the average Japanese cow about $7.50. In contrast, 75 percent of the people living in sub-Saharan Africa subsist on less than $2.00 a day. Kenneth Rogoff, Economic Counsellor and Director of the IMF's Research Department, was equally critical, calling the magnitude of support given to farmers in rich countries "stunning."

Support for reducing trade barriers also came from the IMFC, which said in its September communiqué that substantial trade liberalization in the Doha Round was vital for global growth. Urgent progress in enlarging market access for developing countries and phasing out trade-distorting subsidies in developed countries was essential, the Committee pointed out. Developing countries, for their part, should also further liberalize their trade regimes to maximize growth and development opportunities.

At the Annual Meetings in September 2002, the IMF and World Bank sponsored a seminar to discuss how developing countries could use trade to promote their development and how industrial countries might help them take advantage of the opportunities created by the global trading system. Panelists—representatives from academia, the World Bank, nongovernmental institutions, and both industrial and developing country governments—concluded that any easing of trade barriers must happen multilaterally, with reciprocal north-south negotiation during the Doha Round, and that global trade liberalization, despite concerted international efforts, would be a long, drawn-out process.

Looking Ahead

As part of the IMF's ongoing monitoring of its assistance, early in FY2004 the Board will review the ways in which the Fund engages with low-income countries. One aspect will be the role of the IMF in low-income countries over the medium term and its help to members (especially low-income countries) dealing with shocks. Another aspect will be how IMF assistance to low-income countries can best balance its commitment to supporting the PRSP process and the achievement of the MDGs with the need to preserve the IMF's focus and effectiveness, as well as the concerns underscored by the IMF's Independent Evaluation Office about the impact of prolonged IMF financial engagement on the Fund and its members. Major issues of concern include the appropriate time frame for IMF engagement; consequences of the linkage of many forms of donor assistance to the existence of an IMF arrangement; and ways in which the IMF can signal its views to donors on countries' economic policies in cases where there may be little need for the use of IMF resources.

Technical Assistance and Training

Sound economic policymaking and implementation require know-how and effective institutions of government. Many developing countries, in particular, need help to build up expertise in economic management and advice about what policies, reforms, and institutional arrangements are appropriate and have worked well elsewhere. Help of this kind is provided by the IMF through technical assistance. This is a benefit of IMF membership, provided at no charge except for countries that can afford to reimburse the IMF. (The framework used to allocate resources for technical assistance is outlined in Box 6.1.)

The IMF's technical assistance aims partly to help countries strengthen their policymaking capacity—both human skills, and institutional organization and procedures—and partly to help with the design of particular polices, including reforms. Macroeconomic policy reform may involve reform of public expenditure, overhaul of the budget and tax systems, improvements to the management of money and credit, a change in the exchange rate regime, or help in the area of international standards and codes of transparent policymaking. Training is provided to strengthen the skills of officials in the institutions responsible for policymaking, such as finance ministries and central banks.

Member countries attach great importance to the role of technical assistance in reinforcing the effectiveness of the Fund's work both in surveillance and crisis prevention, and in crisis management and resolution, including its lending operations. For example, many governments in low-income countries are developing poverty reduction strategies but need technical assistance to draw up an operational plan and put it into effect. Such strategies can pinpoint capacity-building needs and help mobilize adequate technical assistance. And crucial for lasting poverty reduction is that local expertise be developed, especially in the management of public resources.

The IMF has also given considerable technical assistance to countries and territories that have had to reestablish government institutions following severe civil unrest or war. Recently, countries or territories receiving this kind of help include Afghanistan, Albania, Bosnia and Herzegovina, Kosovo, and Timor-Leste (East Timor).

External Financing for Technical Assistance

The IMF finances its technical assistance mainly from its own resources, but external financing is also an important source of support. Such external financing is provided as grant contributions mainly under the IMF's Framework Administered Account for Technical Assistance Activities, but also through cost-sharing arrangements under United Nations Development Program (UNDP) projects and, in a small number of cases, direct reimbursement arrangements. There were 12 active subaccounts under the umbrella Framework Account in FY2003, including two new multidonor subaccounts to support the *Pacific Financial Technical Assistance Center* (PFTAC) and the two *Africa*

Box 6.1

A Framework for Selecting Projects

The IMF's Executive Board in FY2001 put in place a formal framework to allocate resources for technical assistance more effectively and better align technical assistance with policy priorities. Under this framework, IMF technical assistance is divided into five "main program areas": crisis prevention, poverty reduction, crisis resolution and management, post-conflict/post-isolation cases, and regional/multilateral arrangements. These program areas are complemented by three categories of "filters," as follows:

- *Target filters*: the technical assistance must fall within the IMF's core areas of specialization, support a limited number of key program areas, or buttress policy priorities.
- *Effectiveness filters*: the technical assistance must be deemed to have a substantial impact and be effectively supported and implemented by the recipient country. It also should be sustainable in terms of financing and lasting in its effect.
- *Partnership filters*: technical assistance requests have preference when delivered regionally, benefit several recipients, draw on multiple financial sources, or complement third-party assistance.

Box 6.2
New Technical Assistance Subaccounts

The *Pacific Financial Technical Assistance Center (PFTAC) Subaccount* was established in May 2002 to administer contributions from donors to finance activities of PFTAC that seek to enhance the capacity of Pacific island countries and territories to formulate and implement policies in the Fund's core areas. Contributions have been received from Australia ($1 million), New Zealand ($0.4 million), and the Asian Development Bank ($0.4 million).

The *Africa Regional Technical Assistance Centers (AFRITACs) Subaccount* was established in August 2002 to administer contributions from donors to finance activities of the AFRITACs that support the PRSP process in sub-Saharan African countries through fostering their capacity for sound macroeconomic management, strong fiscal institutions and financial systems, and timely and accurate collection and dissemination of economic data, including training and activities that strengthen the legal and administrative framework in these core areas. Eleven donors have committed just over $12 million—African Development Bank, Canada, France, Germany, Italy, Luxembourg, the Netherlands, Norway, Russia, Sweden, and the United Kingdom.

The *Sweden Technical Assistance Subaccount* was established in November 2002 to enhance the capacity of members, also in the Fund's core areas. The initial contribution of 10 million kronor ($1.2 million) provided by Sida, the Swedish International Development Cooperation Agency, is to finance the IMF's technical assistance work in Afghanistan in the areas of monetary, exchange, and financial policies and operations.

Regional Technical Assistance Centers (AFRITACs).[1] Box 6.2 describes the new subaccounts set up in the past financial year.

In FY2003, external financing accounted for about 30 percent of total assistance delivered by the IMF. Japan remained the largest single donor, providing some 70 percent of this external financing. Other bilateral donors included Australia, Canada, Denmark, France, Germany, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Russia, Sweden, Switzerland, the United Kingdom, and the United States. Multilateral donors included the Asian Development Bank, the Inter-American Development Bank, the UNDP, and the World Bank.

IMF technical assistance is coordinated and supervised by the Office of Technical Assistance Management in the Office of the Managing Director. A more complete description of the goals, scope, and operational methods of the IMF's technical assistance is available in a number of documents, including the *Policy Statement on IMF Technical Assistance*, available on the IMF's website.

Recent Developments

At its June 2002 meeting to review IMF technical assistance policy and experience, the Executive Board endorsed measures to (1) introduce an institution-wide methodology for monitoring and evaluating technical assistance activities, and for implementing a formal three-year rolling program of evaluations; and (2) set up a comprehensive financial accounting system to capture the full cost of technical assistance delivery, both in the field and at headquarters.

By the end of FY2003, progress had been made in these areas as follows:

- *Institution-wide methodology for monitoring and evaluation.* Work neared completion on a comprehensive approach that takes into account international best practices and, where appropriate, builds on existing systems.
- *Evaluation program for FY2004–FY2005.* Ten projects have been identified for the program, focusing on the three main policy issues—the link between technical assistance and the IMF's surveillance and policy work; the contribution of regional assistance centers and the regional approach to technical assistance delivery; and activities designed to respond to new initiatives and calls for international assistance.
- *Resource management.* A three-year resource management project will begin implementation in early FY2004. The accountability and transparency of technical assistance will be improved by this new financial accounting system.

In response to a request made by African heads of state for enhanced IMF support in fostering capacity building, the IMF in FY2003 worked with donor partners and participating African countries to establish two *Africa Regional Technical Assistance Centers* (AFRITACs). Drawing on positive experience in the Pacific and the Caribbean regions, the centers take a regional approach to building capacity by maximizing technical assistance delivery among neighboring countries with similar needs. The first—covering six countries in East Africa (Eritrea, Ethiopia, Kenya, Rwanda, Tanzania, and Uganda) and based in Dar es Salaam—was inaugurated in October 2002. The second—covering ten countries in West Africa (Benin,

[1]The bilateral subaccounts comprise: The Japan Advanced Scholarship Program Subaccount, the Australia-IMF Scholarship Program for Asia Subaccount, the Switzerland Technical Assistance Subaccount, the French Technical Assistance Subaccount, the Denmark Technical Assistance Subaccount, the Australia Technical Assistance Subaccount, the Netherlands Technical Assistance Subaccount, the UK-DFID Technical Assistance Subaccount, the Italy Technical Assistance Subaccount, and the Sweden Technical Assistance Subaccount.

Burkina Faso, Côte d'Ivoire, Guinea, Guinea-Bissau, Mali, Mauritania, Niger, Senegal, and Togo)—was inaugurated in May 2003. Originally planned for Abidjan, it was temporarily relocated to Bamako because of civil unrest in Côte d'Ivoire.

A team of resident experts at each center cover the core areas of the IMF's competence. They assist member countries to develop and implement their capacity-building programs, guided by each country's Poverty Reduction Strategy Paper (PRSP). They help to carry out and monitor ongoing technical assistance programs, facilitate donor coordination of ongoing capacity-building activities, and provide technical advice.

Each center will work under the policy guidance of a Steering Committee consisting of representatives of member countries and donors. This is intended to ensure, on the one hand, full ownership of activities by countries and, on the other, accountability to and close coordination with donor partners. After the first two centers are independently evaluated, the IMF will consider whether to establish three additional centers to cover the rest of sub-Saharan Africa.

Technical Assistance Delivery in FY2003

One way the IMF measures its technical assistance is by tracking the time spent helping countries. In FY2003, the IMF provided the equivalent of 356 person-years of technical assistance. This was some 2½ percent higher than in FY2002 and about 100 person-years higher than a decade earlier (262.6 person years in FY1994).

Reflecting new needs within program areas, in FY2003 technical assistance increased for post-

Box 6.3

IMF Technical Assistance in Post-Conflict Recovery: Afghanistan

In 1995, the IMF extended its policy on emergency technical assistance to include countries recovering from war and civil strife. About 20 percent of total IMF field assistance in recent years has been delivered in post-conflict situations, including in Burundi, Timor-Leste, Kosovo, Bosnia and Herzegovina, Sierra Leone, Republic of Congo, Tajikistan, Rwanda, and, most recently, Iraq.

In the Islamic State of Afghanistan in 2002, an estimated seven million people faced famine and millions more were displaced from their homes. After more than 20 years of conflict, the key economic institutions of state—treasury, tax collection and customs, statistics, civil service, and judicial systems—were in disarray or simply missing. The central bank (Da Afghanistan Bank) was a makeshift institution attempting to reconstruct a shattered monetary system operating completely in cash. The Taliban kept few records and reportedly took millions of dollars when they fled in November 2001. With three national currencies, foreign currencies, and barter systems simultaneously in use, the incoming interim government had no idea of the amount of money actually in circulation.

IMF technical assistance teams and the Afghan authorities began working together in January 2002. The Fund provided approximately six person-years (equivalent to $1.4 million) of direct assistance by the end of FY2003. Support was provided in core areas of IMF strength, with an emphasis on capacity building in the Ministry of Finance/Treasury, Da Afghanistan Bank, and the Central Statistical Office.

- *Financial sector.* Strengthening Afghanistan's banking system started, literally, with vault repairs and refurbishment of security doors. The rudimentary banking system was functioning mostly without benefit of licenses, regulations, or supervision. Decisions were needed on which currencies to use, exchange rates, and how to ensure liquidity and build confidence in a new national currency, the afghani. The basics of monetary control, banking laws and regulations, bank supervision, and licensing all needed to be strengthened or reestablished. A payments system was needed to facilitate commercial transactions and essential services of the government.
- *Fiscal strengthening.* In contrast to the central bank, the Ministry of Finance had basic systems, laws, and procedures that could be used over the near term but needed to be made operational. The role of the IMF was to provide a framework for fiscal management covering public expenditure management and detailed revenue policy and administration recommendations. The authorities subsequently worked with other donors to implement these recommendations. As a result, the ministry developed a computerized treasury system that includes expenditure control and reporting. On the revenue side, the IMF is working with both the authorities and donors on customs legislation and its implementation, and the development of a tax administration.
- *Statistics.* Statistical systems in Afghanistan were underdeveloped, with an urgent need for data. IMF technical assistance helped to compile and disseminate the macroeconomic and financial data necessary for fiscal and monetary management. Technical assistance involved setting up systems for accounts, GDP calculations, consumer price indices, and data relevant to the balance of payments.

It will take many years to complete the groundwork for sustainable growth. However, by the end of FY2003, IMF staff and the Afghan authorities were well on their way to developing and implementing a coordination plan for the many technical assistance initiatives in macroeconomic management and for cooperation among development partners.

conflict/isolation cases (see Box 6.3), regional initiatives, and crisis prevention. Anti-money laundering and terrorism emerged as very high priorities in FY2003. IMF technical assistance to fight money laundering and to combat the financing of terrorism (AML/CFT), as well as its continuing work on offshore financial centers, more than doubled. Technical assistance also rose for standards and codes and for the implementation of Financial Sector Assessment Program (FSAP) recommendations (see Table 6.1).

Geographically, sub-Saharan Africa continued to receive the largest, and an increasing, share of IMF technical assistance. This reflects the continuing priority of poverty reduction and capacity building in the region, also exemplified by the two new Africa Regional Technical Assistance Centers. Technical assistance also increased and has remained high in the Asia-Pacific region reflecting assistance for post-conflict cases, such as Cambodia and Timor-Leste, and support for reforms in China, Indonesia, and Mongolia. As it has over the past five years, technical assistance to European countries continued to decline, as most of the European transition economies no longer require the large amounts of technical assistance that were delivered to them a decade ago. Technical assistance to other geographical regions, as well as for interregional projects, remained broadly the same as over the past five years (see Table 6.2 and Figure 6.1).

The IMF's Monetary and Financial Systems Department[2] remained the IMF's largest technical assistance provider, increasing its delivery to some 120 person-years, reflecting the increase in activities linked to the emergence of the new international financial architecture. The Fiscal Affairs Department, the IMF's second-largest technical assistance provider, decreased its delivery to 94 person-years. The Statistics and Legal Departments both stepped up technical assistance by some 5 person-years each. The increase by the Legal Department was mainly a result of its involvement in anti-money laundering and combating the financing of terrorism (see Table 6.2 and Figure 6.2).

IMF Institute

Through a rich offering of courses and seminars, the IMF Institute trains officials from member countries in core areas—macroeconomic management and financial, fiscal, and external sector policymaking. These are delivered by Institute staff or by staff from other IMF departments, and occasionally by outside academics and experts. Training is delivered at IMF headquarters in Washington, D.C., and at various overseas locations. Some preference in acceptance is given to officials from developing and transition countries.

With the assistance of other departments, the IMF Institute delivered 119 courses, attended by over 3,800 participants, in FY2003 (see Table 6.3). About two-thirds of the courses and about half the participant-weeks were provided through the IMF's six regional institutes and programs, which are located in Austria, Brazil, China, Côte d'Ivoire,[3] Singapore, and the United Arab Emirates (see Table 6.4). Training in Washington remained important, generally offering longer courses and accounting for about 40 percent of participant-weeks. Training outside Washington and the IMF regional network was typically offered through ongoing collaborations between the IMF Institute and national or regional training programs.

Following a number of years of increases, the level of training in FY2003

Table 6.1
Technical Assistance Program Areas
(Field delivery in person-years)[1]

	FY2002	FY2003
Main program areas		
Poverty reduction	69.3	60.7
Regional	34.9	41.4
Crisis prevention	32.6	35.2
Crisis resolution and management	28.9	30.5
Post-conflict/isolation	23.2	26.5
Total	**188.8**	**194.3**
Key policy initiatives and concerns		
Policy reform/capacity building	144.7	142.5
Assistance on standards and codes, excluding FSAP	13.6	18.1
HIPC-associated	21.4	16.8
Offshore financial centers and AML/CFT	5.1	10.4
FSAP-related	3.4	6.0
Safeguarding IMF resources	0.6	0.5
Total	**188.8**	**194.3**

Source: IMF Office of Technical Assistance Management.
Note: FSAP = Financial Sector Assessment Program, HIPC = Heavily Indebted Poor Countries Initiative, AML/CFT = Anti-Money Laundering and Combating the Financing of Terrorism.
[1]Excludes headquarters-based activities related to technical assistance.

[2]Formerly the Monetary and Exchange Affairs Department (renamed as of May 1, 2003).
[3]In early 2003, in view of the security situation in Côte d'Ivoire, the Joint Africa Institute was moved temporarily to Tunisia.

Table 6.2
Technical Assistance Sources and Delivery, FY1999–FY2003
(In effective person-years)[1]

	FY1999	FY2000	FY2001	FY2002	FY2003
IMF technical assistance budget	**266.2**	**251.7**	**265.5**	**268.8**	**262.2**
Staff	164.0	158.5	171.8	172.2	174.1
Headquarters-based consultants	20.3	16.4	22.7	23.2	20.1
Field experts	81.8	76.9	71.0	73.4	68.0
External technical assistance resources	**99.2**	**85.5**	**77.7**	**77.8**	**93.5**
United Nations Development Program	14.3	8.7	8.4	9.6	9.6
Japan	70.3	68.0	59.5	56.2	61.9
Other cofinanciers	14.7	8.8	9.8	12.0	22.0
Total technical assistance resources	*365.4*	*337.2*	*343.3*	*346.6*	*355.7*
Technical assistance regional delivery	**308.5**	**282.2**	**275.8**	**280.0**	**286.5**
Africa	72.9	69.8	68.2	71.9	72.1
Asia and Pacific	57.9	44.4	57.0	63.1	67.5
Europe I	22.7	24.1	30.2	30.3	27.7
Europe II	44.9	40.4	40.8	32.6	25.1
Middle East	31.9	27.5	27.8	22.4	26.5
Western Hemisphere	32.5	28.2	23.7	28.0	32.6
Regional and interregional	45.8	47.9	28.0	31.7	35.1
Technical assistance nonregional delivery[2]	**56.9**	**55.1**	**67.5**	**66.6**	**69.2**
Total technical assistance delivery	*365.4*	*337.2*	*343.3*	*346.6*	*355.7*
Technical assistance delivery by department					
Monetary and Financial Systems Department	127.2	112.2	101.2	115.5	120.0
Fiscal Affairs Department	107.4	101.4	111.9	97.5	94.3
Statistics Department	48.9	49.1	48.2	49.2	55.7
IMF Institute	54.5	54.6	54.4	56.0	55.4
Legal Department	12.7	8.6	15.4	15.5	19.6
Other departments[3]	14.7	11.3	12.2	12.9	10.7
Total technical assistance delivery	*365.4*	*337.2*	*343.3*	*346.6*	*355.7*

Source: IMF Office of Technical Assistance Management.
[1]An effective person-year of technical assistance is 260 days. New definitions used since 2001; data adjusted retroactively.
[2]Indirect technical assistance, including technical assistance policy, management, evaluation, and other related activities.
[3]Includes the Policy Development and Review Department, the Technology and General Services Department, and the Office of Technical Assistance Management.

Figure 6.1
Technical Assistance by Region, FY2003
(As a percent of total resources, in effective person-years)

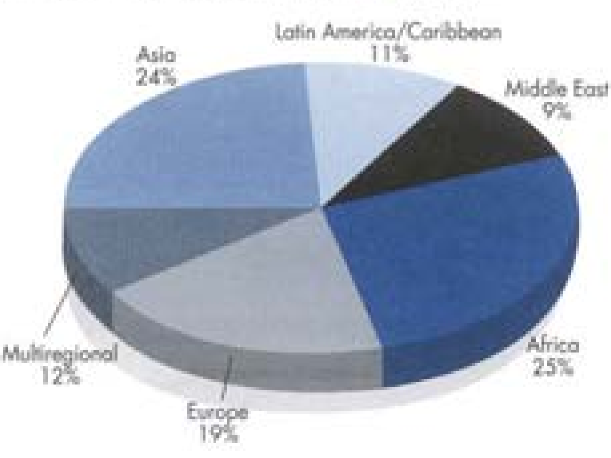

Figure 6.2
Technical Assistance by Function, FY2003
(As a percent of total resources, in effective person-years)

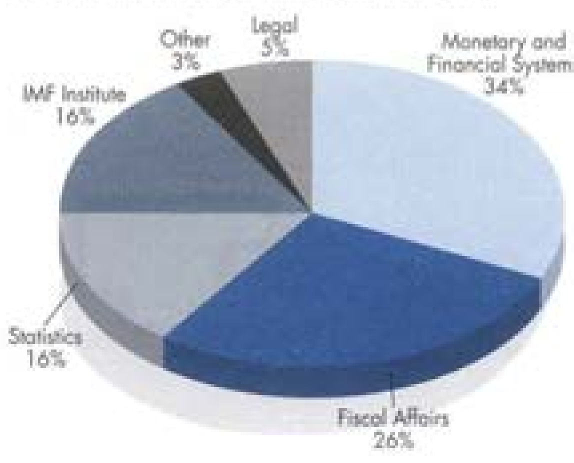

Table 6.3
IMF Institute Training Programs for Officials, FY1999–FY2003

Program	FY1999	FY2000	FY2001	FY2002	FY2003
Headquarters training					
Courses and seminars	20	22	22	21	23
Participants	676	776	798	759	808
Participant-weeks	3,837	3,623	3,671	2,900	3,224
Regional training institutes and programs[1]					
Courses and seminars	38	57	67	81	79
Participants	1,095	1,632	2,102	2,632	2,549
Participant-weeks	2,325	3,185	3,760	4,612	4,220
Other overseas training					
Courses and seminars	20	24	19	16	17
Participants	605	775	564	438	496
Participant-weeks	1,120	1,364	1,048	834	899
Distance learning					
Courses[2]	—	1	1	3	3
Participants[3]	—	50	50	134	114
Participant-weeks[4]	—	100	100	313	276
Total courses and seminars	78	103	108	118	119
Total participants	2,376	3,183	3,464	3,829	3,853
Total participant-weeks	7,282	8,272	8,579	8,659	8,619

Source: IMF Institute.

[1]Includes Joint Vienna Institute (established in 1992), IMF-Singapore Regional Training Institute (1998), IMF-AMF Regional Training Program in United Arab Emirates (1999), Joint Africa Institute in Côte d'Ivoire (1999), Joint China-IMF Training Program (2000), and Joint Regional Training Center for Latin America in Brazil (2001). Data for the Joint Africa Institute include courses delivered by the African Development Bank and the World Bank. Data for the Singapore Institute include a course for it delivered by the World Bank in FY2002 and FY2003.

[2]Excluded from the total course count below because the residential segment is included in the headquarters training activity.

[3]Those participants who were invited to the residential part of the courses are included both here and under headquarters training.

[4]Includes only participant-weeks for the distance part of the course. Participant-weeks for the residential part are included in headquarters training.

Table 6.4
IMF Institute Regional Training Programs

Regional Program	Date Established	Location	Cosponsors	Intended Participant Countries
Joint Vienna Institute	1992	Austria	Austrian authorities, Bank for International Settlements, European Bank for Reconstruction and Development, Organization for Economic Cooperation and Development, World Bank, and World Trade Organization[1]	Transition countries in Europe and Asia
IMF-Singapore Regional Training Institute	1998	Singapore	Government of Singapore	Developing and transition countries in Asia and the Pacific
IMF-AMF Regional Training Program	1999	United Arab Emirates	Arab Monetary Fund	Member countries of the Arab Monetary Fund
Joint Africa Institute	1999	Côte d'Ivoire	African Development Bank, World Bank	African countries
Joint China-IMF Training Program	2000	China	People's Bank of China	China
Joint Regional Training Center for Latin America	2001	Brazil	Government of Brazil	Latin American countries

[1]A number of other European countries and the European Union, although not formal sponsors of the JVI, provide financial support.

stabilized to that in FY2002. In part, this reflected the planned completion of the IMF's network of regional training institutes in FY2002 (see *Annual Report 2002*, page 77), but also that a number of training activities were cancelled in FY2003 as a result of the security situation in Côte d'Ivoire, the war in Iraq, and the outbreak of Severe Acute Respiratory Syndrome (SARS) in Asia.

The IMF Institute continues to strengthen its curriculum. In FY2003, new courses were delivered on such topics as anti-money laundering, assessing financial system stability, fiscal sustainability and transparency, macroeconomic forecasting, and safeguards assessments for central banks. In Washington and its regional institutes and programs, the Institute provides high-level officials with short seminars tailored to their needs. Topics covered in FY2003 include current developments in monetary and financial law, exchange rate regimes and policies, financial market globalization, globalization in historical perspective, and the New Economic Partnership for Africa's Development (NEPAD).

An independent market research firm was contracted in FY2003 to assess the effectiveness and demand for training courses. A survey of national authorities indicated high satisfaction with the present training program as well as high unmet demand for more courses in Washington and regional locations.

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CHAPTER 7

Transparency, Accountability, and Cooperation

Many of the reforms introduced at the IMF in recent years reflect a recognition that the institution's effectiveness depends largely on its ability to be transparent in developing and providing policy advice to its members; accountable for the advice it has given and lending decisions it has taken; responsive to lessons drawn from past experiences, particularly in program design; open to outreach and dialogue beyond official circles; and cooperative with other members of the international community in pursuing our common objective of promoting broadly shared, sustainable growth. These remain key objectives for the IMF on an ongoing basis.

Transparency of the IMF and Its Members

The IMF's Executive Board has adopted a series of measures that aim to improve the transparency of members' policies and data, and to enhance the institution's own transparency and external communications (see Box 7.1). In taking these steps to enhance the IMF's transparency, the Board has had to consider how to balance the Fund's responsibility to oversee the international monetary system with its role as a confidential advisor to its members.

As part of its regular reassessment of this balance, in September 2002 the Board concluded a review of the experience with the IMF's transparency policy and discussed next steps. Directors commended the increased availability of information about the institution and its assessments of members' policies, but emphasized that transparency is not an end in itself. The IMF's publication policy, Directors noted, formed an integral part of members' efforts to improve the transparency of their economic policies, with a view to increasing both accountability and the availability of reliable information to the public, including on the IMF's actions to encourage and assist its member countries. Thus, Directors considered the impact of transparency on countries' economic policies and on market participants as an important element in assessing the effectiveness of the IMF's publication policy, and they looked forward to further review.

The increased *publication of country documents* under the IMF's transparency policy was welcomed by the Board. Nearly all policy intention documents of countries requesting IMF financial assistance are published, and, in more than 50 percent of cases, country authorities consent to the voluntary publication of staff reports on Article IV consultations or the use of Fund resources.

In moving forward, Directors stressed that the IMF's transparency policy should not lessen the candor of the institution's dialogue with its members nor of the staff's reporting to the Board. While the experience in this respect appeared to be broadly satisfactory so far, many Directors were concerned that staff members sometimes face pressures to nuance report presentations, even while preserving the substance of assessments. Staff should continue to work to ensure a proper balance between candor and confidentiality, Directors emphasized.

Systematic and timely publication of country staff reports can help to mobilize public support for policy actions and enhance the IMF's accountability, Directors noted. In particular, release of Article IV staff reports can increase the effectiveness of the institution's surveillance. Release of staff reports on the use of Fund resources can, by providing the broader context for IMF-supported programs, strengthen the credibility of—and public confidence in—these programs, while also boosting program ownership.

Against this background, Directors welcomed the progress made under the policy of voluntary publication, and agreed that the release of staff reports should continue to be encouraged. In this context, they discussed the possibility of moving from a policy of voluntary to presumed publication for Article IV consultation reports and staff reports on the use of Fund resources. They noted that the observed high and rising publication rates for country staff reports already attest to the underlying positive momentum that has persuaded more and more members to agree voluntarily to publish staff reports. They considered that Directors' continued support would remain vital for further strengthening this momentum. In light of these considerations, it was agreed to reconsider a possible

Box 7.1
Key Elements of the IMF's Transparency Policy for Documents

- Voluntary publication of Article IV (country) and Use of Fund Resources staff reports.
- The presumption that Letters of Intent/Memoranda of Economic and Financial Policies and other documents stating a government's policy intentions would be published; however, a member may notify the Board of its decision not to consent to IMF publication of a document.
- Publication of Poverty Reduction Strategy Papers (PRSPs), Interim-PRSPs, and PRSP progress reports is required for management to recommend endorsement by the Executive Board.
- Voluntary publication of Public Information Notices (PINs) following Article IV consultations and Board discussions on regional surveillance papers, concluding mission statements, background documentation for Article IV consultation discussions, and documentation for staff-monitored programs.
- A presumption of publication of staff reports on policy issues, together with PINs (except on issues dealing with administrative matters of the IMF, for which publication can be decided on a case-by-case basis).
- Deletions to published documents should be limited to highly market-sensitive information, mainly exchange rate and interest rate matters. Corrections should be limited to factual changes and characterizations of the authorities' views.
- The member concerned has the right of reply and may publish a statement accompanying the staff report commenting on the staff or Executive Board assessment or both.
- Public access is given to the IMF's archives to Executive Board documents that are over 5 years old, to minutes of Executive Board meetings that are over 10 years old, and to other documentary materials that are over 20 years old, subject to certain restrictions.

move to a policy of presumed publication at the next Board review of transparency policy, to take place in June 2003. It would be useful and constructive, Directors agreed, for the IMF's governing bodies to be apprised periodically of the progress made with respect to release of staff reports within the present voluntary guidelines.

A range of views was expressed on the possibility of authorizing voluntary release of ***Letters of Intent (LOIs) and Memoranda of Economic and Financial Policies (MEFPs)*** after their circulation to the Board, but prior to the Board meeting. A number of Directors considered that advance publication of LOIs/MEFPs on a voluntary basis in response to the member's request could enhance public debate on the member's policy intentions. However, most Directors preferred to retain the current policy, in order not to pre-empt the approval by the Board of the understandings reached between a member and IMF management.

Directors considered the policy that ***Public Information Notices (PINs) for Article IV consultations*** concluded on a lapse-of-time basis should not include a reference to this procedure to avoid possible public misunderstanding as to the Board's ownership of the assessment. If consultations are concluded on a lapse-of-time or short-form basis, many Directors felt that this should be acknowledged in the PIN with an appropriate explanation, consistent with the objective of transparency, and the present policy would be adapted accordingly. Directors agreed that, in lapse-of-time cases, the "Executive Board Assessment" section of a PIN would be approved by the Board, based on the draft PIN circulated separately to the Board three days in advance of the lapse-of-time deadline.

In addition, Directors agreed to (1) allow references to overdue obligations in Article IV PINs and Chair statements, after a press release on such matters has been issued; (2) allow the release of information on amended repurchase expectations for the Contingent Credit Line and the Supplemental Reserve Facility through a Chair statement, PIN, press release, or staff report, if agreed to by the member; and (3) add Financial System Stability Assessments and stand-alone HIPC Debt Sustainability Analyses to the items in the publication decision that are authorized for publication.

On the ***publication of Board discussions of policy issues***, Directors welcomed that the current policy has considerably widened public access to information about IMF policies. Most Directors supported a move to a presumption of release of policy papers and policy Public Information Notices that include the summing up of the Board meeting, but many Directors saw merit in publishing papers on administrative matters also.

Concerning the experience with implementing the policy on ***deletions and corrections in staff reports***, Directors noted that the number of deletions had been limited and broadly confined to highly market-sensitive material, consistent with the policy. While there was broad agreement that the present deletions policy should be maintained, many Directors suggested that the policy be applied flexibly. In this context, a number of Directors proposed that consideration be given at the June 2003 review to the possibility of deleting highly politically sensitive information. Most Directors endorsed the staff proposal to allow deletion of highly market-sensitive performance criteria and structural benchmarks that could be communicated in side letters, as a useful step in harmonizing the application of the policy across documents.

The ***high volume of corrections*** in Article IV and Use of Fund Resources reports was seen mainly as reflecting the effort by both members and staff to provide the

public with accurate information. A number of Directors nevertheless saw scope for greater parsimony and rigor in this regard, and also noted that corrections lead to publication lags.

Timely access to Executive Board minutes was an important element of the effort to improve the transparency of the IMF's decision making, Directors noted. They supported the proposal to reduce the current 20-year lag, although they had different views as to the appropriate shortening. While there was significant support for a shortening to 5 years of access to minutes of policy discussions, many Directors considered that, for country issues, the prospect of public access after 5 years might unduly restrain the candor of the Board debate. It was therefore agreed to shorten the period for access to minutes of Executive Board meetings to 10 years.

Review of the IMF's External Communications Strategy

In March 2003, the Board reviewed the IMF's external communications strategy, the third such discussion within five years.[1] The review took stock of recent progress in increasing the IMF's openness and enhancing its responsiveness to outside views, including concerns and criticism. Despite the significant improvements made, Directors agreed that challenges remain. They considered that continued efforts are needed to improve further the public's understanding of the IMF's work, so that it can better serve its member countries.

The IMF's relatively high media visibility offered a valuable opportunity to carry out external communications more effectively. Directors observed that although the IMF's work—based on its mandate to safeguard the macroeconomic and monetary foundations of economic growth—is vital to economic welfare and rising living standards worldwide, much of its work tends to attract controversy. This is not least because a prominent part of the IMF's job is to advise countries on how best to face economic reality in difficult circumstances, including when they need the IMF's financial support. In this context, Directors considered that improving understanding of the IMF's work and respect for its competence, and enhancing the credibility of its policies, are key objectives of its communications—and more so than increasing its popularity. A continuing, concentrated effort to improve understanding of the institution would, over time, be valuable in increasing support for its work in member countries even if progress may seem incremental and modest. Directors generally considered that more can be achieved by better focusing and prioritizing external communications activity within the existing budgetary envelope.

Focus and Coordination

The IMF's communications should be sharply focused, Directors agreed, and the main themes should be derived from guidance provided by the International Monetary and Financial Committee and from Executive Board decisions and work plans. Directors recognized that external communications are a shared responsibility of the Executive Board, management, and staff, and that the External Relations Department (EXR) necessarily plays a crucial role in ensuring that the IMF's external communications are well developed, coordinated, and delivered. The department's responsibilities include keeping staff informed about the key issues for external communications, drafting and revising material for public statements, and coordinating and advising on public speaking opportunities and interactions with the media. With the inevitable involvement of a rising number of IMF players in such activities, Directors believed that it would become increasingly important to ensure that consistent messages are being delivered.

Availability and Accessibility of Information

The IMF's transparency policy has led to the release of a greatly increased volume of policy and country papers and summaries of Board discussions, Directors observed, with the IMF's external website being the primary vehicle for dissemination. The IMF also publishes vast quantities of research and statistical data as well as comprehensive information on its finances. Directors acknowledged that the sheer volume of information released by the IMF, together with its technical and specialized content, increases the importance of providing clear and brief summaries and explanatory material for nonspecialists. Directors supported ongoing efforts to improve the drafting, editing, and summarizing of IMF material intended for public dissemination. They considered, however, that more needs to be done to make such material understandable—including by presenting it in plain English and reducing jargon. In a similar vein, Directors called for continued efforts to enhance the communication skills of all IMF staff, which would be important not only for improved interactions with the public but also for enhancing the learning culture of the institution more broadly. Many Directors underlined that senior staff across the IMF could make a positive contribution in external communications, and consideration is needed how best to advance in this respect.

[1]The IMF's "external communications" do not include its communications with the authorities and officials of member countries. Also excluded are its communications with other international organizations. The first Board discussion of the external communications strategy was in July 1998 and the second in February 2000.

Proactive Outreach and Dialogue

Directors shared the view of management and staff that the purposes of outreach and dialogue include listening and learning as well as informing and providing explanations for interlocutors. They acknowledged that the IMF now, more actively than in the past, seeks to take into account the views of its critics as well as supporters in developing and revising IMF policies, practices, and advice. The considerable expansion in recent years of the institution's communications with nonofficials, particularly legislators and civil society organizations, was welcomed (see Box 7.2). Going forward, Directors agreed that, given its limited resources, the IMF, like other international organizations, would need to be selective and set priorities for outreach and dialogue.

Most Directors supported giving priority to communications with legislatures, labor unions, and the private sector, in coordination with national authorities. They also supported a more active role for IMF resident representatives and mission chiefs in outreach, and noted the important impact of management speeches as well as visits by management to member countries. Directors welcomed the staff's proposal to prepare a guidance note for staff outreach to civil society organizations. While encouraging staff to highlight the IMF's successes, Directors considered that the IMF's public image and accountability can only benefit from the institution's willingness to learn lessons from its experience and to openly acknowledge mistakes when they do happen. Although Directors were generally supportive of prompt, vigorous responses to biased

Box 7.2

Engaging in Outreach and Dialogue

The purposes of the IMF's engagement in outreach and dialogue beyond official circles include *listening* and *learning* as well as *informing* and *persuading* interlocutors on Fund-related matters. Inviting comments from the public on IMF policy proposals via the external website and in specially convened meetings and conferences has become routine—some recent examples include Poverty Reduction Strategy Paper and Poverty Reduction and Growth Facility reviews, the development of the HIPC (debt reduction) policy, the review of Fund conditionality, the establishment and work program of the Independent Evaluation Office, and the proposal for a sovereign debt restructuring mechanism. In this way, the IMF supplements its formal processes of accountability to member countries—represented on the Board of Governors and Executive Board—through engagement with organizations that reflect the views of a variety of people.

Legislatures

The IMF has begun to increase its outreach to parliamentarians to promote better understanding of the Fund and its policies. Among other activities, it has started to hold seminars for legislators in individual countries. In March 2003, the IMF organized a seminar in Cameroon with legislators, provincial governors, representatives of civil society, and the media, to explain the role of the Fund in general and the IMF-supported program in particular. In April 2003, a similar event was organized with Ghanaian legislators. The IMF is also working jointly with the Parliamentary Network on the World Bank (an informal group of parliamentarians from both industrial and developing countries who are interested in development issues), including participating in visits by parliamentarians to PRSP countries. The Managing Director participated in the fourth annual conference of the Parliamentary Network, which included an hour-long question and answer session with legislators. In addition, management and staff have often met at IMF headquarters with visiting groups of legislators. The Managing Director has also spoken in capitals to members of national parliaments. In addition, the IMF has provided training to legislators.

Private Sector

The IMF's interactions with the private business and financial sector at the country level often include meetings by its mission teams and resident representatives with employer associations, private companies, banks, and other financial institutions. A recent survey of country outreach indicates that resident representatives, on average, meet with business and trade associations once every two months. Globally, the International Capital Markets Department maintains an extensive informal network of communications with private financial market participants. And at the management level, the semiannual meetings of the Capital Markets Consultative Group provide opportunities for informal discussion of key topics of mutual interest.

Civil Society Organizations (CSOs)

In recent years the IMF has significantly increased outreach and dialogue with civil society—labor organizations, some business associations, nongovernmental organizations (NGOs), faith-based organizations, and academic and policy research institutions ("think tanks"). IMF staff and management now meet often with such organizations both at headquarters and in member countries. In low-income countries, the PRSP process has firmly established CSOs as participants in formulating and implementing better policies to fight poverty. In many Article IV consultation missions, efforts are made to consult with broad elements of civil society on the economic situation. The terms of reference for IMF offices abroad and resident representatives often include maintaining contact and dialogue with CSOs. This dialogue covers a wide range of issues, including macroeco-

or inaccurate media reports regarding the IMF and its activities, they recognized that a key objective should be to provide consistent long-term messages to opinion leaders throughout the world.

Broadening the Reach of IMF Communications

The significant contribution to communications and outreach being made by the availability of vast amounts of information on the IMF's external website was welcomed by Directors. They favored continued development and expansion of the website, which should focus on the quality of information provided and maintain its ease and speed of access for users everywhere. Directors supported efforts to expand distribution of the IMF's print publications, especially in developing countries. They also welcomed efforts under way by EXR and area departments to better plan and coordinate the IMF's external communications programs for specific regions and countries, taking into account the differing circumstances and perceptions from one country to another and without ignoring any region. Within a given country, Directors noted, the impact of IMF communication will vary across groups and institutions, and communication efforts must be geared to the particular background and concerns of different audiences.

Publications in Languages Other than English

Directors discussed the conclusions of a report from an interdepartmental task force on IMF publications in languages other than English (the IMF's working language). They agreed that increased publication of IMF documents and other information in languages other than English, including local languages as well as the

nomic policy and other related policies, structural adjustment and the poor, debt relief and poverty reduction, trade and capital account liberalization, globalization and the governance of the global economy (including discussions on new rules for the global financial system), promoting good governance, and fighting corruption.

Staff contact with national labor unions in the context of Article IV or program discussions has become much more common in recent years. About 70 percent of IMF missions had contacts with labor unions or other labor representatives at least once in the previous two years, for the purposes of hearing the views of labor unions and explaining and discussing the IMF's policy advice. In addition, the IMF maintains a constructive dialogue with the international labor movement, represented mainly by the International Confederation of Free Trade Unions (ICFTU) and the World Confederation of Labor, through workshops, regional seminars, and leadership meetings held in Washington, D.C., jointly with the World Bank. The most recent leadership meeting was held in October 2002 and included 90 trade union representatives from 40 countries.

Although the IMF does not have an NGO consultative group, it has increased its efforts at dialogue with NGOs engaged in research and policy advocacy on development, debt, environmental, and other related economic issues. The IMF's practice is to respond positively, resources permitting, to all requests from NGOs interested in engaging in constructive dialogue but to concentrate upon communications with NGOs having a leadership role.

At the international level, a number of major advocacy NGOs are in regular touch with IMF staff to discuss policies and programs. Numerous meetings on a variety of issues ranging from debt relief and PRSPs to transparency, governance, and the environment take place regularly in Washington and in Europe (about 310 meetings with NGOs and other civil society organizations were held at IMF headquarters in 2002). NGOs are also invited to participate actively in reviews of IMF policies—recent examples include their involvement in the conditionality, transparency, trade, and PRSP reviews—and are often invited to conferences organized around these reviews.

To the extent that resources and other priorities allow, the IMF organizes workshops and seminars for NGOs (especially in the southern hemisphere), often in collaboration with resident representatives and regional offices, to explain the IMF and the role it plays in the formulation of policies in program countries. The IMF also sends a quarterly newsletter to NGOs and other CSOs by mail and e-mail to some 700–800 recipients around the world in English, French, Spanish, and Russian and posts it on the Fund's external website.

The IMF has had limited, sporadic communications and meetings with faith-based organizations in the past, which have generally been cordial and constructive. The World Council of Churches has shown renewed interest in dialogue with the Fund, and the proposed work program of the World Faiths Development Dialogue includes efforts to promote the Millennium Development Goals and to engage faith groups in Poverty Reduction Strategy consultations.

The IMF communicates with academic researchers and "think tanks" to broaden and deepen the understanding among influential policy analysts of the Fund's policies, as well as to bring outside views and expertise into the Fund. The Economic Forum series also serves to expand policy dialogue. The IMF organizes 10 to 12 Economic Forums at headquarters each year to promote informed discussion on issues confronting the Fund and the international community. Recent topics have included the euro, IMF governance, direct foreign investment in China, social safety nets, capacity building, crisis early warning systems, and transparency.

most widely used international languages, can be very helpful for increasing understanding and support for IMF policies and advice as well as fostering country ownership. For country policy intentions documents available in local languages in the original, the practice of linking to authorities' websites, or posting on the IMF website in the case of the major languages for which links exist on the homepage, should be encouraged. In other cases, translation costs may be significant. Most Directors considered that this should be accommodated within existing budget ceilings on an as-needed and case-by-case basis. They encouraged the staff to identify low-cost options and cases where the benefits of publishing translated material are likely to be high relative to costs.

Role of the Executive Board

Directors expressed a range of views on the role of Executive Directors in external communications. Several Directors noted the complexities involved in playing a prominent public relations role, as this entails balancing their roles as representatives of their countries and as officers of the IMF. The suggestion was made that Directors could be guided by a code of conduct that the Board itself could subsequently develop.

The Independent Evaluation Office

The Independent Evaluation Office (IEO) was established in July 2001 to conduct objective and independent assessments of issues of relevance to the mandate of the IMF, in a way that complements the institution's internal review and evaluation functions. Through this work the IEO is expected to enhance the learning culture within the IMF, strengthen the institution's external credibility, promote greater understanding of the IMF's work throughout the membership, and support the Executive Board's institutional governance and oversight responsibilities.

The IEO's work program for FY2002/2003 consisted of three evaluation projects: (1) the prolonged use of IMF financial resources and its implications; (2) the role of the IMF in three recent capital account crisis cases (Brazil, Indonesia, and Korea); and (3) fiscal adjustment in IMF-supported programs in a group of low- and middle-income countries. The evaluation report for the first project—on prolonged use of IMF resources—was broadly endorsed by the Board in September 2002 and subsequently published. The report offered a series of recommendations designed to minimize prolonged use and its adverse consequences. These recommendations covered the rationale for IMF-supported programs (including the need for alternative methods of signaling an IMF "seal of approval" to other donors and creditors); program design; strengthening political information and analysis; and human resource management. IMF management set up a task force to propose how best to address issues raised by the evaluation. IEO also provided the task force with comments received through its process of external outreach. The report of the task force was discussed by the Executive Board in March 2003, and a specific set of follow-up steps was agreed. (See Chapter 4 for details.)

The evaluation report on the three capital account crisis cases was sent to management for comments, and simultaneously to the Evaluation Committee of the Executive Board, in April 2003. The evaluation report on fiscal adjustment in IMF-supported programs was scheduled to be circulated in May 2003.

Looking forward, the work program for FY2004 was finalized by the Director of IEO following an extensive program of consultation with a broad range of internal and external stakeholders and was subsequently reviewed and welcomed by the Board. The work program includes: (1) an evaluation of the IMF's experience with Poverty Reduction Strategy Papers and the Poverty Reduction and Growth Facility (PRSP/PRGF); (2) an evaluation of the IMF's role in Argentina, assessing the 2000 and 2001 programs but also taking a longer view of the IMF's involvement from 1991 onwards; and (3) an evaluation of IMF technical assistance.

The PRSP/PRGF evaluation is already under way. It is being conducted along with a parallel evaluation of the World Bank's experience by its Operations Evaluation Department. The final terms of reference have been posted on the IEO website, following a process of consultation with internal and external stakeholders on an earlier issues paper. Issues papers for the other two evaluation projects will be posted on the website for comments early in FY2004.

The IEO has undertaken wide-ranging outreach efforts, including building ties with the academic and aid evaluation communities and representatives of civil society. A series of seminars was organized to disseminate the results of the first evaluation project on prolonged use of IMF resources, which was generally received by external stakeholders as a candid and constructive assessment. The IEO website is now being used by a wide range of subscribers, and significant efforts have been made to ensure that key outputs of the office are available in languages other than English.

Strengthening the Voice and Representation of Developing Countries

In September 2002, the Development Committee requested that the World Bank and IMF prepare a background document to facilitate consideration, at its Spring 2003 Meeting, of ways to broaden and strengthen the voice and participation of developing countries and transition economies in the two institutions. The strength and effectiveness of participation in

decision making at the institutions has several dimensions. The most straightforward of these is voting strength. Another important dimension is the degree to which countries are fully equipped to use the available opportunities to present their views at the institutions. This latter dimension of "voice" is quite important for large multicountry constituencies—especially those with a significant number of countries with IMF-supported programs or HIPCs, given the volume and complexity of associated issues requiring their input.

During their initial discussion of the joint background paper on this topic, Directors underscored the importance of enhancing the voice and participation of developing and transition countries. They highlighted the initiatives that have already been taken to enhance the voice of developing countries and the listening culture in the IMF—including the ongoing development of the PRSP process, strengthened support for capacity building, and emphasis on country ownership of reforms—and looked forward to building on these ongoing efforts. Because rapid progress can be made on a number of possible administrative measures for enhancing voice, the Board has already begun to consider steps that could be taken in the short run to address staffing and technological constraints of the two sub-Saharan African constituencies, whose needs are most pressing. Progress on these issues will allow the Development Committee to focus on the voting strength dimension of voice and participation, which requires further careful consideration and consensus-building efforts among the membership in the period ahead. The IMFC will have an opportunity to return to these issues at the 2003 Annual Meetings, based on a status report from the Executive Board on its discussions in connection with the Thirteenth General Review of Quotas.

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Financial Operations and Policies in FY2003

The IMF is a cooperative institution that lends to member countries experiencing balance of payments problems. The IMF extends financing to members through three channels:

Regular Operations. The IMF provides loans to countries from a revolving pool of funds consisting of members' capital subscriptions (quotas) on the condition that the borrower undertake economic adjustment and reform policies to address its external financing difficulties (see Box 8.1). These loans are extended under a variety of policies and facilities designed to address specific balance of payments problems (see Table 8.1). Interest is charged on the loans at market-related rates, and repayment periods vary depending on the lending facility.

Concessional Financing. The IMF lends at a very low interest rate to poor countries to help them restructure their economies to promote growth and reduce poverty. The IMF also provides grants to eligible poor countries to help them achieve sustainable external debt positions. The principal for concessional loans is funded by bilateral lenders to the IMF at market-based rates, with the IMF acting as a trustee. Resources to subsidize the rate charged to borrowers, and grants for debt relief, are financed through contributions by member countries and income from the IMF's own resources.

Special Drawing Rights. The IMF can also create international reserve assets by allocating special drawing rights (SDRs) to members, which can be used to obtain foreign exchange from other members and to make payments to the IMF. The SDR also serves as the

Box 8.1

The IMF's Financing Mechanism

The IMF's regular lending is financed from the capital subscribed by member countries. Each country is assigned a quota that determines its maximum financial commitment to the IMF. A portion of the quota is provided in the form of reserve assets (foreign currencies acceptable to the IMF or SDRs) and the remainder in its own currency. The IMF extends financing by providing reserve assets to the borrower from the reserve asset subscriptions of members or by calling on countries that are considered financially strong to exchange their currency subscriptions for reserve assets (see Box 8.3).

A loan is disbursed or drawn by the borrower "purchasing" the reserve assets from the IMF with its own currency. Repayment of the loan is achieved by the borrower "repurchasing" its currency from the IMF with reserve assets. The IMF levies a basic rate of interest (charges) on loans based on the SDR interest rate (see Box 8.6) and imposes surcharges depending on the amount and maturity of the loan and the level of credit outstanding.

A country that provides reserve assets to the IMF as part of its quota subscription or through the use of its currency receives a liquid claim on the IMF (reserve position) that can be encashed on demand to obtain reserve assets to meet a balance of payments financing need. These claims earn interest (remuneration) based on the SDR interest rate and are considered by members as part of their international reserve assets. As IMF loans are repaid (repurchased) by the borrower with reserve assets, these funds are transferred to the creditor countries in exchange for their currencies and the creditor's claim on the IMF is extinguished.

The "purchase/repurchase" approach to IMF lending affects the composition of the Fund's resources but not the overall size. An increase in loans outstanding will reduce the IMF's holdings of reserve assets and the currencies of members that are financially strong and increase the IMF's holdings of the currencies of countries that are borrowing from the Fund. The amounts of the IMF's holdings of reserve assets and the currencies of financially strong countries determine the Fund's lending capacity (liquidity) (see Box 8.4).

Detailed information on various aspects of the IMF's financial structure and regular updates of its financial activities are available on the IMF's website at *http://www.imf.org/external/fin.htm*.

Table 8.1
IMF Financial Facilities

Credit Facility	Purpose	Conditions	Phasing and Monitoring[1]
Credit Tranches and Extended Fund Facility[2]			
Stand-By Arrangements (1952)	Medium-term assistance for countries with balance of payments difficulties of a short-term character	Adopt policies that provide confidence that the member's balance of payments difficulties will be resolved within a reasonable period	Quarterly purchases (disbursements) contingent on observance of performance criteria and other conditions
Extended Fund Facility (1974) (Extended Arrangements)	Longer-term assistance to support members' structural reforms to address balance of payments difficulties of a long-term character	Adopt 3-year program, with structural agenda, with annual detailed statement of policies for the next 12 months	Quarterly or semiannual purchases (disbursements) contingent on observance of performance criteria and other conditions
Special Facilities			
Supplemental Reserve Facility (1997)	Short-term assistance for balance of payments difficulties related to crises of market confidence	Available only in context of Stand-By or Extended Arrangements with associated program and with strengthened policies to address loss of market confidence	Facility available for one year; frontloaded access with two or more purchases (disbursements)
Contingent Credit Line (1999)	Precautionary line of defense that would be made readily available against balance of payments difficulties arising from contagion	Eligibility Criteria: (1) absence of balance of payments need from the outset, (2) positive assessment of policies by the IMF, (3) constructive relations with private creditors and satisfactory progress in limiting external vulnerability, (4) satisfactory economic program	Resources approved for up to one year. Small amount (5–25 percent of quota) available on approval but not expected to be drawn. Presumption that one-third of resources are released on activation, with the phasing of the remainder determined by a postactivation review
Compensatory Financing Facility (1963)	Medium-term assistance for temporary export shortfalls or cereal import excesses.	Available only when the shortfall/excess is largely beyond the control of the authorities and a member has an arrangement with upper credit tranche conditionality, or when its balance of payments position excluding the shortfall/excess is satisfactory	Typically disbursed over a minimum of six months in accordance with the phasing provisions of the arrangement
Emergency Assistance	Quick, medium-term assistance for balance of payments difficulties related to:		None, although post-conflict assistance can be segmented into two or more purchases
(1) Natural Disasters (1962)	(1) Natural disasters	(1) Reasonable efforts to overcome balance of payments difficulties	
(2) Post-Conflict (1995)	(2) The aftermath of civil unrest, political turmoil, or international armed conflict	(2) Focus on institutional and administrative capacity building to pave the way toward an upper credit tranche arrangement or PRGF	
Facility for Low-Income Members			
Poverty Reduction and Growth Facility (1999) Note: Replaced the Enhanced Structural Adjustment Facility	Longer-term assistance for deep-seated balance of payments difficulties of structural nature; aims at sustained poverty-reducing growth	Adopt 3-year PRGF-supported program. PRGF-supported programs are based on a Poverty Reduction Strategy Paper (PRSP) prepared by the country in a participatory process, and integrating macroeconomic, structural, and poverty reduction policies	Semiannual (or occasionally quarterly) disbursements contingent on observance of performance criteria and reviews

[1]The IMF's lending is financed from the capital subscribed by member countries; each country is assigned a *quota* that represents its financial commitment. A member provides a portion of its quota in foreign currencies acceptable to the IMF—or SDRs—and the remainder in its own currency. An IMF loan is disbursed or drawn by the borrower *purchasing* foreign currency assets from the IMF with its own currency. Repayment of the loan is achieved by the borrower *repurchasing* its currency from the IMF with foreign currency. See Box 8.1 on the IMF's Financing Mechanism.

[2]The *basic rate of charge* on funds disbursed from the General Resources Account (GRA) is set as a proportion of the weekly interest rate on SDRs and is applied to the daily balance of all outstanding GRA drawings during each IMF financial quarter. In addition to the basic rate plus surcharge, an up-front commitment fee (25 basis points on committed amounts up to 100 percent of quota, 10 basis points thereafter) is charged on the amount that may be drawn during each (annual) period under a Stand-By or Extended Arrangement. The fee is, however, refunded on a proportionate basis as subsequent drawings are made under the arrangement. A one-time service charge of 0.5 percent is levied on each drawing of IMF resources in the General Resources Account, other than reserve tranche drawings, at the time of the transaction.

Access Limits[1]	Charges[2]	Repurchase (Repayment) Terms[3] Obligation schedule *(Years)*	Expectation schedule *(Years)*	Installments
Annual: 100% of quota; cumulative: 300% of quota	Basic rate plus surcharge (100 basis points on amounts above 200% of quota; 200 basis points on amounts above 300%)[5]	3¼–5	2¼–4	Quarterly
Annual: 100% of quota; cumulative: 300% of quota	Basic rate plus surcharge (100 basis points on amounts above 200% of quota; 200 basis points on amounts above 300%)[5]	4½–10	4½–7	Semiannual
No access limits; access under the facility only when access under associated regular arrangement would otherwise exceed either annual or cumulative limit	Basic rate plus surcharge (300 basis points rising by 50 basis points a year after first disbursement and every 6 months thereafter to a maximum of 500 basis points)	2½–3	2–2½	Semiannual
No access limits, but commitments are expected to be in the range of 300–500% of quota	Basic rate plus surcharge (150 basis points rising by 50 basis points at the end of the first year and every 6 months thereafter to a maximum of 350 basis points)	2–2½	1–1½	Semiannual
45% of quota each for export and cereal components. Combined limit of 55% of quota for both components	Basic rate	3¼–5	2¼–4	Quarterly
Generally limited to 25% of quota, though larger amounts can be made available in exceptional cases	Basic rate	3¼–5	Not applicable	Quarterly
140% of quota; 185% of quota in exceptional circumstances	0.5%	5½–10	Not applicable	Semiannual

[3]For purchases made after November 28, 2000, members are expected to make repurchases (repayments) in accordance with the schedule of expectations; the IMF may upon request by a member amend the schedule of repurchase expectations if the Executive Board agrees that the member's external position has not improved sufficiently for repurchases to be made.

[4]*Credit tranches* refer to the size of purchases (disbursements) in terms of proportions of the member's quota in the IMF; for example, disbursements up to 25 percent of a member's quota are disbursements under the *first* credit tranche and require members to demonstrate reasonable efforts to overcome their balance of payments problems. Requests for disbursements above 25 percent are referred to as *upper* credit tranche drawings; they are made in installments as the borrower meets certain established performance targets. Such disbursements are normally associated with a Stand-By or Extended Arrangement. Access to IMF resources outside of an arrangement is rare and expected to remain so.

[5]Surcharges are applied to the combined amount of outstanding credit resulting from purchases made after November 2000 in the credit tranches and under the EFF.

Table 8.2
IMF Financial Assistance Approved in FY2003

Member	Type of Arrangement	Date of Approval	Amount Approved[1] (*In millions of SDRs*)
Albania	3-year PRGF	June 21, 2002	28.0
Argentina	7-month Stand-By	January 24, 2003	2,174.5
Bolivia	1-year Stand-By	April 2, 2003	85.8
Bosnia and Herzegovina	15-month Stand-By	August 2, 2002	67.6
Brazil	16-month Stand-By	September 6, 2002	22,821.1
Burundi	Emergency Assistance (Post-Conflict)	October 9, 2002	9.6
Colombia	2-year Stand-By	January 15, 2003	1,548.0
Congo, Democratic Republic of	3-year PRGF	June 12, 2002	580.0
Croatia, Republic of	14-month Stand-By	February 3, 2003	105.9
Dominica	1-year Stand-By	August 28, 2002	3.3
Ecuador	13-month Stand-By	March 21, 2003	151.0
Gambia, The	3-year PRGF	July 18, 2002	20.2
Grenada	Emergency Assistance (Natural Disaster)	January 27, 2003	2.9
Guyana	3-year PRGF	September 20, 2002	54.6
Jordan	2-year Stand-By	July 3, 2002	85.3
Macedonia, Former Yugoslav Republic of	14-month Stand-By	April 30, 2003	20.0
Malawi	Emergency Assistance (Natural Disaster)	September 3, 2002	17.4
Nicaragua	3-year PRGF	December 13, 2002	97.5
Rwanda	3-year PRGF	August 12, 2002	4.0
Senegal	3-year PRGF	April 28, 2003	24.3
Serbia and Montenegro	3-year EFF	May 14, 2002	650.0
Sri Lanka	3-year EFF	April 18, 2003	144.4
Sri Lanka	3-year PRGF	April 18, 2003	269.0
Tajikistan	3-year PRGF	December 11, 2002	65.0
Uganda	3-year PRGF	September 13, 2002	13.5
Uruguay[2]	Augmentations of Stand-By	June 25 and August 8, 2002	1,534.2
Zambia	Augmentation of PRGF	May 29, 2002	24.5

[1] For augmentations, only the amount of the increase is shown.
[2] Augmentation amount is net of cancellation of remaining balance (SDR 257.4 million) under the SRF.

IMF's unit of account, and its value is based on a basket of four major international currencies. The SDR interest rate is based on market interest rates for the currencies in the valuation basket and serves as the basis for other IMF interest rates.

Among the key financial developments in FY2003 were the following:

- The IMF completed a review of members' capital subscriptions (quotas) and concluded that no general increase in its capital base was necessary for the time being.
- Outstanding IMF credit to members increased as capital flows to emerging market countries continued to decline and several members with very large external financing needs faced reduced access to international capital markets.
- The IMF continued its efforts to assist its poorest members to reduce their debt burdens and to focus the Fund's concessional lending activities more explicitly on poverty reduction.

Regular Financing Activities

The IMF's regular lending activity is conducted through the General Resources Account (GRA), which holds the quota subscriptions of members. The bulk of the financing is provided under Stand-By Arrangements, which address members' short-term, cyclical balance of payments difficulties, and under the Extended Fund Facility (EFF), which focuses on external payments difficulties arising from longer-term structural problems. Loans under Stand-By and Extended Arrangements can be supplemented with short-term resources from the Supplemental Reserve Facility (SRF) to assist members experiencing a sudden and disruptive loss of capital market access. All loans incur interest charges and can be subject to surcharges based on the type and duration of the loan and the amount of IMF credit outstanding. Repayment periods also vary by facility (see *http://www.imf.org/external/np/tre/lend/terms.htm*).

Lending

New IMF commitments in FY2003 were dominated by a large Stand-By Arrangement for Brazil. In addition, new large arrangements for Colombia and Argentina, as well as augmentations of the existing arrangement for Uruguay, kept the level of total commitments in FY2003 relatively high, with new commitments amounting to SDR 29.4 billion compared with SDR 39.4 billion in FY2002.[1]

The IMF approved ten new Stand-By Arrangements involving commitments totaling SDR 27.1 billion, and the commitment to Uruguay under the Stand-By Arrangement already in place was augmented by SDR 1.5 billion. In addition, two EFF arrangements were approved in FY2003: SDR 0.7 billion for Serbia and Montenegro and SDR 0.1 billion for Sri Lanka (see Table 8.2). Burundi, Grenada, and Malawi made small purchases under the IMF's policy of emergency assistance. No commitments were made under the IMF's Compensatory Financing Facility (CFF) or Contingent Credit Line (CCL) during the year.

The arrangement for Brazil, the largest in the IMF's history, was approved in September 2002. This arrangement supports the government's economic program through December 2003. The total commitment of SDR 22.8 billion included SDR 7.6 billion under the SRF. In January 2003, the IMF approved a seven-month, SDR 2.2 billion Stand-By Arrangement for Argentina, which replaced the previous arrangement approved in March 2000. Another large arrangement was also approved in January 2003, a two-year, SDR 1.5 billion Stand-By Arrangement for Colombia.

Of the current 15 Stand-By Arrangements, three are being treated as precautionary, with borrowers having indicated that they do not intend to draw on the funds committed to them by the IMF. Use of precautionary Stand-By Arrangements, as well as other factors such as uncompleted reviews and interrupted programs, resulted in drawings being made under only 18 of the 29 Stand-By and Extended Arrangements in place during the year (see Appendix II, Table II.3). At the end of April 2003, undrawn balances under the 18 Stand-By and Extended Arrangements still in effect amounted to SDR 23.6 billion, about half of the total amount committed under those arrangements (SDR 47.2 billion).

During the financial year, the IMF disbursed SDR 21.8 billion in loans from its GRA. The amount of new credit exceeded the repayment of loans extended in earlier years. Total repayments were SDR 7.8 billion, including advance repayments by Croatia (SDR 0.1 billion, which eliminated its outstanding IMF credit), Thailand (SDR 0.1 billion), and Estonia and Lithuania.[2] Consequently, IMF credit outstanding at the end of the financial year amounted to a record high SDR 66.0 billion, SDR 13.9 billion higher than a year earlier.

In February 2003, the repurchase (repayment) expectations introduced at the time of a review of IMF facilities completed in FY2001 (see Box 8.2) began to take effect. In FY2003, repurchase expectations arose

Box 8.2

Expectations Versus Obligations

The IMF's Articles of Agreement (Article V, Section 7 *(b)*) specify that members are expected to make "repurchases" (repayments of loans), in connection with "purchases" (loan disbursements) made previously, as their balance of payments and reserve position improves. To encourage early repayment, the Review of Fund Facilities carried out in FY2001 introduced *time-based repurchase expectations* on purchases made after November 28, 2000, in the credit tranches, under the Extended Fund Facility, and under the Compensatory Financing Facility. Purchases under the Supplemental Reserve Facility have been subject to repurchase expectations since that facility's inception; in March 2003, the maturities of SRF expectations and obligations were extended by one year and six months, respectively. The expectations schedule entails earlier repayments than the original obligations schedule, as shown in the table.

At the request of the member, the IMF Executive Board can approve repayment on the obligations date if the country's external position is not strong enough to meet repurchase expectations without undue hardship or risk.

If the member's request is granted, all extended repurchase expectations in the credit tranches and under the CFF become due on the date of the corresponding repurchase obligations. That is, due dates for each individual repayment are extended by one year. Under the SRF, repayment periods may be extended for six months. A new schedule for repayments under the EFF would be decided on a case-by-case basis, taking into account the overall profile of repayments.

Credit Facility	Obligations Schedule *(Years)*	Expectations Schedule *(Years)*
Stand-By Arrangements	3¼–5	2¼–4
Compensatory Financing Facility (CFF)	3¼–5	2¼–4
Extended Fund Facility (EFF)	4½–10	4½–7
Supplemental Reserve Facility (SRF)	2½–3	2–2½

[1] As of April 30, 2003, SDR 1 = US$1.383913.

[2] The advance repayments by Estonia and Lithuania were less than SDR 50 million.

Box 8.3
Financial Transactions Plan

The IMF extends loans by providing reserve assets from its own holdings and by calling on financially strong countries to exchange the Fund's holdings of their currencies for reserve assets. The members that participate in the financing of IMF transactions in foreign exchange are selected by the Executive Board based on an assessment of each country's financial capacity. These assessments are ultimately a matter of judgment and take into account recent and prospective developments in the balance of payments and reserves, trends in exchange rates, and the size and duration of external debt obligations.

The amounts transferred and received by these members are managed to ensure that their creditor positions in the IMF remain broadly the same in relation to their quota, the key measure of each member's rights and obligations in the IMF. This is achieved in the framework of an indicative quarterly plan for financial transactions. The IMF publishes on its website the outcome of the financial transactions plan for the quarter ending three months prior to publication. As of April 30, 2003, the 44 members listed below were participating in financing IMF transactions.

Australia	Finland	Kuwait	Qatar
Austria	France	Luxembourg	Saudi Arabia
Belgium	Germany	Malaysia	Singapore
Botswana	Greece	Mauritius	Slovenia
Brunei Darussalam	Hungary	Mexico	Spain
Canada	India	Netherlands	Sweden
Chile	Ireland	New Zealand	Switzerland
China	Israel	Norway	Trinidad and Tobago
Cyprus	Italy	Oman	United Arab Emirates
Czech Republic	Japan	Poland	United Kingdom
Denmark	Korea	Portugal	United States

for four members: Argentina, Bosnia and Herzegovina, Pakistan, and Turkey. In February–March 2003, Bosnia and Herzegovina, Pakistan, and Turkey repurchased SDR 0.1 billion on the expectations schedule. For Argentina, repurchase expectations arising in FY2003 (SDR 0.3 billion) and in FY2004 (SDR 0.4 billion) have been extended by one year in the context of the program approved in January 2003. Repurchase expectations arising in FY2004 have also been extended for Ecuador, Sri Lanka, and Uruguay. As of April 30, 2003, IMF financing amounting to SDR 32.9 billion was subject to early repurchase expectations under the policies adopted in November 2000; in addition, SDR 28.7 billion was subject to the new surcharges on high levels of IMF credit also introduced at that time.

Resources and Liquidity

The IMF's lending is financed primarily from the fully paid-in capital (quotas) subscribed by member countries in the form of reserve assets and currencies.[3] General reviews of IMF quotas are conducted at five-year intervals, during which adjustments may be proposed in the overall size and distribution of quotas to reflect developments in the world economy. A member's quota can also be adjusted separately from a general review to take account of major developments. The IMF can also borrow to supplement its quota resources.

Only a portion of the paid-in capital is readily available to finance new lending, however, because of earlier commitments and IMF policies that limit use of the currencies to those of members that are financially strong (see Box 8.3). The base of usable resources increased during the financial year because four additional members (India, Malaysia, Mauritius, and Mexico) were considered sufficiently strong for their currencies to be included in the IMF's financial transactions plan.

The IMF's liquidity position remained adequate throughout the year to meet the needs of its members. The one-year forward commitment capacity (FCC), a new measure of liquidity introduced during FY2003, amounted to SDR 61 billion on April 30, 2003, compared with SDR 59 billion a year earlier (see Box 8.4 and Figure 8.1). During the first half of the financial year, the FCC weakened significantly following the approval of the large arrangement for Brazil, but recovered thereafter following the expiry and cancellation of two arrangements with substantial undrawn balances (Colombia and Argentina) and an increase in repayments projected over the 12-month forecast period.

Quota Developments

A number of quota-related developments took place during the financial year.

Directors continued their exchange of views on the implications for the size of the IMF of globalization, the integration of financial markets, and the IMF's efforts to strengthen its capacity to prevent and resolve financial crises (see Box 8.5). There was broad recognition that greater reliance on private market financing by many countries had contributed to increased vulnerability to capital account shocks, and that such shocks could be quite large in absolute amounts and relative to the size of an economy. There was also recognition that global economic and financial integration might entail the risk of financial contagion. Directors gener-

[3]Quotas also determine a country's voting power in the IMF, its access to IMF financing, and its share in SDR allocations.

Box 8.4

FCC—A New Measure of Lending Capacity

In December 2002, the IMF introduced a new measure of its liquidity called the forward commitment capacity (FCC), which is designed to be a clearer measure of its capacity to make new loans. The one-year FCC, which indicates the amount of quota-based resources available for new lending over the next 12 months, has replaced the traditional liquidity ratio as the primary measure of the IMF's liquidity.

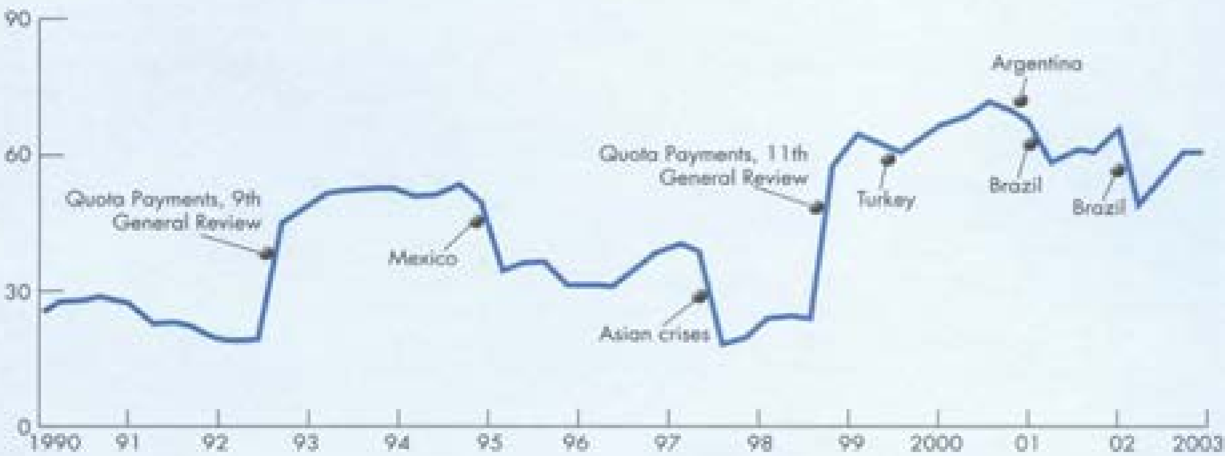
The one-year FCC is defined as the IMF's stock of usable resources *less* undrawn balances under existing arrangements, *plus* projected repayments during the coming 12 months, *less* a prudential balance intended to safeguard the liquidity of creditors' claims and to take account of any potential erosion of the IMF's resource base. The IMF's usable resources consist of its holdings of the currencies of financially strong members included in the financial transactions plan (see Box 8.3) and its holdings of SDRs. The prudential balance is calculated as 20 percent of the quotas of members included in the financial transactions plan and of any amounts activated under borrowing arrangements.

Information on the one-year FCC is published weekly (*Financial Activities: Week-at-a-Glance*) and monthly (*Financial Resources and Liquidity*) on the IMF's website at *http://www.imf.org/external/fin.htm*.

Figure 8.1

IMF One-Year Forward Commitment Capacity (FCC), 1990–April 2003

(In billions of SDRs)



Source: IMF Finance Department.

Note: The IMF started publishing data for the FCC in December 2002. For earlier periods the chart shows estimates of the FCC. The FCC increases when quota payments are made. It also increases when purchases are made and decreases when the IMF makes new financial commitments. The references to member countries and the Asian crises note selected large financial commitments by the IMF to members and groups of members.

ally agreed that the IMF's crisis prevention efforts will contribute to a reduction in the frequency and severity of financial crises, through improved surveillance that promotes sound economic policies and strengthens the functioning of domestic international capital markets. At the same time, Directors accepted that future crises would occur, and that the IMF would need to continue to play a central role in crisis resolution and therefore should have adequate resources at hand. However, views differed on the extent to which the IMF's response to these developments would or should result in large financing that could require additional IMF resources.

The Board also held further discussions on various issues involved in revising and updating the quota formulas to reflect changes in the world economy and measure countries' relative positions more adequately. Progress was made in discussing the development of alternative formulas that, based on an updating of the traditional variables, are intended to be simpler and more transparent than the current formulas. The discussions clarified that the selection of weights for the variables and the distribution of quotas are inextricably linked, and that decisions on possible changes in quota shares will need to take account of other quota-related issues, including the financial size of the IMF and

Box 8.5
Twelfth and Thirteenth General Reviews of Quotas

The IMF normally conducts general reviews of members' quotas every five years to assess the adequacy of its resource base and to provide for adjustments of the quotas of individual members to reflect changes in their relative positions in the world economy. The Twelfth General Review of Quotas was completed on January 30, 2003, without proposing an increase in IMF quotas, which leaves the maximum size of the quotas unchanged at SDR 213.7 billion.

During the period of the Thirteenth General Review, which commenced with the completion of the Twelfth Review, the IMF's Executive Board will closely monitor and assess the adequacy of IMF resources, consider measures to achieve a distribution of quotas that reflects developments in the world economy, and consider measures to strengthen the governance of the IMF. The Board intends to provide a status report on its discussions regarding these issues to the International Monetary and Financial Committee (IMFC) by the 2003 Annual Meetings and establish, as the discussions may warrant, a Committee of the Whole to make specific recommendations.

access to Fund resources by borrowers. This approach would help address concerns about overloading the quota formulas with too many objectives, including the determination of members' contributions to the IMF, access to Fund resources, and relative voting power.

As of April 30, 2003, 177 member countries accounting for more than 99 percent of total quotas proposed in 1998 under the Eleventh General Review of Quotas had consented to, and paid for, their then-proposed quota increases. Two member countries eligible to consent had not done so by the end of the financial year, and four countries were ineligible to consent to their proposed increases because they were in arrears to the IMF. On January 23, 2003, the Board approved an extension of the period for consent to, and payment of, quota increases under the Eleventh Review until July 31, 2003. At the close of the financial year, total subscribed quotas amounted to about SDR 212.7 billion.

Table 8.3
GAB Participants and Credit Amounts
(In millions of SDRs)

Participant	Amount
Belgium	595.0
Canada	892.5
Deutsche Bundesbank	2,380.0
France	1,700.0
Italy	1,105.0
Japan	2,125.0
Netherlands	850.0
Sveriges Riksbank	382.5
Swiss National Bank	1,020.0
United Kingdom	1,700.0
United States	4,250.0
Total	**17,000.0**
Credit arrangement with Saudi Arabia in association with the GAB	1,500.0

Borrowing Arrangements

The IMF can borrow to supplement its quota-based resources. It maintains two standing borrowing arrangements with official lenders and can borrow from private markets, although it has not done so to date. Borrowing has played an important role in providing temporary supplemental resources to the IMF at critical junctures in the past. At April 30, 2003, there was no outstanding borrowing. The last outstanding borrowing was repaid in March 1999, upon receipt by the IMF of the bulk of quota payments under the Eleventh General Review.

General Arrangements to Borrow (GAB)

The GAB, which have been in place since 1962, are a set of credit arrangements under which 11 participants (industrial countries or their central banks) have agreed to provide resources to the IMF to forestall or cope with an impairment of the international monetary system. The potential amount of credit available to the IMF under the GAB totals SDR 17 billion, with an additional SDR 1.5 billion available under an associated agreement with Saudi Arabia (see Table 8.3). The GAB have been activated ten times, most recently in July 1998 for an amount of SDR 6.3 billion (SDR 1.4 billion of which was drawn) in connection with the financing of an Extended Arrangement for Russia. The activation was canceled and the borrowing was repaid in March 1999. The GAB decision has been renewed nine times, most recently in November 2002, when the IMF Executive Board approved its renewal for a further period of five years from December 2003.

New Arrangements to Borrow (NAB)

The NAB, which took effect in November 1998, are a set of credit arrangements under which 26 participants (member countries and official institutions) have agreed to provide resources to the IMF to forestall or cope with an impairment of the international monetary system or to deal with an exceptional situation that poses a threat to the stability of that system. The potential amount of credit available to the IMF under the NAB totals SDR 34 billion (see Table 8.4).

This is also the total amount of credit potentially available under the GAB and NAB combined. The NAB is the first and principal recourse in the event of a need to provide supplementary resources to the IMF, except that: (1) in the event of a request for a drawing on the IMF by a participating member, or a member whose institution is a participant, in both the GAB and NAB (all GAB participants are also participants in the NAB), a proposal for calls may be made under either of the facilities; and (2) in the event that a proposal for calls under the NAB is not accepted, a proposal for calls may be made under the GAB. The NAB has been activated once—to finance a Stand-By Arrangement for Brazil in December 1998, when the IMF called on funding of SDR 9.1 billion (SDR 2.9 billion of which was drawn). The activation was canceled and borrowing was repaid in March 1999. In November 2002, the NAB decision was renewed for a further period of five years from November 2003. The Banco Central de Chile (as an official institution of Chile) became the twenty-sixth NAB participant, effective February 2003.

Table 8.4
NAB Participants and Credit Amounts
(In millions of SDRs)

Participant	Amount
Australia	801
Austria	408
Banco Central de Chile	340
Belgium	957
Canada	1,381
Denmark	367
Deutsche Bundesbank	3,519
Finland	340
France	2,549
Hong Kong Monetary Authority	340
Italy	1,753
Japan	3,519
Korea	340
Kuwait	341
Luxembourg	340
Malaysia	340
Netherlands	1,302
Norway	379
Saudi Arabia	1,761
Singapore	340
Spain	665
Sveriges Riksbank	850
Swiss National Bank	1,540
Thailand	340
United Kingdom	2,549
United States	6,640
Total[1]	**34,000**

[1]Total may not equal sum of components owing to rounding.

Concessional Financing

The IMF provides concessional assistance to help its poorest members boost economic growth and reduce poverty under the Poverty Reduction and Growth Facility (PRGF) and the Initiative for Heavily Indebted Poor Countries (HIPC). As of April 30, 2003, a total of 36 member countries received PRGF financing, and 27 countries had received financial commitments under the HIPC Initiative by the end of the financial year.

Poverty Reduction and Growth Facility

In 1999, the objectives of the IMF's concessional lending were modified to include an explicit focus on poverty reduction in the context of a growth-oriented economic strategy. The IMF, along with the World Bank, supports strategies elaborated by the borrowing country in a Poverty Reduction Strategy Paper (PRSP) prepared with the participation of civil society and other development partners. Reflecting the new objectives and procedures, the IMF established the PRGF, which replaced the Enhanced Structural Adjustment Facility (ESAF), to provide financing under arrangements developed in the context of PRSPs.

During FY2003, the Executive Board approved 10 new PRGF arrangements (for Albania, the Democratic Republic of the Congo, The Gambia, Guyana, Nicaragua, Rwanda, Senegal, Sri Lanka, Tajikistan, and Uganda) with commitments totaling SDR 1.2 billion; in addition, the amount committed under the existing loan to Zambia was increased by SDR 24 million (see Appendix II, Table II.4). Total PRGF disbursements amounted to SDR 1.2 billion during FY2003. As of April 30, 2003, 36 member countries' reform programs were supported by PRGF arrangements, with commitments totaling SDR 4.5 billion and undrawn balances of SDR 2.5 billion.

Financing for the PRGF is provided through trust funds administered by the IMF—the PRGF Trust and PRGF-HIPC Trust—that are separate from the IMF's quota-based resources and that are financed from contributions from a broad spectrum of the IMF's membership and the IMF itself.[4] The PRGF Trust borrows resources at market or below-market interest rates from loan providers—central banks, governments, and government institutions—and lends these funds to

[4]For a fuller account of the sources of funds for IMF concessional lending operations, see *Financial Organization and Operations of the IMF*, Pamphlet No. 45, 6th ed. (Washington: International Monetary Fund, 2001), available online at *http://www.imf.org/external/pubs/ft/pam/pam45/contents.htm*.

Table 8.5
Commitments and Disbursements of HIPC Initiative Assistance
(In millions of SDRs, as of April 30, 2003)

	Amount			Amount	
Member	Committed	Disbursed[1]	Member	Committed	Disbursed[1]
Benin	18.4	20.1	Malawi	23.1	2.3
Bolivia[2]	62.4	65.5	Mali[2]	45.5	49.3
Burkina Faso[2]	44.0	34.4	Mauritania	34.8	38.4
Cameroon	28.5	2.5	Mozambique[2]	106.9	108.0
Chad	14.3	4.3	Nicaragua	63.0	1.9
Côte d'Ivoire[3]	16.7	—	Niger	21.6	3.3
Ethiopia	26.9	8.2	Rwanda	33.8	10.0
Gambia, The	1.8	0.1	São Tomé and		
Ghana	90.1	9.9	Príncipe[4]	—	—
Guinea	24.2	5.2	Senegal	33.8	8.2
Guinea-Bissau	9.2	0.5	Sierra Leone	98.5	47.3
Guyana[2]	56.2	35.8	Tanzania	89.0	96.4
Honduras	22.7	4.5	Uganda[2]	119.6	121.7
Madagascar	16.6	5.0	Zambia	468.8	351.6
Twenty-seven members, of which 26 are under the enhanced HIPC framework				1,570.3	1,034.3

[1]Amounts may include interest on assistance committed but not disbursed during the interim period.
[2]Under the original and enhanced HIPC framework.
[3]Côte d'Ivoire reached its decision point under the original HIPC Initiative.
[4]At the time of the decision point, there was no debt to the IMF eligible for HIPC Initiative assistance.

PRGF-eligible member countries at an annual interest rate of 0.5 percent. The PRGF Trust receives contributions to subsidize the rate of interest on PRGF loans and maintains a Reserve Account as security for loans to the Trust. The PRGF-HIPC Trust was established to subsidize PRGF operations during 2002–2005 and also provides resources for HIPC Initiative assistance.

As of April 30, 2003, the total loan resources that had been made available for PRGF operations amounted to SDR 15.8 billion, of which SDR 12.6 billion had been committed and SDR 10.1 billion had been disbursed. It is estimated that the remaining uncommitted PRGF loan resources of SDR 3.2 billion will cover annual commitments of about SDR 1.1 billion under new PRGF arrangements through 2005, in line with the average annual historical commitments. The continuation of concessional lending after 2005 will need to be reassessed closer to that time, but a substantial proportion of such lending is expected to be provided by the IMF's own resources accumulating in the Reserve Account of the PRGF Trust. These resources will become available as lenders to the PRGF Trust are repaid and the need for security provided by the Reserve Account declines.

Enhanced HIPC Initiative

Originally launched by the IMF and World Bank in 1996, the HIPC Initiative was considerably strengthened in 1999 to provide deeper, faster, and broader debt relief for the world's heavily indebted poor countries. By April 30, 2003, the IMF and the World Bank had brought 26 HIPC-eligible members to their decision points under the enhanced Initiative and one (Côte d'Ivoire) under the original Initiative. Of these countries, eight had reached their completion points under the enhanced Initiative. (See also Chapter 5.)

The IMF provides HIPC Initiative assistance in the form of grants or interest-free loans that are used to service part of member countries' debt to the IMF. As of April 30, 2003, the IMF had committed SDR 1.6 billion in grants to the following eligible countries: Benin, Bolivia, Burkina Faso, Cameroon, Chad, Côte d'Ivoire, Ethiopia, The Gambia, Ghana, Guinea, Guinea-Bissau, Guyana, Honduras, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, São Tomé and Príncipe, Senegal, Sierra Leone, Tanzania, Uganda, and Zambia. Three members (Benin, Mali, and Mauritania) reached their completion points under the enhanced HIPC Initiative during FY2003. Under the enhanced Initiative, a portion of the assistance committed at the decision point can be disbursed prior to the country reaching its completion point. Such interim assistance from the IMF may amount to up to 20 percent annually and a maximum of 60 percent of the total committed amount of HIPC assistance. In exceptional circumstances, the annual and maximum amounts of interim assistance can be raised to 25 percent and 75 percent, respectively. As of April 30, 2003, total disbursements of HIPC Initiative assistance by the IMF amounted to SDR 1.0 billion (Table 8.5).

Financing of the HIPC Initiative and PRGF Subsidies

The financing of the IMF's participation in the enhanced HIPC Initiative and the subsidy requirements of the PRGF are administered through the PRGF Trust and the PRGF-HIPC Trust. The total resources required for these purposes are estimated at SDR 7.2 billion, on a cash basis, of which HIPC Initia-

tive assistance is estimated at about SDR 2.2 billion and the cost of subsidies for PRGF lending is estimated at SDR 5.0 billion.[5] These resource requirements are expected to be fully met by bilateral contributions from member countries and by the IMF itself.

Bilateral pledges for the PRGF Trust and the PRGF-HIPC Trust from member countries have come from a wide cross-section of the IMF's membership, demonstrating the broad support for the HIPC and PRGF initiatives. Altogether, 94 countries have pledged support: 27 advanced countries, 58 developing countries, and 9 countries in transition.[6]

The IMF's own contributions amount to SDR 2.6 billion, of which the contributions to the PRGF-HIPC Trust are SDR 2.2 billion. The bulk of the IMF's contribution—SDR 1.8 billion—comes from investment income on the net proceeds generated from off-market transactions in gold of 12.9 million troy ounces. The off-market transactions were completed in April 2000, generating net proceeds of SDR 2.2 billion (see *Annual Report 2000*, page 71). These funds have been placed in the Special Disbursement Account (SDA) and invested for the benefit of the HIPC Initiative.

The IMF also contributes about SDR 0.4 billion by making a one-time transfer from the SDA (which took place in early 1994) and by forgoing compensation from the PRGF Reserve Account for the administrative expenses related to PRGF operations for the financial years 1998 through 2004, with the equivalent amount being instead transferred to the PRGF-HIPC Trust. In addition, part of the interest surcharges on financing provided in 1998 and 1999 under the Supplemental Reserve Facility related to activation of the New Arrangements to Borrow were also transferred to the PRGF-HIPC Trust. The contributions by the IMF's membership and the IMF itself are supplemented by investment income earned on such contributions.

Investment of PRGF, PRGF-HIPC, and SDA Resources

In March 2000, the IMF initiated a new investment strategy for the resources supporting the PRGF subsidies and HIPC Initiative with the objective of supplementing returns over time while maintaining prudent limits on risk. Supplemental income will be used to help meet the financial requirements of the PRGF subsidies and HIPC Initiative.

Under the new strategy, the maturity of investments was lengthened by shifting the bulk of assets previously invested in short-term, SDR-denominated deposits with the Bank for International Settlements (BIS) into portfolios of bonds and other medium-term instruments structured to reflect the currency composition of the SDR basket. Sufficient short-term deposits were to be held to meet liquidity requirements and to conform with the administrative arrangements agreed with certain contributors.

The performance benchmark for the portfolio of bonds and medium-term instruments was initially a customized index comprising 1- to 3-year government bond indices for Germany, Japan, the United Kingdom, and the United States, with each market weighted to reflect the currency composition of the SDR basket. Regular portfolio rebalancing ensures that the currency composition of the investment portfolio matches as closely as practicable the currency composition of the SDR basket. Following a shortening of the average maturity of the portfolio in mid-January 2002, the benchmark was changed to a customized index based on three-month deposit rates and 0- to 1-year government bonds. The investment strategy is implemented on the IMF's behalf by the BIS, the World Bank, and three private investment managers.

In the first three years since its inception, the new investment strategy added about 135 basis points (on an annualized basis, net of fees) to returns over the previous approach of investing in SDR-denominated deposits—generating supplemental income of about SDR 276 million in support of PRGF and PRGF-HIPC operations.

Post-Conflict Emergency Assistance

The IMF provides emergency assistance to countries that are emerging from conflict through loans subject to the IMF's basic rate of charge. An administered account was established on May 4, 2001, to accept contributions by bilateral donors that would enable the IMF to provide such assistance by subsidizing the rate of charge to a level of 0.5 percent a year for countries that were PRGF-eligible members.[7] As of April 30, 2003, total pledged grant contributions from seven countries amounted to SDR 11.5 million, including SDR 6.8 million that had been paid in (Table 8.6). Thus far, disbursements have totaled SDR 1.4 million to subsidize the rate of charge on post-conflict emergency assistance for seven countries (Albania, Burundi, the Republic of Congo, Guinea-Bissau, Rwanda, Sierra Leone, and Tajikistan).

[5] Loan disbursements from the PRGF Trust could continue until 2009, and the last repayments of principal would take place in 2019.

[6] Bilateral contributions to the PRGF and PRGF-HIPC Trusts are summarized in Appendix II, Table II.9, on an "as needed," rather than a cash, basis.

[7] If, in any quarter, the assets of the account are insufficient to subsidize the charge of all subsidy beneficiaries to 0.5 percent on an annual basis, the subsidy to each beneficiary will be prorated to bring the effective rate of charge paid after subsidization to the closest common percentage to 0.5 percent.

Table 8.6
Contributions to Subsidize Post-Conflict Emergency Assistance
(In millions of SDRs, as of April 30, 2003)

Contributor	Contribution Pledged	Contribution Received	Subsidy Disbursed
Belgium	1.0	0.6	—
Canada	1.6	0.4	—
Netherlands	1.5	1.5	—
Norway	3.0	1.0	—
Sweden	0.8	0.8	0.8
Switzerland	0.8	0.8	—
United Kingdom	2.8	1.7	0.6
Total	11.5	6.8	1.4

Income, Charges, Remuneration, and Burden Sharing

The IMF, like other financial institutions, earns income from interest charges and fees levied on its loans and uses the income to meet funding costs and pay for administrative expenses. The IMF's reliance on capital subscriptions and internally generated resources provides some flexibility in setting the basic rate of charge. However, the IMF also needs to ensure that it provides creditors with a competitive rate of interest on their IMF claims. As an additional safeguard, the IMF's Articles of Agreement set limits on the interest rate paid to creditors in relation to the SDR interest rate.

The basic rate of charge on regular lending is determined at the beginning of the financial year as a proportion of the SDR interest rate to achieve an agreed-upon net income target for the year. This rate is set to cover the cost of funds and administrative expenses as well as add to the IMF's reserves. The specific proportion is based on projections for income and expenses for the year and can be adjusted at midyear in light of actual net income and if income for the year as a whole is expected to deviate significantly from the projections. At the end of the year, any income in excess of the target is refunded to the members that paid interest charges during the year and shortfalls are made up in the following year.

The IMF imposes level-based surcharges on credit extended after November 28, 2000, to discourage unduly large use of credit in the credit tranches and under Extended Fund Facility Arrangements. The IMF also imposes surcharges on shorter-term loans under the SRF and CCL that vary according to the length of time credit is outstanding. Income derived from surcharges is placed in the IMF's reserves and is not taken into account in determining the income target for the year.

The IMF also receives income from borrowers in the form of service charges, commitment fees, and special charges. A one-time service charge of 0.5 percent is levied on each loan disbursement from the General Resources Account. A refundable commitment fee is charged on Stand-By and Extended Fund Facility credits, payable at the beginning of each 12-month period, on the amounts that may be drawn during that period, including amounts available under the SRF or CCL. The fee is 0.25 percent on amounts committed up to 100 percent of quota and 0.10 percent for amounts exceeding 100 percent of quota. The commitment fee is refunded when credit is used in proportion to the drawings made. The IMF also levies special charges on overdue principal payments and charges that are overdue by less than six months.

The IMF pays interest (remuneration) to creditors on their IMF claims (reserve positions) based on the SDR interest rate. The basic rate of remuneration is currently set at 100 percent of the SDR interest rate (the maximum permitted under the Articles of Agreement), but it may be set as low as 80 percent of the SDR interest rate (the lower limit).

Since 1986, the rates of charge and remuneration have been adjusted under a burden-sharing mechanism that distributes the cost of overdue financial obligations between creditor and debtor members. Loss of income from unpaid interest charges overdue for six months or more is recovered by increasing the rate of charge and reducing the rate of remuneration. The amounts thus collected are refunded when the overdue charges are settled. Additional adjustments to the basic rates of charge and remuneration are made to generate resources for a Special Contingent Account (SCA-1), which was established specifically to protect the IMF against the risk of loss resulting from arrears. In FY2003, the combined adjustment for unpaid interest charges and the allocation to the SCA-1 resulted in an increase to the basic rate of charge of 9 basis points and a reduction in the rate of remuneration of 10 basis points. The adjusted rates of charge and remuneration averaged 2.74 percent and 1.96 percent, respectively, for the financial year.

In April 2002, the basic rate of charge for FY2003 was set at 128.0 percent of the SDR interest rate to achieve the agreed income target. The IMF's net income, after refunds of income in excess of the target amount, in FY2003 totaled SDR 646 million. This included the net income target of SDR 69 million and surcharge income of SDR 656 million, less the cost of postretirement employee benefits of SDR 79 million. As initially agreed in 1999, the IMF was not reimbursed for the expenses of administering the PRGF Trust in FY2003; instead, an equivalent amount

(SDR 64 million) was transferred from the PRGF Trust, through the Special Disbursement Account, to the PRGF-HIPC Trust. As agreed at the beginning of the financial year, SDR 57 million of net income in excess of the income target was returned to members that paid interest charges at the end of FY2003, retroactively reducing the basic rate of charge for FY2003 to 123.5 percent of the SDR interest rate. In addition, SDR 94 million generated through the burden-sharing mechanism described above was placed in the SCA-1.

Following the retroactive reduction in the rate of charge, the net income target of SDR 69 million was placed to, and the postretirement employee benefits of SDR 79 million were charged against, the Special Reserve. In addition, surcharge income of SDR 656 million was placed to the General Reserve.

In April 2003, the Board decided to continue the financial mechanism in place and set the basic rate of charge for FY2004 at 132.0 percent of the SDR interest rate.

Precautionary Financial Balances

To safeguard its financial position, the IMF has a policy of accumulating precautionary financial balances in the General Resources Account. These precautionary balances consist of reserves and the SCA-1. Reserves provide the IMF with protection against financial risks, including income losses and losses of a capital nature. The SCA-1 was established as an additional layer of protection against the adverse financial consequences of protracted arrears.

Existing precautionary financial balances have been financed through the retention of income and the burden-sharing mechanism. Additions to reserves are made by placing the net income, including income from surcharges, to the General and Special Reserves. Under the Articles of Agreement, the resources in the General Reserve may be distributed by the IMF to members on the basis of quota shares. The IMF may use the Special Reserve for any purpose for which it may use the General Reserve except for distribution. Total reserves increased to SDR 4.3 billion as of April 30, 2003, from SDR 3.6 billion a year earlier. The balance in the SCA-1 amounted to SDR 1.4 billion, compared with overdue principal of SDR 0.7 billion. SCA-1 resources are to be refunded after all arrears have been cleared, but can be refunded earlier by a decision by the IMF.

In November 2002, the Board reviewed the adequacy of the precautionary financial balances and decided to continue to build up these balances with the aim of doubling them. The Board also concluded that the present system of accumulating precautionary balances is appropriate and will keep the pace of accumulation under close review.

Special Drawing Rights (SDR) Developments

The SDR is a reserve asset created by the IMF in 1969 to meet a long-term global need to supplement existing reserve assets and allocated to members in proportion to their IMF quotas. A member may use SDRs to obtain foreign exchange reserves from other members and to make payments to the IMF. Such use does not constitute a loan; members are allocated SDRs unconditionally and may use them to meet a balance of payments financing need without undertaking economic policy measures or repayment obligations. However, a member that makes net use of its allocated SDRs pays the SDR interest rate, while a member that acquires SDRs in excess of its allocation receives interest at the SDR rate. A total of SDR 21.4 billion has been allocated to members—SDR 9.3 billion in 1970–72 and SDR 12.1 billion in 1978–81. The value of the SDR is based on the weighted average of the values of a basket of major international currencies, and the SDR interest rate is a weighted average of interest rates on short-term instruments in the markets for the currencies in the valuation basket (see Box 8.6). The SDR interest rate provides the basis for calculating the interest charges on regular IMF financing and the interest rate paid to members that are creditors to the IMF. In addition, the SDR serves as the unit of account for the IMF, and a number of other international organizations.[8]

- *General allocations of SDRs.* Decisions on general allocations are made in the context of five-year basic periods and require a finding that an allocation would meet a long-term global need to supplement existing reserve assets. A decision to allocate SDRs requires an 85 percent majority of the total voting power.
- *Special one-time allocation.* In September 1997, the IMF Board of Governors proposed an amendment to the Articles of Agreement to allow a special one-time allocation of SDRs to correct for the fact that more than one-fifth of the IMF membership, having joined the IMF after the last general allocation, has never received an SDR allocation. The special allocation of SDRs would enable all members of the IMF to participate in the SDR system on an equitable basis and would double cumulative SDR allocations to SDR 42.9 billion. The proposal will become effective when three-fifths of the IMF membership (111 members) having 85 percent of the total voting power have accepted the proposal. As of April 30, 2003, 125 members having 74.98 percent of the total voting power had agreed and only acceptance by the United States was required to implement the proposal.

[8] In March 2003, the Bank for International Settlements (BIS) adopted the SDR as its unit of account.

Box 8.6

SDR Valuation and Interest Rate

Valuation. The value of the SDR is based on the weighted average of the values of a basket of major international currencies. The method of valuation is reviewed at five-year intervals. Following completion of the latest review in FY2001, the Executive Board decided on a number of changes to take account of the introduction of the euro as the common currency for a number of European countries and the growing role of international financial markets. Currencies included in the valuation basket are among the most widely used in international transactions and widely traded in the principal foreign exchange markets. Currencies selected for inclusion in the SDR basket for the period 2001–2005 are the U.S. dollar, the euro, the Japanese yen, and the pound sterling (see the table).

Interest rate. The SDR interest rate is set weekly on the basis of a weighted average of interest rates on short-term instruments in the markets for the currencies included in the SDR valuation basket. As part of the review conducted in FY2001, the financial instruments used to determine the representative interest rate for the euro and the Japanese yen were modified to reflect financial market developments. During FY2003, the SDR interest rate evolved in line with developments in the major money markets, declining gradually during the year to the level of 1.75 percent in April 2003, while averaging 2.06 percent over the course of FY2003 (see Figure 8.2).

SDR Valuation, as of April 30, 2003

Currency	Amount of Currency Units	Exchange Rate[1]	U.S. Dollar Equivalent
Euro	0.4260	1.11290	0.474095
Japanese yen	21.0000	119.48000	0.175762
Pound sterling	0.0984	1.59610	0.157056
U.S. dollar	0.5770	1.00000	0.577000
			1.383913

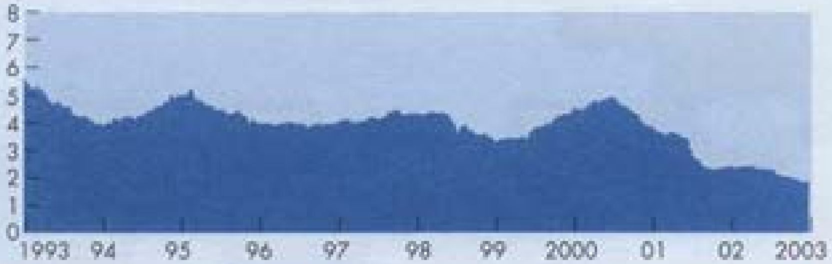
Memorandum:
SDR 1 = US$1.383913
US$1 = SDR 0.722589

[1]Exchange rates in terms of U.S. dollars per currency unit except for the Japanese yen, which is in currency units per U.S. dollar.

Figure 8.2

SDR Interest Rate, 1993–2003

(In percent)



SDR Operations and Transactions

All SDR transactions are conducted through the SDR Department (which is a financial entity, not an organizational unit). SDRs are held largely by member countries and by official entities prescribed by the IMF to hold SDRs. The balance of allocated SDRs is held in the IMF's GRA. Prescribed holders do not receive SDR allocations but can acquire and use SDRs in operations and transactions with IMF members and with other prescribed holders under the same terms and conditions as IMF members.[9] Transactions in SDRs are facilitated by 13 voluntary arrangements under which the parties stand ready to buy or sell SDRs for currencies that are readily usable in international transactions, provided that their own SDR holdings remain within certain limits.[10] These arrangements have helped ensure the liquidity of the SDR system.[11]

The total level of transfers of SDRs increased in FY2003 to SDR 15.6 billion, compared with SDR 14.0 billion in the previous year, but was still well below the peak of SDR 49.1 billion in FY1999, when the volume of SDR transactions increased significantly because

[9]There are 16 prescribed holders of SDRs: the African Development Bank, African Development Fund, Arab Monetary Fund, Asian Development Bank, Bank of Central African States, Bank for International Settlements, Central Bank of West African States, East African Development Bank, Eastern Caribbean Central Bank, European Central Bank, International Bank for Reconstruction and Development (World Bank), International Development Association, International Fund for Agricultural Development, Islamic Development Bank, Latin American Reserve Fund, and Nordic Investment Bank.

[10]These include 12 IMF members and one prescribed holder. In addition, one member has established a one-way (selling only) arrangement with the IMF.

[11]Under the designation mechanism, participants whose balance of payments and reserve positions are deemed sufficiently strong may be obliged, when designated by the IMF, to provide freely usable currencies in exchange for SDRs up to specified amounts. Owing to the existence of voluntary arrangements, the designation mechanism has not been used since 1987.

Table 8.7
Transfers of SDRs
(In millions of SDRs)

	Financial Years Ended April 30								
	1995	1996	1997	1998	1999	2000	2001	2002	2003
Transfers among participants and prescribed holders									
Transactions by agreement[1]	8,987	8,931	7,411	8,567	13,817	6,639	5,046	3,669	2,858
Prescribed operations[2]	124	1,951	88	86	4,577	293	544	290	1,186
IMF-related operations[3]	301	704	606	901	756	684	922	866	1,794
Net interest on SDRs	174	319	268	284	289	214	302	228	162
Total	**9,586**	**11,905**	**8,372**	**9,839**	**19,439**	**7,831**	**6,814**	**5,054**	**6,000**
Transfers from participants to General Resources Account									
Repurchases	1,181	5,572	4,364	2,918	4,761	3,826	3,199	1,631	1,955
Charges	1,386	1,985	1,616	1,877	2,806	2,600	2,417	2,304	2,505
Quota payments	24	70	—	—	8,644	528	65	—	62
Interest received on General Resources Account holdings	262	53	51	44	35	138	118	56	31
Assessments	4	4	4	4	3	3	2	2	2
Total	**2,857**	**7,683**	**6,035**	**4,844**	**16,249**	**7,094**	**5,800**	**3,993**	**4,555**
Transfers from General Resources Account to participants and prescribed holders									
Purchases	5,970	6,460	4,060	4,243	9,522	3,592	3,166	2,361	2,215
Repayments of IMF borrowings	862	—	—	—	1,429	—	—	—	—
Interest on IMF borrowings	97	—	—	—	46	18	—	—	—
In exchange for other members' currencies Acquisitions to pay charges	99	49	224	20	545	1,577	1,107	1,130	1,598
Remuneration	815	1,092	1,055	1,220	1,826	1,747	1,783	1,361	1,175
Other—refunds and adjustments	51	259	27	90	74	1,008	31	94	89
Total	**7,894**	**7,859**	**5,366**	**5,574**	**13,442**	**7,942**	**6,087**	**4,945**	**5,077**
Total transfers	**20,336**	**27,448**	**19,773**	**20,256**	**49,130**	**22,867**	**18,702**	**13,991**	**15,632**
General Resources Account holdings at end of period	**1,001**	**825**	**1,494**	**764**	**3,572**	**2,724**	**2,437**	**1,485**	**963**

[1] Transactions by agreement are transactions in which participants in the SDR Department (currently including all members) and/or prescribed holders voluntarily exchange SDRs for currency at the official rate as determined by the IMF. These transactions are usually arranged by the IMF.

[2] Operations involving prescribed SDR holders. A prescribed SDR holder is a nonparticipant in the SDR Department that has been prescribed by the IMF as a holder of SDRs.

[3] Operations in SDRs between members and the IMF that are conducted through the intermediary of a prescribed holder are referred to as "IMF-related operations." The IMF has adopted a number of decisions to prescribe SDR operations under the Trust Fund, the SFF Subsidy, the SAF, the ESAF, the PRGF, and the HIPC Initiative.

of payments for members' quota increases (see Table 8.7). By April 30, 2003, the IMF's own holdings of SDRs, which had risen sharply as a result of payments for quota subscriptions in 1999, had fallen to SDR 1.0 billion from SDR 1.5 billion a year earlier, at the low end of the targeted range of SDR 1.0–1.5 billion within which the IMF seeks to maintain its SDR holdings. SDRs held by prescribed holders amounted to SDR 0.6 billion. SDR holdings by participants increased to SDR 19.9 billion from SDR 19.6 billion in FY2002. SDR holdings of the industrial and net creditor countries relative to their net cumulative allocations decreased from a year earlier. SDR holdings of nonindustrial members amounted to 72 percent of their net cumulative allocations compared with 56.9 percent a year earlier.

Safeguards Assessments

In FY2003, the IMF continued its efforts to safeguard GRA, PRGF, and HIPC resources through the conduct of safeguards assessments of the central banks of borrowing member countries, since central banks are typically the recipients of IMF disbursements as the members' fiscal agents. Safeguards assessments aim at providing reasonable assurance to the IMF that a central bank's framework of reporting, audit, and controls is adequate to manage resources, including IMF disbursements (see Box 8.7).

Box 8.7
Safeguards Assessment Policy: A Summary

Objective of Safeguards Assessments

- To provide reasonable assurance to the IMF that a central bank's control, accounting, reporting, and auditing systems in place to manage resources, including IMF disbursements, are adequate to ensure the integrity of operations.

Applicability of Safeguards Assessments

- Central banks with arrangements for use of IMF resources approved after June 30, 2000;
- Abbreviated assessments of only the external audit mechanism for member countries with arrangements in effect prior to June 30, 2000;
- Not applicable to emergency assistance, first-credit-tranche purchases, and stand-alone CFFs; and
- Voluntary for members with staff-monitored programs.

Scope of Policy—ELRIC

- The **E**xternal audit mechanism;
- The **L**egal structure and independence;
- The financial **R**eporting framework;
- The **I**nternal audit mechanism; and
- The internal **C**ontrols system.

Publication References

- The staff's papers and other background information concerning the safeguards policy, including a paper by a panel of eminent external experts, are available on the IMF website *(www.imf.org)*.

Safeguards assessments were adopted as a permanent IMF policy by the Executive Board in March 2002, after an initial two-year experimental period. The safeguards policy, initiated against the background of several instances of misreporting to the IMF and allegations of misuse of IMF resources, aims at supplementing conditionality, technical assistance, and other means that have traditionally ensured the proper use of IMF loans. In adopting the permanent policy, the Board noted that central banks had widely embraced the findings of safeguards assessments and that the policy had enhanced the IMF's reputation and credibility as a prudent lender while helping to improve the operations and accounting procedures of central banks.

Safeguards assessments apply to all countries with arrangements for use of IMF resources approved after June 30, 2000, and are conducted in respect of any new arrangement presented to the Board for approval. Although safeguards assessments do not formally apply to countries with staff-monitored programs (SMPs), countries under an SMP are encouraged to undergo an assessment on a voluntary basis, as in many cases these programs are followed by formal arrangements with the IMF. In FY2003, 24 safeguards assessments were conducted bringing the cumulative assessments completed as of April 30, 2003, to 75. This cumulative total includes 27 abbreviated assessments, which were conducted for arrangements in effect prior to June 30, 2000, and which examined only one key element of the safeguards framework—namely, that central banks publish annual financial statements that are independently audited by external auditors in accordance with internationally accepted auditing standards.

Safeguards assessments follow an established set of procedures to ensure consistency in application. All central banks subject to an assessment provide a standard set of documents to IMF staff, who review the information and communicate as needed with central bank officials and the external auditors. The review may be supplemented by an on-site visit to the central bank to obtain or clarify information necessary to draw conclusions and make recommendations. Such visits are conducted by IMF staff with possible participation of technical experts drawn from the IMF's membership. The review also takes into account the findings and timing of a previous safeguards assessment, including the results of any follow-up monitoring.

The outcome of a safeguards assessment is a confidential report, not made available to the Executive Board or the general public, that identifies vulnerabilities, assigns risk ratings, and makes recommendations to mitigate the identified risk. Country authorities, who have the opportunity to comment on all safeguards assessment reports, are expected to implement the safeguards recommendations, possibly under program conditionality. The conclusions and agreed-upon remedial measures are reported in summary form to the Board at the time of arrangement approval or, at the latest, by the first review under the arrangement.

The implementation of safeguards recommendations is monitored periodically by IMF staff. Safeguards monitoring begins once the final assessment report is issued to the authorities and continues as long as credit is outstanding. The monitoring process primarily entails following up on the recommendations arising from previous safeguards assessments to ensure that (1) commitments made by the authorities have been fulfilled, and (2) the recommendations have been satisfactorily implemented. In general, commitments made by the authorities are monitored in conjunction with overall program conditionality, and the main focus of safeguards monitoring is therefore on the efficacy of implementation. To this end, IMF staff request periodic updates of the status of implementation and may

Table 8.8
Arrears to the IMF of Countries with Obligations Overdue by Six Months or More, by Type and Duration
(In millions of SDRs, as of April 30, 2003)

		By Type				By Duration	
	Total	General Department (incl. SAF)	SDR Department	Trust Fund	PRGF	Less than 6 months	More than 6 months
Iraq	52.3	0.1	52.2	—	—	1.3	51.0
Liberia	499.6	446.0	23.5	30.1	—	3.3	496.3
Somalia	217.4	199.6	9.9	7.9	—	1.7	215.7
Sudan	1,081.7	1,003.0	0.1	78.6	—	5.2	1,076.5
Zimbabwe	158.7	90.7	—	—	68.0	32.7	126.0
Total	**2,009.7**	**1,739.4**	**85.7**	**116.6**	**68.0**	**44.2**	**1,965.5**

conduct an on-site monitoring review. Under monitoring, country authorities must annually provide to the IMF their audited financial statements and any recommendations or special reports prepared by the external auditors of the central bank.

The findings of safeguards assessments to date have indicated that significant but avoidable risks to IMF resources may have existed in certain cases. Assessment recommendations are designed to safeguard IMF resources by addressing these vulnerabilities and permanently improving controls and operations in a central bank. Monitoring to date has shown that central banks are progressively implementing the measures recommended by IMF staff to mitigate the identified vulnerabilities. In FY2003, central banks continued to implement assessment recommendations at a high rate (over 85 percent for the most important measures). The main areas of improvement in central bank operations and controls resulting from the implementation of safeguards measures have included (1) establishing an independent external audit policy in accordance with international standards; (2) reconciling the economic data reported to the IMF for program-monitoring purposes with the underlying accounting records of the central bank; (3) improving the transparency and consistency of financial reporting, including publication of the audited financial statements; (4) improving controls over reserve management; and (5) implementing independent, high-quality internal audit functions.

In FY2003, IMF staff continued to enhance communication and dissemination of information on the safeguards policy. The IMF Institute developed a course on safeguards assessments, which was delivered at the Singapore Training Institute in January 2003 and the Joint Vienna Institute in March 2003. IMF staff also prepared two semiannual summary reports covering the activities and results of the policy for the Executive Board. These reports are available on the IMF website at *http://www.imf.org/external/fin.htm*.

Arrears to the IMF

The strengthened cooperative strategy on overdue financial obligations to the IMF consists of three essential elements: prevention, intensified collaboration, and remedial measures.[12]

Total overdue financial obligations to the IMF decreased to SDR 2.01 billion during FY2003, from SDR 2.36 billion at the beginning of the financial year (Table 8.8). This reflected mainly the clearance of arrears by the Democratic Republic of the Congo in June 2002 and by the Islamic State of Afghanistan (henceforth Afghanistan) in February 2003. However, the arrears of other countries (with the exception of Sudan) continued to rise—most notably those of Zimbabwe, which is the first new case of significant arrears to the GRA since 1993 and the first case of arrears to the PRGF Trust. As of April 30, 2003, almost all arrears to the IMF were protracted (outstanding for more than six months), about evenly divided between overdue principal and overdue charges and interest. More than four-fifths of arrears were to the GRA and the remainder to the SDR Department and the PRGF Trust.

The two countries with the largest protracted arrears to the IMF—Sudan and Liberia—account for more than 79 percent of the overdue financial obligations to the IMF—with Somalia and Zimbabwe accounting for

[12]See *Annual Report 2001*, pages 72 and 73, for background on the IMF's strengthened cooperative strategy for dealing with arrears.

most of the remainder.[13] Under the IMF's strengthened cooperative strategy on arrears, remedial measures have been applied against the countries with protracted arrears to the IMF.[14] No changes were made in the IMF's strengthened cooperative strategy on arrears during FY2003.

During FY2003, two countries cleared their arrears to the IMF—the Democratic Republic of the Congo and Afghanistan:

- The Democratic Republic of the Congo cleared its arrears to the IMF of SDR 404 million ($522 million) on June 12, 2002. Arrears clearance was facilitated by bridge loans provided by four countries—Belgium, France, South Africa, and Sweden. Immediately following the clearance of the arrears, the Executive Board approved a PRGF arrangement for the Democratic Republic of the Congo in the amount of SDR 580 million (109 percent of its quota). Part of the proceeds of the first PRGF disbursement of SDR 420 million was used to repay in full the bridge lenders. The Democratic Republic of the Congo subsequently cleared its arrears of SDR 254 million ($338 million) to the World Bank Group. Arrears of SDR 669 million ($860 million) to the African Development Bank Group were handled in the context of a partial clearance/partial consolidation mechanism.
- On February 26, 2003, Afghanistan settled its overdue financial obligations to the IMF totaling SDR 8.1 million (about $11.1 million). The settlement of arrears to the IMF was part of a coordinated plan under which Afghanistan also cleared arrears to the Asian Development Bank and the International Development Association. The coordinated arrears-clearance operation was supported by grant contributions from Italy, Japan, Norway, Sweden, the United Kingdom, and the Afghanistan Reconstruction Trust Fund.

The Executive Board conducted several reviews of member countries' overdue financial obligations to the IMF during FY2003:

- The Board considered on two occasions the complaint by the Managing Director with respect to the suspension of Liberia's voting and related rights in the IMF. At its October 9, 2002, meeting, the Board expressed regret at the further accumulation of arrears to the IMF by Liberia and the limited actions taken by the authorities to improve economic policy implementation. Nevertheless, the Board decided to defer the decision on the suspension of voting and related rights by another six months and to review the matter at the same time it considered the 2002 Article IV consultation with Liberia. At this second review, on March 5, 2003, the Board found that Liberia had not adequately strengthened its cooperation with the IMF and decided to suspend Liberia's voting and related rights in the IMF.
- The Board reviewed Sudan's overdue financial obligations twice during FY2003—on June 19, 2002, and on December 18, 2002. In June, the Board expressed regret that Sudan did not make committed payments to the IMF during the last three months of 2001 but welcomed the corrective action taken in the latter half of 2001. It noted Sudan's constrained capacity for debt service and its intention to maintain a monthly level of payments to the IMF of $2 million. At the December review, the Board welcomed the policy performance achieved by the Sudanese authorities under the staff-monitored program for 2002 and noted that Sudan had made payments to the IMF in 2002 in line with its intentions.
- Against the background of mounting arrears and little improvement in economic policy, the Board imposed further remedial measures on Zimbabwe during FY2003. On June 13, 2002, it adopted a declaration of noncooperation regarding Zimbabwe and suspended all technical assistance. At the next review of Zimbabwe's arrears on September 11, 2002, the Board decided to initiate promptly the procedure on the suspension of Zimbabwe's voting and related rights in the IMF. On October 25, 2002, the Board noted the Managing Director's complaint, dated October 17, 2002, regarding Zimbabwe's failure to fulfill its obligations to the IMF. This complaint will be taken up on the occasion of the next review of Zimbabwe's arrears to the IMF, at which time the Board will consider whether to suspend Zimbabwe's voting and related rights in the IMF.

At the end of April 2003, Liberia, Somalia, Sudan, and Zimbabwe were ineligible under Article XXVI, Section 2*(a)* to use the general resources of the IMF. In addition, Zimbabwe had been removed from the list of PRGF-eligible countries. Declarations of noncooperation—a further step under the strengthened cooperative arrears strategy—were in effect for Liberia and Zimbabwe, and the voting and related rights of Liberia in the IMF were suspended.

[13]Iraq's overdue net SDR charges and assessments account for the remaining 2.6 percent.

[14]In two cases (Iraq and Somalia) the application of remedial measures has been delayed or suspended because of civil conflicts, the absence of a functioning government, and/or international sanctions.

Chapter 9

Organization, Budget, and Human Resources

A number of institutional changes took place or were announced during the financial year. Early in 2003, the Technology and General Services Department restructured its organizational units, particularly in the information technology area, to bring greater efficiency to the delivery of its services. Later in the year, the IMF created the Monetary and Financial Systems Department to reflect the expanded responsibilities of the former Monetary and Exchange Affairs Department in such areas as the Financial Sector Assessment Program and combating money laundering and terrorist financing. In another organizational change, the Treasurer's Department became the Finance Department.

Deputy Managing Director Eduardo Aninat announced his intention to leave his position in June 2003, and it was also announced that Economic Counsellor and Director of the Research Department Kenneth Rogoff would return to his professorship at Harvard University in the fall of 2003 when his leave of absence expired. The Managing Director announced that they would be succeeded, respectively, by Agustín Carstens, Mexico's Deputy Secretary of Finance, and Raghuram Rajan of the University of Chicago Graduate School of Business.

The IMF's Administrative Budget for the financial year authorized total expenditure of $794.3 million (or $746.4 million net of reimbursements). Actual expenditure amounted to $764.0 million, $30.3 million (3.8 percent) less than estimated in the original budget, including $10.7 million less in spending on personnel expenses and $19.7 million less in travel and other activities. After allowance for a $3.8 million shortfall in reimbursements, net administrative expenditures amounted to $719.9 million, some $26.5 million (3.6 percent) below the budget estimate.

The IMF's ongoing commitment to diversity remained strong in FY2003. Notable progress was made in the recruitment and promotion of several underrepresented staff groups: the share of women in management positions in the Fund reached 15 percent, and the share of managerial-level staff from developing countries reached over 30 percent.

Organization

The IMF is governed by its Board of Governors, and its business is conducted by an Executive Board, a Managing Director, a First Deputy Managing Director, two other Deputy Managing Directors, and a staff of international civil servants whose sole responsibility is to the IMF. The institution's founding Articles of Agreement require that staff appointed to the IMF demonstrate the highest standards of efficiency and technical competence and reflect the organization's diverse membership.

Executive Board

The IMF's 24-member Executive Board, as the IMF's permanent decision-making organ, conducts the institution's day-to-day business. In calendar year 2002, the Board held 126 formal meetings, 8 seminars, and 77 informal, committee, and other meetings.

The Board's discussions are largely based on papers prepared by IMF management and staff. In 2002, the Board spent 67 percent of its time on member country matters (especially Article IV consultations and reviews and approvals of IMF arrangements); 23 percent of its time on multilateral surveillance and policy issues (such as the world economic outlook, global financial stability reports, IMF financial resources, strengthening the international financial system, the debt situation, and issues related to IMF lending facilities and program design); and its remaining time on administrative and other matters.

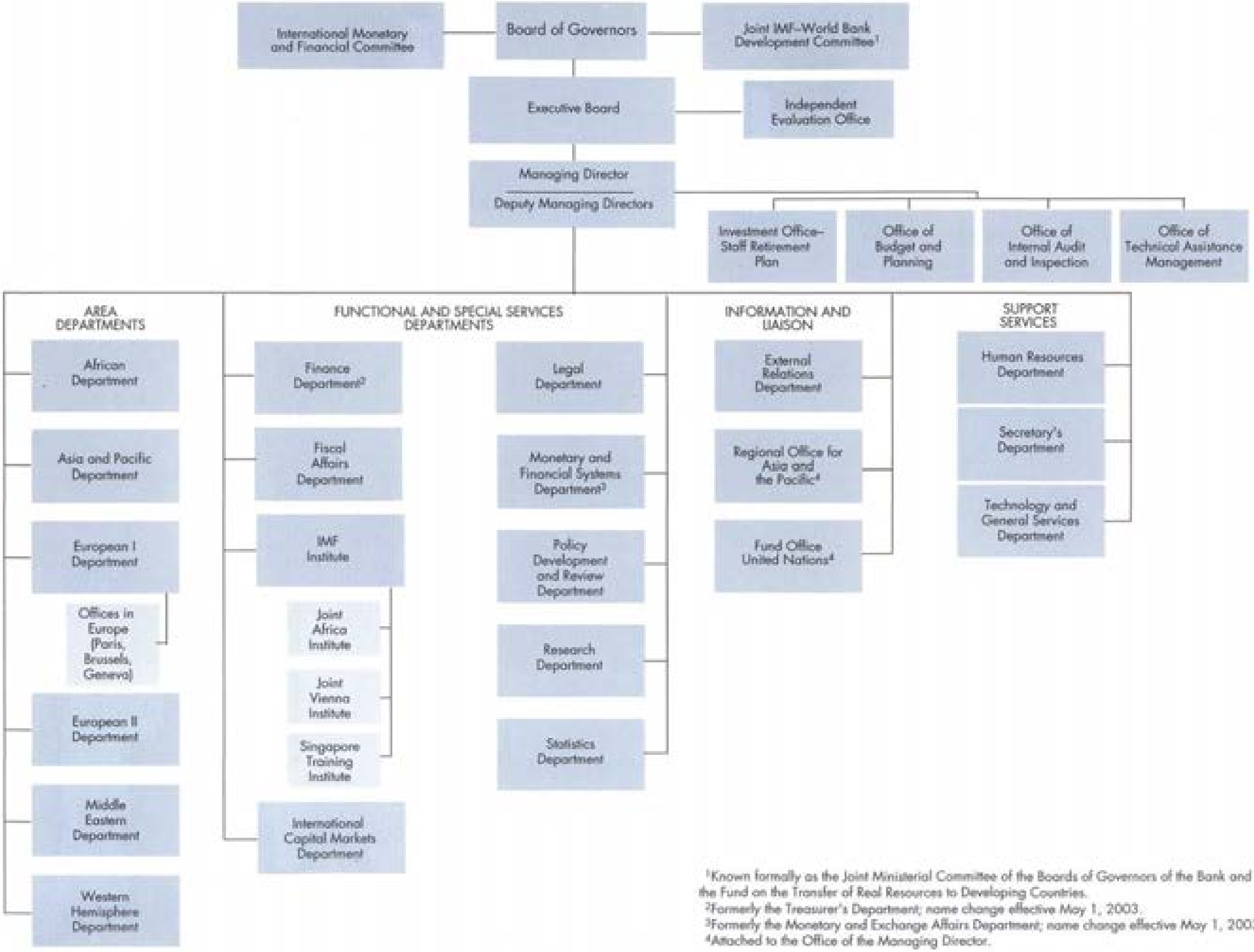
Departments

The IMF staff is organized mainly into departments with regional (or area), functional, information and liaison, and support responsibilities (Figure 9.1). These departments are headed by directors who report to the Managing Director.

Area Departments

Six area departments—*African, Asia and Pacific, European I, European II, Middle Eastern,* and *Western Hemisphere*—advise management and the Executive Board on economic developments and policies in coun-

Figure 9.1
IMF Organization Chart
(As of April 30, 2003)



[1]Known formally as the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries.
[2]Formerly the Treasurer's Department; name change effective May 1, 2003.
[3]Formerly the Monetary and Exchange Affairs Department; name change effective May 1, 2003.
[4]Attached to the Office of the Managing Director.

tries in their region. Their staffs are responsible also for putting together financial arrangements to support members' economic reform programs and for reviewing performance under these IMF-supported programs. Together with relevant functional departments, they provide member countries with policy advice and technical assistance and maintain contact with regional organizations and multilateral institutions in their geographic areas. Supplemented by staff in functional departments, area departments carry out much of the IMF's country surveillance work through direct contacts with member countries. In addition, 93 area department staff are assigned to member countries as IMF resident representatives (see Box 9.1).

Box 9.1
IMF Resident Representatives

At the end of April 2003, the IMF had 93 resident representative positions covering 85 member countries in Africa, Asia, Europe, the Middle East, and the Western Hemisphere, and plans were under way to open a new post in Guatemala. These posts—usually filled by one IMF employee supported by local staff—help to enhance IMF policy advice and are often set up in conjunction with a reform program. The representatives, who typically have good access to key national policymakers, can have a major impact on the quality of IMF country work. In particular, resident representatives contribute to the formulation of IMF policy advice, monitor performance—especially under IMF-supported programs—and coordinate technical assistance. They can also alert the IMF and the host country to potential policy slippages, provide on-site program support, and play an active role in IMF outreach in member countries. Since the advent of enhanced initiatives for low-income countries, resident representatives have helped members develop their poverty reduction strategies (see Chapter 5) by taking part in country-led discussions on the strategy and presenting IMF perspectives. They also support monitoring of program implementation and institution building, working with different branches of government, civil society organizations, donors, and other stakeholders.

Functional and Special Services Departments

The *Fiscal Affairs Department* is responsible for activities involving public finance in member countries. It participates in area department missions on fiscal issues, reviews the fiscal content of IMF policy advice and IMF-supported adjustment programs, and provides technical assistance in public finance. It also conducts research and policy studies on fiscal issues, as well as on income distribution and poverty, social safety nets, public expenditure policy issues, and the environment.

The *International Capital Markets Department* assists the Executive Board and management in overseeing the international monetary and financial system and enhances the IMF's crisis prevention and crisis management activities. As part of surveillance, the department prepares a semiannual *Global Financial Stability Report* that assesses developments and systemic issues in international capital markets. It also liaises with private capital market participants, national authorities responsible for financial system policies, and official forums dealing with the international financial system. In addition, the department plays a leading role in the IMF's conceptual and policy work related to international capital market access and gives technical advice to members on access to, and how to benefit from, interactions with international markets, as well as on strategies for external debt management.

The *IMF Institute* provides training for officials of member countries—particularly developing countries—in such areas as financial programming and policy, external sector policies, balance of payments methodology, national accounts and government finance statistics, and public finance. The Institute also conducts an active program of courses and seminars in economics, finance, and econometrics for IMF economists. (See Chapter 6.)

The *Legal Department* advises management, the Executive Board, and the staff on the applicable rules of law. It prepares most of the decisions and other legal instruments necessary for the IMF's activities. The department serves as counsel to the IMF in litigation and arbitration cases, provides technical assistance on legislative reform, assesses the consistency of laws and regulations with selected international standards and codes, responds to inquiries from national authorities and international organizations on the laws of the IMF, and arrives at legal findings regarding IMF jurisdiction on exchange measures and restrictions.

The *Monetary and Exchange Affairs Department* became the *Monetary and Financial Systems Department* effective May 1, 2003. The new name reflects the expanded responsibilities of the reorganized department, such as in the development of the Financial Sector Assessment Program and in anti-money laundering and combating the financing of terrorism assessments. Organized around four operational areas—financial system surveillance, banking supervision and crisis resolution, monetary and exchange infrastructure and operations, and technical assistance, the reorganized department continues to provides analytical, operational, and technical support to member countries and area departments, including development and dissemination of good policies and best practices. An important role is coordinating with collaborating

central banks, supervisory agencies, and other international organizations.

The *Policy Development and Review Department* (PDR) plays a central role in the design and implementation of IMF financial facilities, surveillance, and other policies. Through its review of country and policy work, PDR ensures the consistent application of IMF policies throughout the institution. In recent years, the department has spearheaded the IMF's work in strengthening the international financial system, in streamlining and focusing conditionality, and in developing the Poverty Reduction and Growth Facility and the HIPC Initiative. With area department staff, PDR economists participate in country missions and assist member countries that are making use of IMF resources by helping to mobilize other financial resources.

The *Research Department* conducts policy analysis and research in areas relating to the IMF's work. The department plays a prominent role in surveillance and in developing IMF policy concerning the international monetary system and cooperates with other departments in formulating IMF policy advice to member countries. It coordinates the semiannual *World Economic Outlook* exercise and prepares analysis for the surveillance discussions of the Group of Seven, Group of Twenty, and such regional groupings as the Asia-Pacific Economic Cooperation (APEC) forum, and the Executive Board's seminars on world economic and market developments. The department also maintains contacts with the academic community and with other research organizations.

The *Statistics Department* maintains databases of country, regional, and global economic and financial statistics and reviews country data in support of the IMF's surveillance role. It is also responsible for developing statistical concepts in balance of payments, government finance, and monetary and financial statistics, as well as producing methodological manuals. The department provides technical assistance and training to help members develop statistical systems and produces the IMF's statistical publications. In addition, it is responsible for developing and maintaining standards for the dissemination of data by member countries.

The *Treasurer's Department* was renamed the *Finance Department* on May 1, 2003, to describe its range of responsibilities more accurately. Its mission continues to be to mobilize, manage, and safeguard the IMF's financial resources to ensure that they are deployed consistent with the Fund's overall mandate. This entails major responsibilities for the institution's financial policies and for the conduct, accounting, and control of all financial transactions. In addition, the department safeguards the IMF's financial position by assessing the adequacy of the Fund's capital base (quotas), net income targets, precautionary balances, and the rates of charge and remuneration. Other responsibilities include investing funds in support of assistance to low-income countries and conducting assessments of borrowing members' central banks.

Information and Liaison

The *External Relations Department* plays a key role in promoting public understanding of and support for the IMF and its policies. It aims to make the IMF's policies understandable through many activities aimed at transparency, communication, and engagement with a wide range of stakeholders. It prepares, edits, and distributes most IMF publications and other material, promotes contacts with the press and other external groups, such as civil society organizations and parliamentarians, and manages the IMF's website. (See also Chapter 7 and Appendix V.)

The IMF's *offices in Asia, Europe, and at the United Nations* maintain close contacts with other international and regional institutions (see Appendix IV). The UN Office also makes a substantive contribution to the Financing for Development process. The offices in Europe were reorganized in 2002, with the addition of an office in Brussels to enhance the IMF's EU-related cooperation, surveillance, and outreach, and with streamlining and consolidation of resources across the offices in Paris, Geneva, and Brussels to achieve efficiency gains.

Support Services

The *Human Resources Department* helps ensure that the IMF has the right mix of staff skills, experience, and diversity to meet the changing needs of the organization, and that human resources are managed, organized, and deployed in a manner that maximizes their effectiveness, moderates costs, and keeps the workload and stress at acceptable levels. The department develops policies and procedures that help the IMF achieve its work objectives, manages compensation and benefits, recruitment, and career planning programs, and supports organizational effectiveness by assisting departments with their human resources management goals.

The *Secretary's Department* organizes and reports on the work of the IMF's governing bodies and provides secretariat services to them, as well as to the Group of Twenty-Four. In particular, it assists management in preparing and coordinating the work program of the Executive Board and other official bodies, including scheduling and assisting in the conduct of Board meetings. The department also manages the Annual Meetings, in cooperation with the World Bank.

The *Technology and General Services Department* manages and delivers a full range of services essential for the IMF's operation. These include information services (information technology, library services, multimedia services, records and archives manage-

ment, and telecommunications); facilities services (building projects and facilities management); language services (translation, interpretation, and publications in languages other than English); and a broad range of security and business continuity services (covering headquarters security, field security, and information technology security). In 2003, the department restructured its organizational units, particularly in the information technology and administrative services areas, to bring greater efficiency to its operations.

The IMF also has *offices* responsible for internal auditing and review of work practices, budget matters, technical assistance, and investments under the staff retirement plan.

Independent Evaluation Office

The IMF's Independent Evaluation Office (IEO) provides objective and independent evaluation on issues related to the Fund. The office operates independently of IMF management and at arm's length from the IMF's Executive Board. The IEO enhances the learning culture of the IMF, promotes understanding of the IMF's work, and supports the Board in its governance and oversight. (For more information on the IEO's work program see Chapter 7.)

Administrative and Capital Budgets

Budget Reforms

The IMF is engaged in substantial reform of its budgetary procedures, following an external review conducted in 2001. The reforms are designed to modernize the budget process and to follow, to the extent practical and appropriate for an international financial institution, the output-focused public sector budget systems that have evolved in the major industrial countries. The revised system should help the Fund respond flexibly to the evolving demands on its resources, while maintaining the institution at broadly its present size.

In FY2003, the specific reforms undertaken focused on introducing a top-down budget constraint for use in departmental budget planning; adopting total resource or dollar budgeting, while preserving a limit on staff positions; and introducing departmental business plans. A revised output structure has been developed for use in the FY2004 and subsequent budgets. In addition, the Executive Board is now presented with information on the costs of new and existing policy and programs that come forward for discussion or review. Consistent with the IMF's transparency policy, the Board also decided to publish the FY2004 budget document.[1]

In the year ahead, three more reforms are planned that will help provide the base for a more output-oriented budget system: improvements to the measurement of the costs of outputs which, in turn, will require better reporting of staff time; enhancement of the medium-term estimates framework; and development of additional information and reports on performance.

Budgets and Actual Expenditure in FY2003

The IMF's *Administrative Budget* for the financial year ended April 30, 2003 (FY2003) authorized total expenditure of \$794.3 million (or \$746.4 million net of reimbursements). The FY2003 *Capital Budget* made provision for expenditure of \$215.0 million on projects commencing in FY2003, including \$43.2 million for building facilities projects, \$42.5 million for information technology projects, and \$129.3 million for the Headquarters 2 building project (bringing the total cost of that project to \$149.3 million).

The *Administrative Budget* outturn for FY2003 amounted to \$764.0 million, \$30.3 million (3.8 percent) less than estimated in the original budget. This underspending comprised \$10.7 million in personnel expenses, \$11.3 million in travel, and \$8.4 million for other activities and unused contingencies; part of the underspending was linked to the suspension of travel (as from mid-February) to some countries in the Middle East and Asia in response to the security situation and the outbreak of SARS respectively. After allowance for a \$3.8 million shortfall in reimbursements, net administrative expenditures amounted to \$719.9 million, some \$26.5 million (3.6 percent) below the budget estimate.

Information on actual expenditures on the administrative budgets for FY2001 through FY2003 and budgeted expenditure for FY2003 and FY2004 is shown in Table 9.1.

Budgets for FY2004

In April 2003, the Board approved a gross *Administrative Budget* of \$837.5 million, (\$785.5 million net of estimated reimbursements), an increase of 5.4 percent in gross terms (5.2 percent in net terms) over the approved budget for the previous year.

In terms of inputs, the proposed budget makes provision for a budget-to-budget increase of 5 percent in personnel expenses, 9.3 percent for travel, and 4.2 percent for other expenditures. The provision for travel includes allowance for the additional costs associated with holding the 2003 Annual Meetings in Dubai. Within these aggregates, there are significant reductions in costs through elimination of low-priority activities, efficiency savings (mainly from

[1]The budget document can be accessed electronically at *http://www.imf.org/external/np/obp/budget/033103.htm*.

Table 9.1
Administrative Budgets, Financial Years 2001–2004[1]
(In millions of U.S. dollars)

	Financial Year Ended April 30, 2001: Actual Expenses	Financial Year Ended April 30, 2002: Actual Expenses	Financial Year Ended April 30, 2003: Budget	Financial Year Ended April 30, 2003: Actual Expenses	Financial Year Ending April 30, 2004: Budget
Administrative Budget					
I. Personnel Expenses					
Salaries	292.1	320.7	343.2	337.1	359.7
Budgets and Other Personnel Expenses	154.0	161.0	195.9	191.3	206.1
Subtotal	**446.1**	**481.7**	**539.0**	**528.4**	**565.8**
II. Other Expenses					
Travel	91.3	94.4	91.1	79.9	100.6
Other Expenses	138.1	145.3	164.2[2]	155.7	171.1
Subtotal	**229.4**	**239.6**	**255.3**	**235.6**	**271.7[3]**
Total Administrative Budget (gross)	**675.5**	**721.3**	**794.3**	**764.0**	**837.5**
III. Reimbursements	(37.5)	(44.6)	(47.9)	(44.1)	(52.0)
Total Administrative Budget (net)	**638.0**	**676.7**	**746.4**	**719.9**	**785.5**

Note: Totals may not add to totals due to rounding.
[1]Administrative budgets as approved by the Board for the financial year ending April 30, 2003 and April 30, 2004, compared with actual expenses for the financial years ended April 30, 2001, April 30, 2002, and April 30, 2003.
[2]Includes a contingency reserve of $1 million.
[3]Includes a contingency reserve of $2 million.

computerization), and streamlining of some support services.

There is also a substantial reallocation of resources, including a shift in personnel and other resources from departments performing intermediate and governance activities to those producing the primary outputs—policy development, research, and operation of the international monetary system; standard setting and the provision of standardized information; bilateral and regional surveillance; use of Fund resources; and capacity building. The projected shares of each primary output group in the total output funded from the net administrative budget is shown in Figure 9.2. Although this projected breakdown in FY2004 does not differ significantly from that of earlier years, there remain considerable uncertainties—for example about the number of IMF-supported programs. Nonetheless, some important developments within the main output categories are envisaged. In particular, more resources will be devoted to the work on vulnerability, on securing a fresh perspective on surveillance, and on trade and capital account issues. The resources devoted to capacity building from the Fund's net administrative budget are expected to be enhanced by a projected 23 percent increase, budget-to-budget, in external finance from donors.

Under the IMF's revised capital budgeting procedures, the Board was presented with a medium-term "capital plan" that envisages total spending of $115.1 million on new projects over the next three fiscal years, including $45.6 million for building facilities and $69.5 million for information technology projects. These aggregates do not include spending on projects authorized under previous years' appropriations, including the construction of the Headquarters 2 building.

The *Capital Budget* appropriation approved by the Board for projects starting in FY2004 is $39.6 million. This covers the cost during the period to FY2006 of the projects starting in FY2004 and includes $13.2 million for building facilities and $26.4 million for information technology projects.

Medium-Term Framework

Under the new budget procedures, the IMF prepares each year a medium-term estimate (MTE) framework, which sets out the projected cost of existing policies, starting from the current budget year, for each of the subsequent two years. Following this procedure, the estimates shown for the second year of the MTE—adjusted for policy and cost changes—become the base for the following year's annual Administrative Budget. Consistent with management's view that the institution should be maintained at broadly its present size and should seek to accommodate new tasks primarily by reductions in lower priority work, the latest

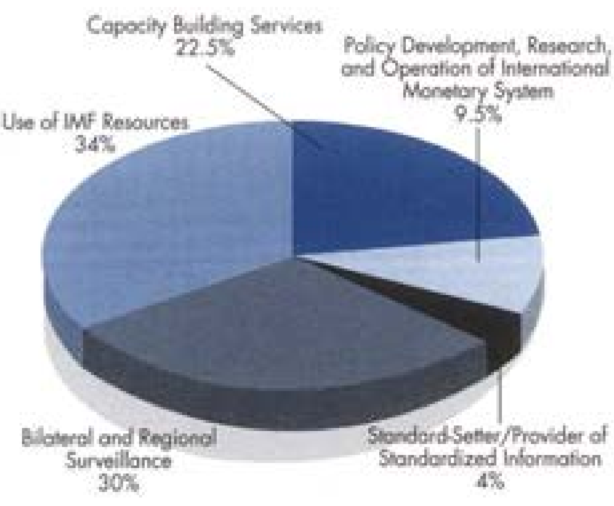
MTE provides for increases in net administrative expenditure (excluding contributions to the Staff Retirement Plan) of 3.8 percent in FY2005 and 4.3 percent in FY2006.

Human Resources

The Managing Director appoints a staff whose sole responsibility is to the IMF, whose efficiency and technical competence are expected to be, as set forth in the Articles of Agreement, of the "highest standards," and whose diversity by nationality reflects its membership and gives "due regard to the importance of recruiting personnel on as wide a geographical basis as possible." In accordance with these high standards, the IMF has put in place a financial disclosure process for staff. To provide the continuity and institutional memory from which the membership benefits, the IMF has an employment policy designed to recruit and retain a corps of international civil servants interested in spending a career, or a significant part of a career, at the IMF. At the same time, the IMF recognizes the value of shorter-term employment and recruitment of mid-career professionals consistent with the changing labor market and the benefit of fresh perspectives. In the case of a number of skills and jobs—relating mainly to certain services and highly specialized economic and financial skills—business considerations have called for shorter-term appointments or for outsourcing activities.

As of December 31, 2002, the IMF employed 763 staff at the assistant level and 1,918 professional staff (about two-thirds of whom were economists).

Figure 9.2
Projected Share of Resources by Output Category, FY2004
(As a percent of net administrative budget)



In addition to its staff, the IMF had 297 contractual employees on its payroll, including technical assistance experts, consultants, and other short-term employees not included in the staff ceiling. Of the IMF's 184 member countries, 141 were represented on the staff. (See Table 9.2 for the evolution of the nationality distribution of IMF professional staff since 1980.)

Changes in Management and Senior Staff

Deputy Managing Director. On March 7, 2003, it was announced that in June 2003, Eduardo Aninat would leave his position, which he had held since December 1999. In informing the Executive Board, Managing Director Horst Köhler said, "During his stay here, Eduardo Aninat has contributed immensely to furthering the agenda of the Fund, drawing upon his vast experience of policy work, political acumen, and diplomatic skills."

Economic Counsellor and Director of the Research Department. On April 29, 2003, it was announced that Kenneth S. Rogoff, an authority on international economics who had succeeded Michael Mussa on August

Table 9.2
Distribution of Professional Staff by Nationality[1]
(In percent)

Region[2]	1980	1990	2002
Africa	3.8	5.8	5.4
Asia	12.3	12.7	15.6
Japan	1.4	1.9	1.6
Other Asia	10.9	10.8	14.0
Europe	39.5	35.1	34.5
France	6.9	5.5	4.5
Germany	3.7	4.3	5.2
Italy	1.7	1.4	2.7
United Kingdom	8.2	8.0	5.4
Russia and countries of the former Soviet Union	...	...	2.2
East Europe and Baltic countries	...	...	1.9
Other Europe	19.0	15.9	12.6
Middle East	5.4	5.5	4.8
Western Hemisphere	39.1	41.0	39.6
Canada	2.6	2.8	3.8
United States	25.9	25.9	24.4
Other Western Hemisphere	10.6	12.3	11.4
Total	**100.0**	**100.0**	**100.0**

[1]Includes staff in Grades A9–B5.
[2]Regions are defined on the basis of the country distribution of the IMF's area departments. The European region includes countries in both the European I and European II area departments. The Middle East region includes countries in North Africa.

Table 9.3
IMF Staff Salary Structure
(In U.S. dollars, effective May 1, 2003)

Grade	Range Minimum	Range Maximum	Illustrative Position Titles
A1	23,100	34,680	Not applicable (activities at this level have been outsourced)
A2	25,890	38,810	Driver
A3	28,960	43,460	Staff Assistant (Clerical)
A4	32,450	48,710	Staff Assistant (Beginning Secretarial)
A5	36,390	54,570	Staff Assistant (Experienced Secretarial)
A6	40,660	61,080	Senior Secretarial Assistant, Other Assistants (e.g., Editorial, Computer Systems, Human Resources
A7	45,610	68,430	Research Assistant, Administrative Assistant
A8	51,080	76,660	Senior Administrative Assistants (e.g., Accounting, Human Resources)
A9	54,320	81,540	Librarian, Translator, Research Officer, Human Resources Officers
A10	62,490	93,750	Accountant, Research Officer, Administrative Officer
A11	71,770	107,690	Economist (Ph.D. entry level), Attorney, Specialist (e.g., Accounting, Computer Systems, Human Resources)
A12	80,360	120,580	Economist, Attorney, Specialist (e.g., Accounting, Computer Systems, Human Resources)
A13	90,040	135,040	Economist, Attorney, Specialist (e.g., Accounting, Computer Systems, Human Resources)
A14	100,830	151,270	Deputy Division Chief, Senior Economist
A15/B1	113,940	170,960	Division Chief, Deputy Division Chief
B2	131,360	190,600	Division Chief, Advisor
B3	156,100	203,120	Assistant Department Director, Advisor
B4	181,910	227,390	Deputy Department Director, Senior Advisor
B5	214,210	257,150	Department Director

Note: The above salary structure for IMF staff is intended to be internationally competitive to enable the IMF to secure highly qualified staff from all member countries. The salaries are reviewed annually by the Executive Board. The salaries are kept in line with the salaries for equivalent grades and positions in private sector financial and industrial firms and in representative public sector agencies, mainly in the United States. Because IMF staff other than U.S. citizens are usually not required to pay income taxes on their IMF compensation, the salaries are set on a net-of-tax basis, which is generally equivalent to the after-tax take-home pay of the employees of the public and private sector firms from which IMF salaries are derived.

2, 2001, would be leaving the IMF to return to his professorship at Harvard University in the fall of 2003, when his two-year leave of absence expired.

The Managing Director announced that Messrs. Aninat and Rogoff would be succeeded, respectively, by Agustín Carstens, Mexico's Deputy Secretary of Finance, and Raghuram Rajan of the University of Chicago Graduate School of Business.

Recruitment and Retention

Over the course of 2002, 216 people joined the IMF staff. The 110 economists, 54 hires in professional and managerial grades in specialized career streams, and 52 assistants represent a decrease of 15 from the 231 staff members hired externally in 2001 (and 108 from the total of 324 who joined the staff in 2001, if 93 conversions from contractual status are included.) Of the recruits in 2002, 55 were mid-career economists and 50 entered the Economist Program. (The two-year Economist Program serves to familiarize entry-level economists with the work of the IMF by placing them in two different departments, each for a 12-month period, and then offering regular staff appointments to those who perform well.)

During 2002, 168 staff separated from the organization. The separation rate of staff in professional and managerial grades was 6.0 percent (115 staff) in 2002. This represents an increase from 5.5 percent (101 staff) in 2001 and 5.1 percent (88 staff) in 2000.

Salary Structure

To recruit and retain the staff it needs, the IMF has developed a compensation and benefits system designed to be competitive, to reward performance, and to take account of the special needs of a multinational and largely expatriate staff. The IMF's staff salary structure is reviewed annually and, if warranted, adjusted on the basis of a comparison with salaries paid by selected private financial and industrial firms and public sector organizations in the United States, France, and Germany. After analyses of updated comparator salaries, the salary structure was increased by 4.0 percent for FY2003, and the Board approved an increase of 4.0 percent for FY2004 (Table 9.3).

Management Remuneration

Reflecting the responsibilities of each management position and the relationship between the management and

staff salary structures, the salary structure for management, as of July 1, 2002, is as follows:

Managing Director	$336,080[2]
First Deputy Managing Director	$290,780
Deputy Managing Directors	$276,930

Management remuneration is subject to a combination of periodic structural reviews by the Executive Board and annual revisions. It is autonomous and not formally linked to remuneration in other international organizations.

Executive Board Remuneration

Upon the recommendation of the Board of Governors' Committee on the Remuneration of Executive Directors, the Governors approved from July 1, 2002, increases of 3.8 percent in the remuneration of Executive Directors and their Alternates. The remuneration of Executive Directors is $182,590.[3] The remuneration of Alternate Executive Directors is $157,940.[4]

Diversity

The Executive Board continued to emphasize the importance of staff diversity in improving the IMF's effectiveness as an international institution. Notable progress was achieved in the recruitment and promotion of several underrepresented staff groups, although much more has to be done to reach a balanced regional representation. Women's share at the managerial level reached 15 percent and the share of developing country staff at the managerial level reached 31 percent. In both categories there is still room for improvement. The IMF's Senior Advisor on Diversity, who reports to the Managing Director, further developed indicators to monitor and strengthen nationality and gender diversity (Tables 9.2, 9.4, and 9.5), as well as diversity management in the organization. In line with the IMF's diversity strategy, during calendar year 2002, the Human Resources Department (HRD) focused on integrating diversity into its human resource management policies and practices, including management standards and Mission Code of Conduct and management development programs, and introduced new policies and programs to accommodate the needs of diverse staff.

The Senior Advisor works closely with HRD and other departments to identify needs and opportunities for promoting diversity and carrying out departmental diversity plans, which have been prepared and monitored every year since 1996; in FY2002, departments

Table 9.4
Distribution of Staff by Gender

	1980		1990		2002[1]	
Staff	**Number**	**Percent**	**Number**	**Percent**	**Number**	**Percent**
All Staff						
Total	1,444	100.0	1,774	100.0	2,681	100.0
Women	676	46.8	827	46.6	1,243	46.4
Men	768	53.2	947	53.4	1,438	53.6
Support Staff[2]						
Total	613	100.0	642	100.0	763	100.0
Women	492	80.3	540	84.1	645	84.5
Men	121	19.7	102	15.9	118	15.5
Professional Staff[3]						
Total	646	100.0	897	100.0	1,562	100.0
Women	173	26.8	274	30.5	544	34.8
Men	473	73.2	623	69.5	1,018	65.2
Economists						
Total	362	100.0	529	100.0	967	100.0
Women	42	11.6	70	13.2	222	23.0
Men	320	88.4	459	86.8	745	77.0
Specialized career streams						
Total	284	100.0	368	100.0	595	100.0
Women	131	46.1	204	55.4	322	54.1
Men	153	53.9	164	44.6	273	45.9
Managerial Staff[4]						
Total	185	100.0	235	100.0	356	100.0
Women	11	5.9	13	5.5	54	15.2
Men	174	94.1	222	94.5	302	84.8
Economists						
Total	99	100.0	184	100.0	287	100.0
Women	4	4.0	9	4.9	34	11.8
Men	95	96.0	175	95.1	253	88.2
Specialized career streams						
Total	86	100.0	51	100.0	69	100.0
Women	7	8.1	4	7.8	20	29.0
Men	79	91.9	47	92.2	49	71.0

[1]Includes only staff on duty.
[2]Staff in Grades A1–A8.
[3]Staff in Grades A9–A15.
[4]Staff in Grades B1–B5.

[2]In addition, a supplemental allowance of $60,140 is paid to cover expenses.

[3]In determining the salary adjustments for Executive Directors for 2002, the committee took into consideration the percentage change in remuneration of the highest-level civil servant in the ministry of finance and central bank for selected member countries, and that country's change in its consumer price index.

[4]These figures do not apply to the U.S. Executive Director and Alternate Executive Director, who are subject to U.S. congressional salary caps.

Table 9.5
Distribution of Staff by Developing and Industrial Countries

Staff	1990 Number	1990 Percent	2002[1] Number	2002[1] Percent
All Staff				
Total	1,774	100.0	2,681	100.0
Developing countries	731	41.2	1,167	43.5
Industrial countries	1,043	58.8	1,514	56.5
Support Staff[2]				
Total	642	100.0	763	100.0
Developing countries	328	51.1	426	55.8
Industrial countries	314	48.9	337	44.2
Professional Staff[3]				
Total	897	100.0	1,562	100.0
Developing countries	343	38.2	631	40.4
Industrial countries	554	61.8	931	59.6
Economists				
Total	529	100.0	967	100.0
Developing countries	220	41.6	408	42.2
Industrial countries	309	58.4	559	57.8
Specialized career streams				
Total	368	100.0	595	100.0
Developing countries	123	33.4	223	37.5
Industrial countries	245	66.6	372	62.5
Managerial Staff[4]				
Total	235	100.0	356	100.0
Developing countries	60	25.5	110	30.9
Industrial countries	175	74.5	246	69.1
Economists				
Total	184	100.0	287	100.0
Developing countries	54	29.3	95	33.1
Industrial countries	130	70.7	192	66.9
Specialized career streams				
Total	51	100.0	69	100.0
Developing countries	6	11.8	15	21.7
Industrial countries	45	88.2	54	78.3

[1]Includes only staff on duty.
[2]Staff in Grades A1–A8.
[3]Staff in Grades A9–A15.
[4]Staff in Grades B1–B5.

integrated these action plans into comprehensive human resource plans, which will provide an even more business-relevant and systematic framework for the IMF's diversity efforts. Typically, diversity actions include initiatives in recruitment and career development, orientation and mentoring programs for newcomers, and measures to improve competency-based performance feedback and increase the transparency and user-friendliness of human resource policies, procedures, and statistics. Two important new measures during the year were a mentoring pilot program for mid-career newcomers and a relocation program for staff and families.

Input to the Senior Advisor on Diversity by departments indicated efforts to improve diversity awareness and skills, more systematic and transparent approaches, and attention to people management practices in general. Achieving satisfactory diversity of staff in an institution that emphasizes career employment is a continuing challenge that requires concerted effort. Progress is monitored and problems are reported in a transparent manner, including in the *Diversity Annual Report* on the IMF's website.

New Building

Construction is well under way on a second headquarters building adjacent to the existing IMF headquarters building. In September 2002, the Fund's rezoning order, approved by the District of Columbia's Zoning Commission, became final. In October 2002, the demolition of an existing building on the site was completed, and the construction of the new building began. The new building will enable the IMF to accommodate its entire staff within a single headquarters complex and reduce overall costs by eliminating the need to lease space. The project is scheduled to be completed by 2006.

Appendixes

2003

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APPENDIXES

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Appendix I

International Reserves

Total international reserves, including gold, increased by 9 percent during 2002 and stood at SDR 2.1 trillion at the end of the year (Table I.1). Foreign exchange reserves, which constitute the largest component of official reserve holdings, grew by 8 percent, to SDR 1.8 trillion. IMF-related assets, which make up the rest of nongold reserves, increased by 12 percent, to SDR 86 billion. The market value of gold held by monetary authorities increased by 13 percent in 2002, to SDR 235 billion at year-end.[1]

Foreign Exchange Reserves

Foreign exchange reserves represented 95 percent of nongold assets at the end of 2002. The developing countries, which held 63 percent of all foreign exchange reserves at the end of 2002, increased their holdings by 10 percent, to SDR 1.1 trillion, following comparable increases in the previous two years. During 2002, the foreign exchange holdings of industrial countries rose by 5 percent, to SDR 653 billion.

In 2002, the foreign exchange assets of the oil-exporting developing countries, which amount to about 10 percent of all developing countries' foreign exchange reserves, declined by 2 percent, to SDR 103 billion. Foreign exchange reserves of the net creditor developing country group rose by 11 percent, to SDR 222 billion, and those of net debtor countries grew by 10 percent, to SDR 889 billion at the end of 2002. Foreign exchange reserves of net debtors without debt-servicing problems increased by 13 percent, to SDR 753 billion, while those of countries with debt-servicing problems decreased by 4 percent, to SDR 136 billion.

Holdings of IMF-Related Assets

During 2002, total IMF-related assets (that is, reserve positions in the IMF and SDRs) increased by 12 percent, following an increase of 16 percent in the preceding year. Industrial countries hold a majority of IMF-related assets: 81 percent at the end of 2002. The increase in IMF-related assets was attributable mainly to a 16 percent growth in members' reserve positions in the IMF—which consist of members' reserve tranche and creditor positions—to SDR 66 billion. SDR holdings of IMF members have remained broadly constant at SDR 20 billion.

Gold Reserves

The market value of gold reserves increased by 13 percent, to SDR 235 billion, reflecting an increase of 14 percent in the SDR price of gold in 2002; the physical stock of official gold declined by 1 percent. The share of gold in officially held reserves declined gradually to 11 percent by the end of 2002, whereas in the early 1980s gold comprised about half of all officially held reserves. Most of the gold reserves (83 percent) are held by industrial countries: gold constituted 21 percent of these countries' total reserves at the end of 2002. Gold reserves accounted for 4 percent of the total reserves of the developing countries.

Developments During the First Quarter of 2003

During the first quarter of 2003, total reserve assets rose by SDR 43 billion, whereas foreign exchange reserves increased by SDR 50 billion over the same period. Reflecting a decline in the SDR price of gold since the end of 2002, the market value of gold reserves declined by SDR 9 billion during the first quarter of 2003, while the physical stock of official gold declined by SDR 4 billion. Holdings of IMF-related assets increased by SDR 2 billion.

Currency Composition of Foreign Exchange Reserves

The currency composition of foreign exchange reserves has changed gradually over the past decade, with the share of U.S. dollar holdings in foreign exchange reserves rising from 57 percent in 1993 to 68 percent in 1999 and staying at that level through the end of 2001 (Table I.2). In 2002, however, the share of U.S. dollar holdings declined slightly, to 65 percent, with euro holdings gaining share. The euro, which replaced 11 European currencies and the European currency unit (ECU) on January 1, 1999, accounted for 15 percent of total foreign exchange reserves in 2002, somewhat higher than its average since 1999. Given that, at the introduction of the euro, the Eurosystem's reserves previously denominated in euro legacy currencies[2] became domestic assets of the euro area, the share of the euro in 1999–2002 is not directly comparable with the previous years' combined share of the four euro legacy currencies identified in Table I.2: deutsche mark, French franc, Netherlands guilder, and private ECU. How-

[1]Official monetary authorities comprise central banks and also currency boards, exchange stabilization funds, and treasuries, to the extent that they perform monetary authorities' functions.

[2]Those foreign exchange reserves that, up to December 31, 1998, were denominated in euro-area former national currencies and private ECUs.

Table I.1

Official Holdings of Reserve Assets[1]

(In billions of SDRs)

	1997	1998	1999	2000	2001	2002	March 2003
All countries							
Total reserves excluding gold							
IMF-related assets							
Reserve positions in the IMF	47.1	60.6	54.8	47.4	56.9	66.1	67.6
SDRs	20.5	20.4	18.5	18.5	19.6	19.7	19.8
Subtotal, IMF-related assets	**67.6**	**81.0**	**73.2**	**65.9**	**76.4**	**85.7**	**87.4**
Foreign exchange	1,197.0	1,166.3	1,297.7	1,485.4	1,627.8	1,763.4	1,813.5
Total reserves excluding gold	**1,264.7**	**1,247.3**	**1,371.0**	**1,551.3**	**1,704.2**	**1,849.1**	**1,900.9**
Gold[2]							
Quantity (*millions of ounces*)	888.5	968.3	967.0	952.1	942.7	930.6	926.5
Value at London market price	191.1	197.9	204.5	200.5	207.4	234.6	225.8
Total reserves including gold	**1,455.7**	**1,445.2**	**1,575.4**	**1,751.8**	**1,911.6**	**2,083.7**	**2,126.7**
Industrial countries							
Total reserves excluding gold							
IMF-related assets							
Reserve positions in the IMF	41.3	53.9	46.8	39.7	47.0	53.7	54.7
SDRs	15.5	15.8	14.7	14.4	16.0	15.8	15.1
Subtotal, IMF-related assets	**56.8**	**69.8**	**61.5**	**54.1**	**62.9**	**69.5**	**69.8**
Foreign exchange	520.9	475.8	526.1	596.2	620.4	653.0	656.6
Total reserves excluding gold	**577.7**	**545.6**	**587.6**	**650.3**	**683.4**	**722.5**	**726.5**
Gold[2]							
Quantity (*millions of ounces*)	732.5	808.7	810.4	796.5	783.5	769.8	765.8
Value at London market price	157.5	165.3	171.4	167.8	172.4	194.1	186.6
Total reserves including gold	**735.2**	**710.9**	**759.0**	**818.1**	**855.7**	**916.6**	**913.1**
Developing countries							
Total reserves excluding gold							
IMF-related assets							
Reserve positions in the IMF	5.7	6.7	8.0	7.7	9.9	12.3	12.8
SDRs	5.0	4.5	3.7	4.1	3.6	3.9	4.7
Subtotal, IMF-related assets	**10.8**	**11.2**	**11.7**	**11.8**	**13.5**	**16.2**	**17.6**
Foreign exchange	676.2	690.5	771.6	889.2	1,007.3	1,110.3	1,156.8
Total reserves excluding gold	**687.0**	**701.7**	**783.4**	**900.9**	**1,020.8**	**1,126.6**	**1,174.4**
Gold[2]							
Quantity (*millions of ounces*)	156.0	159.6	156.6	155.5	159.2	160.7	160.7
Value at London market price	33.5	32.6	33.1	32.8	35.0	40.5	39.2
Total reserves including gold	**720.5**	**734.3**	**816.5**	**933.7**	**1,055.8**	**1,167.1**	**1,213.6**
Net debtor developing countries							
Total reserves excluding gold							
IMF-related assets							
Reserve positions in the IMF	4.3	5.1	5.7	5.4	6.4	8.1	8.4
SDRs	3.9	3.3	3.1	3.3	2.7	2.9	3.8
Subtotal, IMF-related assets	**8.1**	**8.4**	**8.8**	**8.7**	**9.2**	**11.0**	**12.2**
Foreign exchange	538.1	550.0	609.3	705.7	806.7	888.9	919.0
Total reserves excluding gold	**546.3**	**558.3**	**618.1**	**714.4**	**815.8**	**899.9**	**930.3**
Gold[2]							
Quantity (*millions of ounces*)	147.9	151.3	148.7	147.7	151.3	153.2	153.1
Value at London market price	31.8	30.9	31.4	31.1	33.3	38.6	37.3
Total reserves including gold	**578.1**	**589.3**	**649.5**	**745.5**	**849.1**	**938.5**	**967.6**
Net debtor developing countries without debt-servicing problems							
Total reserves excluding gold							
IMF-related assets							
Reserve positions in the IMF	3.8	4.6	4.9	4.6	5.7	7.3	7.6
SDRs	3.0	2.6	2.4	2.1	2.1	1.9	2.1
Subtotal, IMF-related assets	**6.8**	**7.3**	**7.3**	**6.7**	**7.8**	**9.3**	**9.7**
Foreign exchange	403.8	428.3	489.4	571.6	664.5	752.6	781.2
Total reserves excluding gold	**410.6**	**435.6**	**496.6**	**578.3**	**672.3**	**761.9**	**790.4**
Gold[2]							
Quantity (*millions of ounces*)	102.8	105.7	103.5	102.8	106.4	108.1	107.9
Value at London market price	22.1	21.6	21.9	21.7	23.4	27.3	26.3
Total reserves including gold	**432.7**	**457.2**	**518.5**	**600.0**	**695.7**	**789.2**	**816.7**

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

Note: Components may not sum to totals because of rounding.

[1]End of year figures for all years except 2003. "IMF-related assets" comprise reserve positions in the IMF and SDR holdings of all IMF members. The entries under "Foreign exchange" and "Gold" comprise official holdings of those IMF members for which data are available and certain countries or areas.

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

Table I.2
Share of National Currencies in Total Identified Official Holdings of Foreign Exchange, End of Year[1]
(In percent)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
All countries										
U.S. dollar	56.6	56.5	56.9	60.2	62.2	65.7	67.9	67.6	67.7	64.8
Japanese yen	7.7	7.9	6.8	6.0	5.2	5.4	5.5	5.2	4.9	4.5
Pound sterling	3.0	3.3	3.2	3.4	3.6	3.9	4.0	3.8	4.0	4.4
Swiss franc	1.1	0.9	0.8	0.8	0.7	0.7	0.7	0.7	0.6	0.7
Euro	—	—	—	—	—	—	12.6[2]	13.0[2]	13.2[2]	14.6[2]
Deutsche mark	13.7	14.2	13.7	13.0	12.8	12.2	—	—	—	—
French franc	2.3	2.4	2.3	1.9	1.4	1.6	—	—	—	—
Netherlands guilder	0.7	0.5	0.4	0.3	0.4	0.4	—	—	—	—
ECUs[3]	8.2	7.7	6.8	5.9	5.0	0.8	—	—	—	—
Unspecified currencies[4]	6.8	6.6	9.2	8.6	8.7	9.3	9.4	9.7	9.7	11.0
Industrial countries										
U.S. dollar	50.2	50.8	51.8	56.1	57.9	66.7	72.8	72.7	73.3	70.1
Japanese yen	7.8	8.2	6.6	5.6	5.8	6.6	6.6	6.3	5.6	4.8
Pound sterling	2.2	2.3	2.1	2.0	1.9	2.2	2.3	2.0	1.8	2.2
Swiss franc	0.3	0.2	0.1	0.1	0.1	0.2	0.1	0.2	0.3	0.6
Euro	—	—	—	—	—	—	10.6[2]	10.4[2]	9.7[2]	11.3[2]
Deutsche mark	16.4	16.3	16.4	15.6	15.9	13.4	—	—	—	—
French franc	2.6	2.4	2.3	1.7	0.9	1.3	—	—	—	—
Netherlands guilder	0.4	0.3	0.2	0.2	0.2	0.2	—	—	—	—
ECUs[3]	15.2	14.6	13.4	12.0	10.9	1.9	—	—	—	—
Unspecified currencies[4]	4.8	5.0	7.0	6.7	6.4	7.4	7.6	8.3	9.2	11.1
Developing countries										
U.S. dollar	64.1	62.9	62.0	64.0	65.8	64.9	64.2	63.8	63.8	61.3
Japanese yen	7.5	7.6	6.9	6.4	4.7	4.5	4.6	4.4	4.3	4.3
Pound sterling	4.0	4.4	4.3	4.8	5.1	5.1	5.3	5.2	5.5	5.8
Swiss franc	2.0	1.7	1.5	1.4	1.1	1.1	1.1	1.0	0.9	0.8
Euro	—	—	—	—	—	—	14.1	14.9	15.6	16.8
Deutsche mark	10.5	11.9	11.0	10.6	10.3	11.2	—	—	—	—
French franc	2.0	2.4	2.3	2.0	1.8	1.9	—	—	—	—
Netherlands guilder	1.0	0.8	0.6	0.5	0.6	0.5	—	—	—	—
ECUs[3]	—	—	—	—	—	—	—	—	—	—
Unspecified currencies[5]	9.1	8.3	11.4	10.3	10.6	10.8	10.7	10.7	9.9	10.9

Note: Components may not sum to total because of rounding.
[1]Only IMF member countries that report their official holdings of foreign exchange are included in this table.
[2]Not comparable with the combined share of euro legacy currencies in previous years because it excludes the euros received by euro-area members when their previous holdings of other euro-area members' legacy currencies were converted into euros on January 1, 1999.
[3]In the calculation of currency shares, the ECU is treated as a separate currency. ECU reserves held by the monetary authorities existed in the form of claims on both the private sector and European Monetary Institute (EMI), which issued official ECUs to European Union central banks through revolving swaps against the contribution of 20 percent of their gross gold holdings and U.S. dollar reserves. On December 31, 1998, the official ECUs were unwound into gold and U.S. dollars; hence, the share of ECUs at the end of 1998 was sharply lower than a year earlier. The remaining ECU holdings reported for 1998 consisted of ECUs issued by the private sector, usually in the form of ECU deposits and bonds. On January 1, 1999, these holdings were automatically converted into euros.
[4]The residual is equal to the difference between total foreign exchange reserves of IMF member countries and the sum of the reserves held in the currencies listed in the table.
[5]The calculations here rely to a greater extent on IMF staff estimates than do those provided for the group of industrial countries.

ever, after adjusting the data to take into account only holdings of these currencies outside the euro area, their combined share in 1998 was virtually identical to the share of the euro in 1999.

The share of the Japanese yen in total foreign exchange reserves declined from 8 percent at end-1993 to 5 percent at the end of 1997 and stayed at about that level through 2002. During the past decade, the share of pound sterling has remained around 3 and 4 percent, and that of the Swiss franc approximately 1 percent. The share of unspecified currencies, which include currencies not identified in Table I.2, as well as foreign exchange reserves for which no information on currency composition is available, rose to 11 percent in 2002.

For industrial countries, the share of U.S. dollar holdings increased throughout the 1990s to reach 73 percent in 2001 and declined to 70 percent at the end of 2002. The shares of the euro in those countries' foreign exchange reserves rose to 11 percent in 2002, whereas that of the Japanese yen declined by less than 1 percentage point. Shares of pound sterling and the Swiss franc have been practically unchanged over the past ten years, but the share of unspecified currencies rose to 11 percent in 2002.

Table I.3

Currency Composition of Official Holdings of Foreign Exchange, End of Year[1]

(In millions of SDRs)

	1994	1995	1996	1997	1998	1999	2000	2001	2002
U.S. dollar									
Change in holdings	32,570	73,551	121,245	87,828	18,418	103,998	120,295	87,185	29,895
Quantity change	57,314	78,573	103,269	45,172	48,561	85,745	74,526	51,852	112,651
Price change	–24,744	–5,023	17,976	42,656	–30,143	18,254	45,769	35,332	–82,756
Year-end value	423,269	496,819	618,064	705,892	724,310	828,308	948,603	1,035,788	1,065,682
Japanese yen									
Change in holdings	6,007	19	2,685	–3,197	981	7,256	6,306	1,221	–120
Quantity change	3,124	3,089	8,021	–56	–3,489	–1,983	11,054	8,655	–1,160
Price change	2,883	–3,070	–5,336	–3,141	4,470	9,238	–4,749	–7,434	1,040
Year-end value	59,030	59,048	61,733	58,536	59,517	66,772	73,078	74,300	74,180
Pound sterling									
Change in holdings	3,992	3,240	7,354	6,182	1,124	6,197	5,087	7,170	11,058
Quantity change	4,129	3,834	3,259	4,632	2,761	6,359	6,464	6,685	9,242
Price change	–136	–594	4,095	1,550	–1,637	–162	–1,377	485	1,816
Year-end value	24,612	27,852	35,206	41,388	42,512	48,709	53,796	60,966	72,024
Swiss franc									
Change in holdings	–932	210	881	–35	–54	241	1,745	131	2,206
Quantity change	–1,372	–541	1,811	75	–128	1,208	1,449	33	955
Price change	439	751	–930	–109	74	–966	296	98	1,252
Year-end value	6,689	6,899	7,780	7,745	7,691	7,933	9,678	9,809	12,015
Euro									
Change in holdings	—	—	—	—	—	6,958[2]	28,149	19,685	37,902
Quantity change	—	—	—	—	—	25,600	31,501	22,962	16,776
Price change	—	—	—	—	—	–18,642	–3,353	–3,277	21,126
Year-end value	—	—	—	—	—	154,026	182,174	201,859	239,761
Deutsche mark									
Change in holdings	11,862	13,296	14,050	11,896	–11,478	—	—	—	—
Quantity change	7,081	6,817	20,159	22,336	–15,364	—	—	—	—
Price change	4,781	6,478	–6,109	–10,440	3,886	—	—	—	—
Year-end value	106,414	119,709	133,759	145,655	134,176	—	—	—	—
French franc									
Change in holdings	1,912	1,974	–981	–3,388	2,224	—	—	—	—
Quantity change	1,262	668	–334	–2,037	1,860	—	—	—	—
Price change	650	1,307	–647	–1,352	364	—	—	—	—
Year-end value	18,081	20,055	19,074	15,686	17,910	—	—	—	—
Netherlands guilder									
Change in holdings	–512	–301	–330	1,138	–569	—	—	—	—
Quantity change	–731	–547	–152	1,443	–708	—	—	—	—
Price change	219	246	–178	–305	140	—	—	—	—
Year-end value	4,070	3,769	3,439	4,577	4,009	—	—	—	—
European currency unit									
Change in holdings	959	1,665	985	–3,240	–47,848	—	—	—	—
Quantity change	–1,035	–1,157	1,833	515	–49,304	—	—	—	—
Price change	1,994	2,822	–849	–3,755	1,456	—	—	—	—
Year-end value	57,613	59,278	60,262	57,022	9,174	—	—	—	—
Sum of the above[3]									
Change in holdings	55,859	93,653	145,888	97,183	–37,201	124,650	161,581	115,391	80,941
Quantity change	69,773	90,736	137,865	72,079	–15,812	116,929	124,995	90,187	138,463
Price change	–13,914	2,917	8,023	25,103	–21,389	7,721	36,586	25,204	–57,523
Year-end value	699,777	793,431	939,319	1,036,501	999,300	1,105,749	1,267,330	1,382,721	1,463,662
Total official holdings[4]									
Change in holdings	60,720	121,995	154,291	108,574	–30,765	131,431	187,685	142,355	135,608
Year-end value	812,188	934,182	1,088,473	1,197,047	1,166,282	1,297,713	1,485,398	1,627,753	1,763,361

Note: Components may not sum to totals because of rounding.

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

[2]Represents the change from end-1998 holdings of euro legacy currencies by official institutions outside the euro area.

[3]Each item represents the sum of the currencies above.

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

The share of the U.S. dollar in developing countries' foreign exchange reserves declined to 61 percent in 2002, at the lower end of historical values over the past decade. Holdings of the euro rose to 17 percent of those countries' foreign exchange reserves, 1 percentage point higher than its share in 2001. During the past decade, the share of the Japanese yen has gradually decreased by about 3 percentage points, to 4 percent at the end of 2002, while the share of pound sterling has increased by about 2 percentage points, to 6 percent. The share of the Swiss franc has remained virtually unchanged at 1 percent since 1997. Unspecified currencies accounted for 11 percent of developing countries' foreign exchange reserves in 2002.

Changes in the SDR value of foreign exchange reserves can be decomposed into quantity and valuation (price) changes (Table I.3). Official reserves held in U.S. dollars increased by SDR 30 billion in 2002, as an increase of SDR 113 billion in the quantity of U.S. dollar holdings was offset by a valuation decline of SDR 83 billion. Euro holdings increased by SDR 38 billion, reflecting a quantity increase of SDR 17 billion and a valuation increase of SDR 21 billion. Japanese yen holdings remained unchanged, as a quantity decline offset a valuation increase. Pound sterling and Swiss franc holdings increased by SDR 11 billion and SDR 2 billion, respectively, reflecting increases in both quantity and valuation.

Appendix II

Financial Operations and Transactions

The tables in this appendix supplement the information given in Chapter 8 on the IMF's financial operations and policies. Components may not sum to total because of rounding.

Table II.1
Arrangements Approved During Financial Years Ended April 30, 1953–2003

Financial Year	Number of Arrangements					Amounts Committed Under Arrangements[1] (In millions of SDRs)				
	Stand-By	EFF	SAF	PRGF	Total	Stand-By	EFF	SAF	PRGF	Total
1953	2	—	—	—	2	55	—	—	—	55
1954	2	—	—	—	2	63	—	—	—	63
1955	2	—	—	—	2	40	—	—	—	40
1956	2	—	—	—	2	48	—	—	—	48
1957	9	—	—	—	9	1,162	—	—	—	1,162
1958	11	—	—	—	11	1,044	—	—	—	1,044
1959	15	—	—	—	15	1,057	—	—	—	1,057
1960	14	—	—	—	14	364	—	—	—	364
1961	15	—	—	—	15	460	—	—	—	460
1962	24	—	—	—	24	1,633	—	—	—	1,633
1963	19	—	—	—	19	1,531	—	—	—	1,531
1964	19	—	—	—	19	2,160	—	—	—	2,160
1965	24	—	—	—	24	2,159	—	—	—	2,159
1966	24	—	—	—	24	575	—	—	—	575
1967	25	—	—	—	25	591	—	—	—	591
1968	32	—	—	—	32	2,352	—	—	—	2,352
1969	26	—	—	—	26	541	—	—	—	541
1970	23	—	—	—	23	2,381	—	—	—	2,381
1971	18	—	—	—	18	502	—	—	—	502
1972	13	—	—	—	13	314	—	—	—	314
1973	13	—	—	—	13	322	—	—	—	322
1974	15	—	—	—	15	1,394	—	—	—	1,394
1975	14	—	—	—	14	390	—	—	—	390
1976	18	2	—	—	20	1,188	284	—	—	1,472
1977	19	1	—	—	20	4,680	518	—	—	5,198
1978	18	—	—	—	18	1,285	—	—	—	1,285
1979	14	4	—	—	18	508	1,093	—	—	1,600
1980	24	4	—	—	28	2,479	797	—	—	3,277
1981	21	11	—	—	32	5,198	5,221	—	—	10,419
1982	19	5	—	—	24	3,106	7,908	—	—	11,014
1983	27	4	—	—	31	5,450	8,671	—	—	14,121
1984	25	2	—	—	27	4,287	95	—	—	4,382
1985	24	—	—	—	24	3,218	—	—	—	3,218
1986	18	1	—	—	19	2,123	825	—	—	2,948
1987	22	—	10	—	32	4,118	—	358	—	4,476
1988	14	1	15	—	30	1,702	245	670	—	2,617
1989	12	1	4	7	24	2,956	207	427	955	4,545
1990	16	3	3	4	26	3,249	7,627	37	415	11,328
1991	13	2	2	3	20	2,786	2,338	15	454	5,593
1992	21	2	1	5	29	5,587	2,493	2	743	8,826

Table II.1 *(concluded)*

Financial Year	Number of Arrangements					Amounts Committed Under Arrangements[1] (In millions of SDRs)				
	Stand-By	EFF	SAF	PRGF	Total	Stand-By	EFF	SAF	PRGF	Total
1993	11	3	1	8	23	1,971	1,242	49	527	3,789
1994	18	2	1	7	28	1,381	779	27	1,170	3,357
1995	17	3	—	11	31	13,055	2,335	—	1,197	16,587
1996	19	4	1	8	32	9,645	8,381	182	1,476	19,684
1997	11	5	—	12	28	3,183	1,193	—	911	5,287
1998	9	4	—	8	21	27,336	3,078	—	1,738	32,152
1999	5	4	—	10	19	14,325	14,090	—	998	29,413
2000	11	4	—	10	25	15,706	6,582	—	641	22,929
2001	11	1	—	14	26	13,093	-9	—	1,249	14,333
2002	9	—	—	9	18	39,439	—	—	1,848	41,287
2003	10	2	—	10	22	28,597	794	—	1,180	30,571

[1]Includes augmentations less approved reductions of committed amounts.

Table II.2
Arrangements in Effect at End of Financial Years 1991–2003[1]

Financial Year	Number of Arrangements as of April 30					Amounts Committed Under Arrangements as of April 30 (In millions of SDRs)				
	Stand-By	EFF	SAF	PRGF	Total	Stand-By	EFF	SAF	PRGF	Total
1991	14	5	12	14	45	2,703	9,597	539	1,813	14,652
1992	22	7	8	16	53	4,833	12,159	101	2,111	19,203
1993	15	6	4	20	45	4,490	8,569	83	2,137	15,279
1994	16	6	3	22	47	1,131	4,504	80	2,713	8,428
1995	19	9	1	27	56	13,190	6,840	49	3,306	23,385
1996	21	7	1	28	57	14,963	9,390	182	3,383	27,918
1997	14	11	—	35	60	3,764	10,184	—	4,048	17,996
1998	14	13	—	33	60	28,323	12,336	—	4,410	45,069
1999	9	12	—	35	56	32,747	11,401	—	4,186	48,334
2000	16	11	—	31	58	45,606	9,798	—	3,516	58,920
2001	17	8	—	37	62	34,906	8,697	—	3,298	46,901
2002	13	4	—	35	52	44,095	7,643	—	4,201	55,939
2003	15	3	—	36	54	42,807	4,432	—	4,450	51,689

[1]Certain figures have been restated to exclude expired arrangements.

Table II.3
Stand-By and Extended Arrangements in Effect During Financial Year Ended April 30, 2003
(In millions of SDRs)

Member	Arrangement Dates: Effective date	Arrangement Dates: Expiration date	Amounts Approved: Prior to FY2003	Amounts Approved: In FY2003	Undrawn Balance: At date of termination	Undrawn Balance: As of April 30, 2003
Argentina	3/10/2000	1/24/2003	16,937	—	7,180	—
Argentina	1/24/2003	8/31/2003	—	2,175	—	1,201
Bolivia	4/2/2003	4/1/2004	—	86	—	43
Bosnia and Herzegovina	8/2/2002	11/1/2003	—	68	—	36
Brazil	9/14/2001	9/6/2002	12,144	—	759	—
Brazil	9/6/2002	12/31/2003	—	22,821	—	15,215
Bulgaria	2/27/2002	2/26/2004	240	—	—	104
Colombia	1/15/2003	1/14/2005	—	1,548	—	1,548
Croatia	3/19/2001	5/18/2002	200	—	200	—
Croatia	2/3/2003	4/2/2004	—	106	—	106
Dominica	8/28/2002	8/27/2003	—	3	—	1
Ecuador	3/21/2003	4/20/2004	—	151	—	121
Guatemala	4/1/2002	3/31/2003	84	—	84	—
Jordan	7/3/2002	7/2/2004	—	85	—	75
Latvia	4/20/2001	12/19/2002	33	—	33	—
Lithuania	8/30/2001	3/29/2003	87	—	87	—
Macedonia, FYR	4/30/2003	6/15/2004	—	20	—	20
Peru	2/1/2002	2/29/2004	255	—	—	255
Romania	10/31/2001	10/15/2003	300	—	—	110
Serbia and Montenegro[1]	6/11/2001	5/13/2002	200	—	—	—
Sri Lanka	4/20/2001	9/19/2002	200	—	—	—
Turkey	2/4/2002	12/31/2004	12,821	—	—	2,381
Uruguay	4/1/2002	3/31/2005	594	1,534	—	798
Total for Stand-By Arrangements			44,095	28,597	8,343	22,014
Colombia	12/20/1999	12/19/2002	1,957	—	1,957	—
Indonesia	2/4/2000	12/31/2003	3,638	—	—	1,032
Jordan	4/15/1999	5/31/2002	128	—	—	—
Serbia and Montenegro[1]	5/14/2002	5/13/2005	—	650	—	450
Sri Lanka	4/18/2003	4/17/2006	—	144	—	124
Ukraine	9/4/1998	9/3/2002	1,920	—	727	—
Total for Extended Arrangements			7,643	794	2,684	1,606
Total			**51,738**	**29,391**	**11,027**	**23,620**

[1]Effective February 4, 2003, the Federal Republic of Yugoslavia changed its name to Serbia and Montenegro.

Table II.4
Arrangements Under the Poverty Reduction and Growth Facility in Effect During Financial Year Ended April 30, 2003
(In millions of SDRs)

	Arrangement Dates		Amounts Approved		Undrawn Balance	
Member	Effective date	Expiration date	Prior to FY2003	In FY2003	At date of termination	As of April 30, 2003
Albania	6/21/2002	6/20/2005	—	28	—	20
Armenia	5/23/2001	5/22/2004	69	—	—	29
Azerbaijan	7/6/2001	7/5/2004	80	—	—	64
Benin[1]	7/17/2000	3/31/2004	27	—	—	4
Bolivia[2]	9/18/1998	6/7/2002	101	—	37	—
Burkina Faso[3]	9/10/1999	12/9/2002	39	—	—	—
Cambodia[4]	10/22/1999	2/28/2003	59	—	—	—
Cameroon	12/21/2000	12/20/2003	111	—	—	48
Cape Verde	4/10/2002	4/9/2005	9	—	—	6
Chad[5]	1/7/2000	12/6/2003	48	—	—	10
Congo, Dem. Rep. of	6/12/2002	6/11/2005	—	580	—	133
Côte d'Ivoire	3/29/2002	3/28/2005	293	—	—	234
Djibouti[6]	10/18/1999	1/17/2003	19	—	5	—
Ethiopia	3/22/2001	3/21/2004	100	—	—	31
Gambia, The	7/18/2002	7/17/2005	—	20	—	17
Georgia	1/12/2001	1/11/2004	108	—	—	59
Ghana[7]	5/3/1999	11/30/2002	229	—	53	—
Guinea	5/2/2001	5/1/2004	64	—	—	39
Guinea-Bissau	12/15/2000	12/14/2003	14	—	—	9
Guyana	9/20/2002	9/19/2005	—	55	—	49
Honduras[8]	3/26/1999	12/31/2002	157	—	48	—
Kenya[9]	8/4/2000	8/3/2003	190	—	—	156
Kyrgyz Republic	12/6/2001	12/5/2004	73	—	—	38
Lao People's Dem. Rep.	4/25/2001	4/24/2004	32	—	—	18
Lesotho	3/9/2001	3/8/2004	25	—	—	11
Madagascar[10]	3/1/2001	11/30/2004	79	—	—	45
Malawi	12/21/2000	12/20/2003	45	—	—	39
Mali[11]	8/6/1999	8/5/2003	51	—	—	6
Mauritania[12]	7/21/1999	12/20/2002	42	—	—	—
Moldova	12/21/2000	12/20/2003	111	—	—	83
Mongolia	9/28/2001	9/27/2004	28	—	—	24
Mozambique[13]	6/28/1999	6/27/2003	87	—	—	17
Nicaragua	12/13/2002	12/12/2005	—	98	—	91
Niger	12/22/2000	12/21/2003	59	—	—	25
Pakistan	12/6/2001	12/5/2004	1,034	—	—	603
Rwanda	8/12/2002	8/11/2005	—	4	—	3
São Tomé and Príncipe	4/28/2000	4/27/2003	7	—	5	—
Senegal	4/28/2003	4/27/2006	—	24	—	24
Sierra Leone	9/26/2001	9/25/2004	131	—	—	56
Sri Lanka	4/18/2003	4/17/2006	—	269	—	231
Tajikistan	12/11/2002	12/10/2005	—	65	—	57
Tanzania[14]	4/4/2000	6/30/2003	135	—	—	15
Uganda	9/13/2002	9/12/2005	—	14	—	12
Vietnam	4/13/2001	4/12/2004	290	—	—	166
Zambia[15]	3/25/1999	3/28/2003	254	24	41	—
Total			4,201	1,180	189	2,474

[1]Extended from 7/16/03.
[2]Extended from 9/17/01.
[3]Extended from 9/9/02.
[4]Extended from 10/21/02.
[5]Extended from 1/6/03.
[6]Extended from 10/17/02.
[7]Extended from 5/2/02.
[8]Extended from 3/25/02.
[9]Became inoperative on 1/13/03.
[10]Extended from 2/29/04.
[11]Extended from 8/05/02.
[12]Extended from 7/20/02.
[13]Extended from 6/27/02.
[14]Extended from 4/3/03.
[15]Augmented by SDR 24.45 million on 5/29/02. Extended from 3/24/02.

Table II.5

Summary of Disbursements, Repurchases, and Repayments, Financial Years Ended April 30, 1948–2003

(In millions of SDRs)

	Disbursements					Repurchases and Repayments				Total Fund
Financial Year	Purchases[1]	Trust Fund loans	SAF loans	PRGF loans	Total	Repurchases	Trust Fund repayments	SAF/PRGF repayments	Total	Credit Outstanding[2]
1948	606	—	—	—	606	—	—	—	—	133
1949	119	—	—	—	119	—	—	—	—	193
1950	52	—	—	—	52	24	—	—	24	204
1951	28	—	—	—	28	19	—	—	19	176
1952	46	—	—	—	46	37	—	—	37	214
1953	66	—	—	—	66	185	—	—	185	178
1954	231	—	—	—	231	145	—	—	145	132
1955	49	—	—	—	49	276	—	—	276	55
1956	39	—	—	—	39	272	—	—	276	72
1957	1,114	—	—	—	1,114	75	—	—	75	611
1958	666	—	—	—	666	87	—	—	87	1,027
1959	264	—	—	—	264	537	—	—	537	898
1960	166	—	—	—	166	522	—	—	522	330
1961	577	—	—	—	577	659	—	—	659	552
1962	2,243	—	—	—	2,243	1,260	—	—	1,260	1,023
1963	580	—	—	—	580	807	—	—	807	1,059
1964	626	—	—	—	626	380	—	—	380	952
1965	1,897	—	—	—	1,897	517	—	—	517	1,480
1966	2,817	—	—	—	2,817	406	—	—	406	3,039
1967	1,061	—	—	—	1,061	340	—	—	340	2,945
1968	1,348	—	—	—	1,348	1,116	—	—	1,116	2,463
1969	2,839	—	—	—	2,839	1,542	—	—	1,542	3,299
1970	2,996	—	—	—	2,996	1,671	—	—	1,671	4,020
1971	1,167	—	—	—	1,167	1,657	—	—	1,657	2,556
1972	2,028	—	—	—	2,028	3,122	—	—	3,122	840
1973	1,175	—	—	—	1,175	540	—	—	540	998
1974	1,058	—	—	—	1,058	672	—	—	672	1,085
1975	5,102	—	—	—	5,102	518	—	—	518	4,869
1976	6,591	—	—	—	6,591	960	—	—	960	9,760
1977	4,910	32	—	—	4,942	868	—	—	868	13,687
1978	2,503	268	—	—	2,771	4,485	—	—	4,485	12,366
1979	3,720	670	—	—	4,390	4,859	—	—	4,859	9,843
1980	2,433	962	—	—	3,395	3,776	—	—	3,776	9,967
1981	4,860	1,060	—	—	5,920	2,853	—	—	2,853	12,536
1982	8,041	—	—	—	8,041	2,010	—	—	2,010	17,793
1983	11,392	—	—	—	11,392	1,555	18	—	1,574	26,563
1984	11,518	—	—	—	11,518	2,018	111	—	2,129	34,603
1985	6,289	—	—	—	6,289	2,730	212	—	2,943	37,622
1986	4,101	—	—	—	4,101	4,289	413	—	4,702	36,877
1987	3,685	—	139	—	3,824	6,169	579	—	6,749	33,443
1988	4,153	—	445	—	4,597	7,935	528	—	8,463	29,543
1989	2,541	—	290	264	3,095	6,258	447	—	6,705	25,520
1990	4,503	—	419	408	5,329	6,042	356	—	6,398	24,388
1991	6,955	—	84	491	7,530	5,440	168	—	5,608	25,603
1992	5,308	—	125	483	5,916	4,768	—	1	4,770	26,736
1993	8,465	—	20	573	9,058	4,083	—	36	4,119	28,496
1994	5,325	—	50	612	5,987	4,348	52	112	4,513	29,889
1995	10,615	—	14	573	11,175	3,984	4	244	4,231	36,837
1996	10,870	—	182	1,295	12,347	6,698	7	395	7,100	42,040
1997	4,939	—	—	705	5,644	6,668	5	524	7,196	40,488
1998	20,000	—	—	973	20,973	3,789	1	595	4,385	56,026
1999	24,071	—	—	826	24,897	10,465	—	627	11,092	67,175
2000	6,377	—	—	513	6,890	22,993	—	634	23,627	50,370
2001	9,599	—	—	630	10,229	11,243	—	588	11,831	48,691
2002	29,194	—	—	952	30,146	19,207	—	769	19,976	58,699
2003	21,784	—	—	1,218	23,002	7,784	—	928	8,712	72,879

[1]Includes reserve tranche purchases.

[2]Excludes reserve tranche purchases; includes outstanding associated loans from the Saudi Fund for Development.

Table II.6

Purchases and Loans from the IMF, Financial Year Ended April 30, 2003

(In millions of SDRs)

Member	Reserve Tranche	Stand-By/ Credit Tranche	Extended Fund Facility	SRF	Total Purchases	PRGF Loans	Total Purchases and Loans[1]
Afghanistan	4	—	—	—	4	—	4
Albania	—	—	—	—	—	8	8
Argentina	—	973	—	—	973	—	973
Armenia	—	—	—	—	—	30	30
Benin	—	—	—	—	—	8	8
Bolivia	—	43	—	—	43	—	43
Bosnia and Herzegovina	—	32	—	—	32	—	32
Brazil	—	4,879	—	10,437	15,316	—	15,316
Bulgaria	—	104	—	—	104	—	104
Burkina Faso	—	—	—	—	—	6	6
Burundi	—	10	—	—	10	—	10
Cambodia	—	—	—	—	—	17	17
Cameroon	—	—	—	—	—	16	16
Cape Verde	—	—	—	—	—	1	1
Chad	—	—	—	—	—	5	5
Congo, Dem. Rep. of	61	—	—	—	61	447	507
Djibouti	—	—	—	—	—	5	5
Dominica	—	2	—	—	2	—	2
Ecuador	—	30	—	—	30	—	30
Ethiopia	—	—	—	—	—	10	10
Gambia, The	—	—	—	—	—	3	3
Georgia	—	—	—	—	—	23	23
Grenada	—	3	—	—	3	—	3
Guinea	—	—	—	—	—	13	13
Guyana	—	—	—	—	—	6	6
Indonesia	—	—	1,170	—	1,170	—	1,170
Jordan	—	11	61	—	72	—	72
Kyrgyz Republic	—	—	—	—	—	23	23
Lao, PDR	—	—	—	—	—	5	5
Lesotho	—	—	—	—	—	4	4
Madagascar	—	—	—	—	—	11	11
Malawi	—	17	—	—	17	—	17
Mali	—	—	—	—	—	14	14
Mauritania	—	—	—	—	—	12	12
Moldova	—	—	—	—	—	9	9
Mozambique	—	—	—	—	—	8	8
Nicaragua	—	—	—	—	—	7	7
Niger	—	—	—	—	—	8	8
Pakistan	—	—	—	—	—	258	258
Romania	—	138	—	—	138	—	138
Rwanda	—	—	—	—	—	1	1
Serbia and Montenegro[1]	—	50	200	—	250	—	250
Sierra Leone	—	—	—	—	—	19	19
Sri Lanka	—	48	21	—	69	38	107
Tajikistan	—	—	—	—	—	8	8
Tanzania	—	—	—	—	—	20	20
Timor-Leste	2	—	—	—	2	—	2
Turkey	—	2,246	—	—	2,246	—	2,246
Uganda	—	—	—	—	—	2	2
Uruguay	36	1,079	—	129	1,243	—	1,243
Vietnam	—	—	—	—	—	41	41
Zambia	—	—	—	—	—	133	133
Total	**102**	**9,664**	**1,451**	**10,566**	**21,784**	**1,218**	**23,002**

[1]Effective February 4, 2003, the Federal Republic of Yugoslavia changed its name to Serbia and Montenegro.

Table II.7
Repurchases and Repayments to the IMF, Financial Year Ended April 30, 2003
(In millions of SDRs)

Member	Stand-By/ Credit Tranche	Extended Fund Facility	Others[1]	Total Repurchases	SAF/PRGF and Trust Fund Repayments	Total Repurchases and Repayments
Albania	3	—	—	3	6	10
Algeria	—	188	84	272	—	272
Argentina	781	434	—	1,215	—	1,215
Armenia	—	—	6	6	8	14
Azerbaijan	—	6	38	44	6	50
Bangladesh	61	—	—	61	14	76
Belarus	—	—	23	23	—	23
Benin	—	—	—	—	12	12
Bolivia	—	—	—	—	21	21
Bosnia and Herzegovina	25	—	—	25	—	25
Brazil	373	—	—	373	—	373
Bulgaria	114	4	19	137	—	137
Burkina Faso	—	—	—	—	12	12
Burundi	—	—	—	—	2	2
Cambodia	—	—	1	1	8	9
Cameroon	—	—	—	—	3	3
Chad	—	—	—	—	5	5
Congo, Dem. Rep. of	127	8	23	157	143	300
Congo, Republic of	4	—	—	4	3	6
Côte d'Ivoire	—	—	—	—	67	67
Croatia	—	24	60	84	—	84
Djibouti	2	—	—	2	—	2
Dominican Republic	20	—	—	20	—	20
Equatorial Guinea	—	—	—	—	1	1
Estonia	—	—	9	9	—	9
Ethiopia	—	—	—	—	12	12
Gabon	—	10	—	10	—	10
Georgia	—	—	9	9	19	29
Ghana	—	—	—	—	11	11
Guinea	—	—	—	—	11	11
Guinea-Bissau	1	—	—	1	1	2
Guyana	—	—	—	—	13	13
Haiti	8	—	—	8	3	11
Honduras	24	—	—	24	6	30
Indonesia	1,559	118	—	1,678	—	1,678
Jamaica	—	14	—	14	—	14
Jordan	—	54	17	71	—	71
Kenya	—	—	—	—	14	14
Kyrgyz Republic	—	—	8	8	14	22
Lao People's Dem. Rep.	—	—	—	—	8	8
Latvia	—	—	8	8	—	8
Lesotho	—	—	—	—	2	2
Lithuania	—	58	9	66	—	66
Macedonia, FYR	—	—	8	8	2	9
Madagascar	—	—	—	—	4	4
Malawi	—	—	—	—	6	6
Mali	—	—	—	—	20	20
Mauritania	—	—	—	—	13	13
Moldova	—	6	8	14	—	14
Mongolia	—	—	—	—	6	6
Mozambique	—	—	—	—	18	18
Nepal	—	—	—	—	3	3
Nicaragua	—	—	—	—	4	4
Niger	—	—	—	—	5	5
Pakistan	19	30	176	225	40	266

Table II.7 *(concluded)*

Member	Stand-By/ Credit Tranche	Extended Fund Facility	Others[1]	Total Repurchases	SAF/PRGF and Trust Fund Repayments	Total Repurchases and Repayments
Panama	—	4	—	4	—	4
Peru	—	134	—	134	—	134
Philippines	253	132	—	385	—	385
Romania	28	—	31	60	—	60
Russian Federation	177	745	359	1,281	—	1,281
Rwanda	2	—	—	2	—	2
Senegal	—	—	—	—	24	24
Sierra Leone	—	—	—	—	24	24
Sri Lanka	—	—	—	—	34	34
St. Kitts and Nevis	1	—	—	1	—	1
Sudan	7	15	1	22	—	22
Tajikistan	7	—	—	7	25	32
Tanzania	—	—	—	—	17	17
Thailand	913	—	—	913	—	913
Togo	—	—	—	—	8	8
Turkey	174	—	—	174	—	174
Uganda	—	—	—	—	32	32
Ukraine	36	20	83	140	—	140
Uruguay	57	—	—	57	—	57
Uzbekistan	—	—	17	17	—	17
Vietnam	—	—	4	4	48	52
Yemen, Republic of	2	2	—	4	—	4
Zambia	—	—	—	—	169	169
Zimbabwe	—	1	—	1	1	2
Total	4,776	2,008	1,000	7,784	928	8,712

[1]Includes Compensatory and Contingency Financing Facility and Systemic Transformation Facility.

Table II.8

Outstanding IMF Credit by Facility and Policy, Financial Years Ended April 30, 1995–2003

(In millions of SDRs and percent of total)

	1995	1996	1997	1998	1999	2000	2001	2002	2003
					Millions of SDRs				
Stand-By Arrangements[1]	15,117	20,700	18,064	25,526	25,213	21,410	17,101	28,612	34,241
Extended Arrangements	10,155	9,982	11,155	12,521	16,574	16,808	16,108	15,538	14,981
Supplemental Reserve Facility	—	—	—	7,100	12,655	—	4,085	5,875	15,700
Compensatory and Contingency Financing Facility	3,021	1,602	1,336	685	2,845	3,032	2,992	745	413
Systemic Transformation Facility	3,848	3,984	3,984	3,869	3,364	2,718	1,933	1,311	644
Subtotal (GRA)	**32,140**	**36,268**	**34,539**	**49,701**	**60,651**	**43,968**	**42,219**	**52,081**	**65,978**
SAF Arrangements	1,277	1,208	954	730	565	456	432	341	137
PRGF Arrangements[2]	3,318	4,469	4,904	5,505	5,870	5,857	5,951	6,188	6,676
Trust Fund	102	95	90	90	89	89	89	89	89
Total	**36,837**	**42,040**	**40,488**	**56,026**	**67,175**	**50,370**	**48,691**	**58,699**	**72,879**
					Percent of total				
Stand-By Arrangements[1]	41	49	45	46	38	43	35	49	47
Extended Arrangements	28	24	28	22	25	33	33	26	21
Supplemental Reserve Facility	—	—	—	13	19	—	9	10	22
Compensatory and Contingency Financing Facility	8	4	3	1	4	6	6	1	1
Systemic Transformation Facility	10	9	10	7	5	5	4	2	1
Subtotal (GRA)	**87**	**86**	**85**	**89**	**90**	**87**	**87**	**88**	**91**
SAF Arrangements	3	3	2	1	1	1	1	1	—[3]
PRGF Arrangements[2]	9	11	12	10	9	12	12	11	9
Trust Fund	—[3]	—[3]	—[3]	—[3]	—[3]	—[3]	—[3]	—[3]	—[3]
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

[1]Includes outstanding credit tranche and emergency purchases.
[2]Includes outstanding associated loans from the Saudi Fund for Development.
[3]Less than ½ of 1 percent of total.

Table II.9
Summary of Bilateral Contributions to the PRGF and PRGF-HIPC Trusts
(In millions of SDRs; as of April 30, 2003)

	PRGF Trust		PRGF-HIPC Trust
	Subsidy contributions "as needed"[1]	Loan commitments[2]	Subsidies and HIPC grant contributions "as needed"[3]
Total	**3,490.2**	**15,722.7**	**1,561.6**
Major industrial countries	**2,294.0**	**12,864.8**	**880.5**
Canada	204.3	700.0	48.8
France	474.4	2,900.0	82.2
Germany	197.7	2,750.0	127.2
Italy	157.8	1,380.0	63.6
Japan	723.1	5,134.8	144.0
United Kingdom	358.9	—	82.2
United States	177.7	—	332.6
Other advanced countries	**980.8**	**2,452.8**	**299.7**
Australia	14.8	—	24.8
Austria	62.8	—	14.3
Belgium	120.8	350.0	35.3
Denmark	66.9	100.0	18.5
Finland	42.1	—	8.0
Greece	39.6	—	6.3
Iceland	4.6	—	0.9
Ireland	8.1	—	5.9
Israel	—	—	1.8
Korea	60.0	92.7	15.9
Luxembourg	14.1	—	0.7
Netherlands	141.6	450.0	45.4
New Zealand	—	—	1.7
Norway	45.5	150.0	18.5
Portugal	5.3	—	6.6
San Marino	—	—	0.05
Singapore	32.7	—	16.5
Spain	26.2	708.4	23.3
Sweden	186.3	—	18.3
Switzerland	109.5	601.7	37.0
Fuel-exporting countries	**17.2**	**49.5**	**93.1**
Algeria	—	—	5.5
Brunei Darussalam	—	—	0.1
Gabon[4]	—	—	2.5
Iran, Islamic Republic of	2.0	—	2.2
Kuwait	—	—	3.1
Libya	—	—	7.3
Nigeria	—	—	13.9
Oman	—	—	0.8
Qatar	—	—	0.5
Saudi Arabia	15.1	49.5	53.5
United Arab Emirates	—	—	3.8
Other developing countries	**184.9**	**355.6**	**221.1**
Argentina[5]	35.1	—	16.2
Bangladesh	0.9	—	1.7
Barbados	—	—	0.4
Belize	—	—	0.3
Botswana	2.3	—	5.7
Brazil	—	—	15.0
Cambodia	—	—	0.04
Chile	4.0	—	4.4
China	14.9	200.0	19.7
Colombia	—	—	0.9
Cyprus	—	—	0.8
Egypt	13.3	155.6	1.3
Ghana	—	—	0.5
India	13.2	—	22.9
Indonesia	6.1	—	8.2
Jamaica	—	—	2.7

Table II.9 *(concluded)*

	PRGF Trust		PRGF-HIPC Trust
	Subsidy contributions "as needed"[1]	Loan commitments[2]	Subsidies and HIPC grant contributions "as needed"[3]
Malaysia	46.0	—	12.7
Malta	2.1	—	1.1
Mauritius	—	—	0.1
Mexico	—	—	54.5
Micronesia, F. S.	—	—	0.00[6]
Morocco	9.7	—	1.6
Pakistan	4.0	—	3.4
Paraguay	—	—	0.1
Peru	—	—	2.5
Philippines	—	—	6.7
Samoa	—	—	0.00[6]
South Africa	—	—	28.6
Sri Lanka	—	—	0.6
St. Lucia	—	—	0.1
St. Vincent and the Grenadines	—	—	0.1
Swaziland	—	—	0.01
Thailand	17.2	—	4.5
Tunisia	1.8	—	1.5
Turkey	11.6	—	—
Uruguay	2.6	—	2.2
Vietnam	—	—	0.4
Countries in transition	**13.4**	—	**42.9**
Croatia	—	—	0.4
Czech Republic	13.4	—	4.1
Estonia	—	—	0.5
Hungary	—	—	6.0
Latvia	—	—	1.0
Poland	—	—	12.0
Russian Federation	—	—	14.6
Slovak Republic	—	—	4.0
Slovenia	—	—	0.4
Pending contributions to the PRGF-HIPC Trust ("as needed")[3]			**24.1**
Bahrain	—	—	0.9
Dominican Republic	—	—	0.5
Fiji	—	—	0.1
Grenada	—	—	0.1
Lebanon	—	—	0.4
Maldives	—	—	0.01
Venezuela	—	—	20.4
Tonga	—	—	0.02
Trinidad and Tobago	—	—	1.6
Vanuatu	—	—	0.1

[1]The calculations are based on actual interest rates through end-June 2002 and an assumed SDR interest rate of 5 percent per annum thereafter.
[2]Excludes a loan commitment from the OPEC Fund for International Development of US$50 million (equivalent to SDR 37 million).
[3]The term "as needed" refers to the nominal undiscounted sum of the projected delivery of HIPC assistance plus the profile of projected subsidy needs associated with PRGF lending during 2002–05.
[4]Contribution to the PRGF-HIPC Trust includes a pending balance of SDR 1.9 million "as needed."
[5]Contribution to the PRGF-HIPC Trust includes a pending balance of SDR 6.4 million "as needed."
[6]Less than SDR 5,000.

Table II.10

Holdings of SDRs by All Participants and by Groups of Countries as Percentage of Their Cumulative Allocations of SDRs, at End of Financial Years Ended April 30, 1994–2003

			Nonindustrial Countries[2]			
					Net debtor countries	
	All Participants[1]	Industrial Countries[2]	All nonindustrial countries	Net creditor countries	All net debtor countries	Heavily indebted poor countries
1994	71.0	77.9	56.3	222.5	47.7	12.5
1995	90.9	105.1	60.4	263.9	49.8	14.1
1996	91.4	102.4	67.9	285.5	56.6	17.4
1997	87.2	99.8	60.5	303.6	47.8	17.3
1998	95.0	107.0	69.4	323.7	56.1	24.1
1999	81.1	94.6	52.5	170.7	46.3	26.3
2000	84.6	95.0	62.5	174.1	56.6	20.6
2001	86.6	101.6	54.6	204.2	46.5	12.4
2002	91.5	107.7	56.9	227.9	44.7	14.6
2003	93.0	102.4	72.0	173.7	57.7	17.1

[1]Consists of member countries that are participants in the SDR Department. At the end of FY2003, of the total SDRs allocated to participants in the SDR Department (SDR 21.4 billion), SDR 1.5 billion was not held by participants, but instead by the IMF and prescribed holders.

[2]Based on *IFS* classification (International Monetary Fund, *International Financial Statistics*, various years).

Table II.11
Key IMF Rates, Financial Year Ended April 30, 2003
(In percent)

Period Beginning	SDR Interest Rate and Unadjusted Rate of Remuneration[1]	Basic Rate of Charge[1]	Period Beginning	SDR Interest Rate and Unadjusted Rate of Remuneration[1]	Basic Rate of Charge[1]
2002					
May 1	2.28	2.82	November 4	2.10	2.59
May 6	2.30	2.84	November 11	1.98	2.45
May 13	2.30	2.84	November 18	1.99	2.46
May 20	2.33	2.88	November 25	1.97	2.43
May 27	2.31	2.85			
			December 2	1.96	2.42
June 3	2.32	2.87	December 9	1.92	2.37
June 10	2.32	2.87	December 16	1.92	2.37
June 17	2.31	2.85	December 23	1.94	2.40
June 24	2.32	2.87	December 30	1.91	2.36
July 1	2.30	2.84	**2003**		
July 8	2.33	2.88	January 6	1.91	2.36
July 15	2.28	2.82	January 13	1.90	2.35
July 22	2.29	2.83	January 20	1.89	2.33
July 29	2.25	2.78	January 27	1.88	2.32
August 5	2.22	2.74	February 3	1.86	2.30
August 12	2.21	2.73	February 10	1.84	2.27
August 19	2.21	2.73	February 17	1.82	2.25
August 26	2.23	2.75	February 24	1.81	2.24
September 2	2.25	2.78	March 3	1.76	2.17
September 9	2.22	2.74	March 10	1.73	2.14
September 16	2.24	2.77	March 17	1.76	2.17
September 23	2.22	2.74	March 24	1.75	2.16
September 30	2.19	2.70	March 31	1.74	2.15
October 7	2.19	2.70	April 7	1.72	2.12
October 14	2.18	2.69	April 14	1.74	2.15
October 21	2.23	2.75	April 21	1.77	2.19
October 28	2.20	2.72	April 28	1.75	2.16

[1]Under the FY2003 decision on burden sharing, the rate of remuneration was adjusted downward and the rate of charge was adjusted upward to share the burden of protecting the IMF's income from overdue charges and of contributing to the IMF's precautionary balances. The amounts generated from burden sharing in FY2003 are refundable when overdue charges are paid and when overdue obligations cease to be a problem. The basic rate of charge presented is the effective rate following the retroactive reduction that was implemented after the end of the financial year. The basic rate of charge, which was set at 128.0 percent of the SDR interest rate, was reduced to 123.5 percent of the SDR interest rate as a result of the retroactive reduction.

Table II.12
Members That Have Accepted the Obligations of Article VIII, Sections 2, 3, and 4, of the Articles of Agreement

Member	Effective Date of Acceptance	Member	Effective Date of Acceptance
Algeria	September 15, 1997	Guinea-Bissau	January 1, 1997
Antigua and Barbuda	November 22, 1983	Guyana	December 27, 1966
Argentina	May 14, 1968	Haiti	December 22, 1953
Armenia	May 29, 1997	Honduras	July 1, 1950
Australia	July 1, 1965	Hungary	January 1, 1996
Austria	August 1, 1962	Iceland	September 19, 1983
Bahamas, The	December 5, 1973	India	August 20, 1994
Bahrain	March 20, 1973	Indonesia	May 7, 1988
Bangladesh	April 11, 1994	Ireland	February 15, 1961
Barbados	November 3, 1993	Israel	September 21, 1993
Belarus	November 5, 2001	Italy	February 15, 1961
Belgium	February 15, 1961	Jamaica	February 22, 1963
Belize	June 14, 1983	Japan	April 1, 1964
Benin	June 1, 1996	Jordan	February 20, 1995
Bolivia	June 5, 1967	Kazakhstan	July 16, 1996
Botswana	November 17, 1995	Kenya	June 30, 1994
Brazil	November 30, 1999	Kiribati	August 22, 1986
Brunei Darussalam	October 10, 1995	Korea	November 1, 1988
Bulgaria	September 24, 1998	Kuwait	April 5, 1963
Burkina Faso	June 1, 1996	Kyrgyz Republic	March 29, 1995
Cambodia	January 1, 2002	Latvia	June 10, 1994
Cameroon	June 1, 1996	Lebanon	July 1, 1993
Canada	March 25, 1952	Lesotho	March 5, 1997
Central African Republic	June 1, 1996	Lithuania	May 3, 1994
Chad	June 1, 1996	Luxembourg	February 15, 1961
Chile	July 27, 1977	Macedonia, FYR	June 19, 1998
China	December 1, 1996	Madagascar	September 18, 1996
Comoros	June 1, 1996	Malawi	December 7, 1995
Congo, Democratic Republic of	February 10, 2003	Malaysia	November 11, 1968
Congo, Republic of	June 1, 1996	Mali	June 1, 1996
Costa Rica	February 1, 1965	Malta	November 30, 1994
Côte d'Ivoire	June 1, 1996	Marshall Islands	May 21, 1992
Croatia	May 29, 1995	Mauritania	July 19, 1999
Cyprus	January 9, 1991	Mauritius	September 29, 1993
Czech Republic	October 1, 1995	Mexico	November 12, 1946
Denmark	May 1, 1967	Micronesia, Federated States of	June 24, 1993
Djibouti	September 19, 1980	Moldova	June 30, 1995
Dominica	December 13, 1979	Mongolia	February 1, 1996
Dominican Republic	August 1, 1953	Morocco	January 21, 1993
Ecuador	August 31, 1970	Namibia	September 20, 1996
El Salvador	November 6, 1946	Nepal	May 30, 1994
Equatorial Guinea	June 1, 1996	Netherlands	February 15, 1961
Estonia	August 15, 1994	New Zealand	August 5, 1982
Fiji	August 4, 1972	Nicaragua	July 20, 1964
Finland	September 25, 1979	Niger	June 1, 1996
France	February 15, 1961	Norway	May 11, 1967
Gabon	June 1, 1996	Oman	June 19, 1974
Gambia, The	January 21, 1993	Pakistan	July 1, 1994
Georgia	December 20, 1996	Palau	December 16, 1997
Germany	February 15, 1961	Panama	November 26, 1946
Ghana	February 21, 1994	Papua New Guinea	December 4, 1975
Greece	July 7, 1992	Paraguay	August 22, 1994
Grenada	January 24, 1994	Peru	February 15, 1961
Guatemala	January 27, 1947	Philippines	September 8, 1995
Guinea	November 17, 1995	Poland	June 1, 1995

Table II.12 *(concluded)*

Member	Effective Date of Acceptance	Member	Effective Date of Acceptance
Portugal	September 12, 1988	Switzerland	May 29, 1992
Qatar	June 4, 1973	Tanzania	July 15, 1996
Romania	March 25, 1998	Thailand	May 4, 1990
Russian Federation	June 1, 1996	Timor-Leste	July 23, 2002
Rwanda	December 10, 1998	Togo	June 1, 1996
St. Kitts and Nevis	December 3, 1984	Tonga	March 22, 1991
St. Lucia	May 30, 1980	Trinidad and Tobago	December 13, 1993
St. Vincent and the Grenadines	August 24, 1981	Tunisia	January 6, 1993
Samoa	October 6, 1994	Turkey	March 22, 1990
San Marino	September 23, 1992	Uganda	April 5, 1994
Saudi Arabia	March 22, 1961	Ukraine	September 24, 1996
Senegal	June 1, 1996	United Arab Emirates	February 13, 1974
Serbia and Montenegro[1]	May 15, 2002	United Kingdom	February 15, 1961
Seychelles	January 3, 1978	United States	December 10, 1946
Sierra Leone	December 14, 1995	Uruguay	May 2, 1980
Singapore	November 9, 1968	Vanuatu	December 1, 1982
Slovak Republic	October 1, 1995	Venezuela	July 1, 1976
Slovenia	September 1, 1995	Yemen, Republic of	December 10, 1996
Solomon Islands	July 24, 1979	Zambia	April 19, 2002
South Africa	September 15, 1973	Zimbabwe	February 3, 1995
Spain	July 15, 1986		
Sri Lanka	March 15, 1994		
Suriname	June 29, 1978		
Swaziland	December 11, 1989		
Sweden	February 15, 1961		

[1]Effective February 4, 2003, the Federal Republic of Yugoslavia changed its name to Serbia and Montenegro.

Table II.13
De Facto Exchange Rate Arrangements and Anchors of Monetary Policy as of April 30, 2003

Classification of De Facto Exchange Rate Regimes and Monetary Policy Frameworks

This classification system is based on members' actual, de facto regimes, which may differ from their officially announced arrangements. The scheme ranks exchange rate regimes on the basis of the degree of flexibility of the arrangement or a formal or informal commitment to a given exchange rate path. It distinguishes between the more rigid forms of pegged regimes, such as currency board arrangements; other conventional fixed-peg regimes against a single currency or a basket of currencies; exchange rate bands around a fixed peg; crawling-peg arrangements; and exchange rate bands around crawling pegs, in order to help assess the implications of the choice of exchange rate regime for the degree of independence of monetary policy. This includes a category to distinguish the exchange arrangements of those countries that have no separate legal tender. The system presents members' exchange rate regimes against alternative monetary policy frameworks with the intention of using both criteria as a way of providing greater transparency in the classification scheme and to illustrate that different forms of exchange rate regimes could be consistent with similar monetary frameworks. The following explains the categories.

Exchange Rate Regimes

Exchange Arrangements with No Separate Legal Tender

The currency of another country circulates as the sole legal tender (formal dollarization), or the member belongs to a monetary or currency union in which the same legal tender is shared by the members of the union. Adopting such regimes is a form of surrendering the monetary authorities' independent control over domestic monetary policy.

Currency Board Arrangements

A monetary regime based on an explicit legislative commitment to exchange domestic currency for a specified foreign currency at a fixed exchange rate, combined with restrictions on the issuing authority to ensure the fulfillment of its legal obligation. This implies that domestic currency be issued only against foreign exchange and that it remain fully backed by foreign assets, eliminating traditional central bank functions, such as monetary control and lender of last resort, and leaving little scope for discretionary monetary policy; some flexibility may still be afforded, depending on how strict the rules of the boards are.

Other Conventional Fixed Peg Arrangements

The country (formally or de facto) pegs its currency at a fixed rate to another currency or a basket of currencies, where the basket is formed from the currencies of major trading or financial partners and weights reflect the geographical distribution of trade, services, or capital flows. The currency composites can also be standardized, such as those of the SDR. There is no commitment to keep the parity irrevocably. The exchange rate may fluctuate within a narrow margin of less than ±1 percent around a central rate or the maximum and minimum value of the exchange rate may remain within a narrow margin of 2 percent for at least three months. The monetary authority stands ready to keep the fixed parity through direct intervention (i.e., via sale/purchase of foreign exchange in the market) or indirect intervention (e.g., via aggressive use of interest rate policy, imposition of foreign exchange regulations or exercise of moral suasion that constrains foreign exchange activity, or through intervention by other public institutions). Flexibility of monetary policy, though limited, is greater than in hard pegs, because traditional central banking functions are still possible, and the monetary authority can adjust the level of the exchange rate, although relatively infrequently.

Pegged Exchange Rates within Horizontal Bands

The value of the currency is maintained within certain margins of fluctuation of at least ±1 percent around a formal or a de facto fixed central rate. It also includes the arrangements of the countries in the exchange rate mechanism (ERM) of the European Monetary System (EMS), which was replaced with the ERM II on January 1, 1999. There is a limited degree of monetary policy discretion, with the degree of discretion depending on the band width.

Crawling Pegs

The currency is adjusted periodically in small amounts at a fixed rate or in response to changes in selective quantitative indicators, such as past inflation differentials vis-à-vis major trading partners, differentials between the target inflation and expected inflation in major trading partners, and so forth. The rate of crawl can be set to generate inflation-adjusted changes in the currency (backward looking), or set at a preannounced fixed rate and/or below the projected inflation differentials (forward looking). Maintaining a credible crawling peg imposes constraints on monetary policy in a similar manner as a fixed-peg system.

Exchange Rates within Crawling Bands

The currency is maintained within certain fluctuation margins of at least ±1 percent around a central rate, which is adjusted periodically at a fixed rate or in response to changes in selective quantitative indicators. The degree of flexibility of the exchange rate is a function of the width of the band, with bands chosen to be either symmetric around a crawling central parity or to widen gradually with an asymmetric choice of the crawl of upper and lower bands (in the latter case, there may not be a preannounced central rate). The commitment to maintain the exchange rate within the band continues to impose constraints on monetary policy, with the degree of policy independence being a function of the band width.

Managed Floating with No Predetermined Path for the Exchange Rate

The monetary authority influences exchange rate movements through active intervention to counter the long-term trend of the exchange rate without specifying a predetermined exchange rate path or without having a specific exchange rate target. Indicators for managing the rate are broadly judgmental—e.g., balance of payments position, international reserves, parallel market developments—and adjustments may not be automatic. Intervention may be direct or indirect. A distinction is made between "tightly managed floating"—where intervention takes the form of very tight monitoring that generally results in a stable exchange rate without having a clear exchange rate path, with the aim of permitting authorities an extra degree of flexibility in deciding the tactics to achieve a desired path—and "other managed floating," where the exchange rate is influenced in a more ad hoc fashion.

Independently Floating

The exchange rate is market determined, with any foreign exchange intervention aimed at moderating the rate of change and preventing undue fluctuations in the exchange rate, rather than at establishing a level for it. In these regimes, monetary policy is, in principle, independent of exchange rate policy.

Monetary Policy Frameworks

The exchange rate regime is presented against alternative monetary policy frameworks in order to present the role of the exchange rate in broad economic policy and help identify potential sources of inconsistency in the monetary–exchange rate policy mix.

Exchange Rate Anchor

The monetary authority stands ready to buy/sell foreign exchange at given quoted rates to maintain the exchange rate at its preannounced level or range; the exchange rate serves as the nominal anchor or intermediate target of monetary policy. This type of regime covers exchange rate regimes with no separate legal tender; CBAs; fixed pegs with and without bands; and crawling pegs with and without bands, where the rate of crawl is set in a forward-looking manner.

Monetary Aggregate Anchor

The monetary authority uses its instruments to achieve a target growth rate for a monetary aggregate, such as reserve money, M1, and M2, and the targeted aggregate becomes the nominal anchor or intermediate target of monetary policy.

Table II.13 *(continued)*

Inflation-Targeting Framework

This involves the public announcement of medium-term numerical targets for inflation with an institutional commitment by the monetary authority to achieve these targets. Additional key features include increased communication with the public and the markets about the plans and objectives of monetary policymakers and increased accountability of the central bank for obtaining its inflation objectives. Monetary policy decisions are guided by the deviation of forecasts of future inflation from the announced inflation target, with the inflation forecast acting (implicitly or explicitly) as the intermediate target of monetary policy.

Fund-Supported or Other Monetary Program

This involves implementation of monetary and exchange rate policies within the confines of a framework that establishes floors for international reserves and ceilings for net domestic assets of the central bank. Because the ceiling on net domestic assets limits increases in reserve money through central bank operations, indicative targets for reserve money may be appended to this system.

Other

The country has no explicitly stated nominal anchor but rather monitors various indicators in conducting monetary policy, or there is no relevant information available for the country.

Exchange Rate Regime (number of countries)	Monetary Policy Framework[1] Exchange rate anchor	Monetary aggregate target	Inflation-targeting framework	IMF-supported or other monetary program	Other
Exchange arrangements with no separate legal tender (41)	***Another currency as legal tender*** Ecuador El Salvador[4] Kiribati Marshall Islands Micronesia Palau Panama San Marino Timor-Leste ***ECCU[2]*** Antigua and Barbuda Dominica* Grenada St. Kitts and Nevis St. Lucia St. Vincent and the Grenadines ***CFA franc zone*** ***WAEMU*** Benin* Burkina Faso Côte d'Ivoire* Guinea-Bissau* Mali* Niger* Senegal Togo ***CAEMC*** Cameroon* Central African Rep. Chad* Congo, Rep. of Equatorial Guinea Gabon				***Euro area[3]*** Austria Belgium Finland France Germany Greece Ireland Italy Luxembourg Netherlands Portugal Spain
Currency board arrangements (7)	Bosnia and Herzegovina* Brunei Darussalam Bulgaria* China—Hong Kong, SAR Djibouti Estonia Lithuania				
Other conventional fixed peg arrangements (42)	***Against a single currency (33)*** Aruba Bahamas, The[5] Bahrain Bangladesh Barbados Belize Bhutan Cape Verde* China[6] Comoros[7] Eritea Guinea*[6] Jordan*[6] Kuwait[6] Lebanon[6] Lesotho* Macedonia, FYR[6] Malaysia Maldives[6] Namibia Nepal Netherlands Antilles Oman Qatar Saudi Arabia Suriname[5, 6] Swaziland Syrian Arab Republic[6] Turkmenistan[6] Ukraine[6] United Arab Emirates Venezuela Zimbabwe[6] ***Against a composite (9)*** Botswana[3] Fiji Latvia Libya Malta Morocco Samoa Seychelles Vanuatu	China[6]			

Table II.13 *(continued)*

	Monetary Policy Framework[1]					
Exchange Rate Regime (number of countries)	Exchange rate anchor		Monetary aggregate target	Inflation-targeting framework	IMF-supported or other monetary program	Other
Pegged exchange rates within horizontal bands (5)[8]	***Within a cooperative arrangement ERM II (1)*** Denmark	***Other band arrangements (4)*** Cyprus Hungary† Sudan[6] Tonga	Sudan[6]	Hungary†		
Crawling pegs (5)	Bolivia Costa Rica[6] Nicaragua* Solomon Islands[6] Tunisia		Tunisia			
Exchange rates within crawling bands (5)[9]	Belarus Honduras Israel† Romania[6] Slovenia†6		Slovenia†6	Israel†		
Managed floating with no pre-announced path for the exchange rate (46)			Cambodia[5] Egypt[5] Gambia, The* Ghana Guyana* Indonesia* Iran, I.R. of Jamaica[6] Mauritius São Tomé and Príncipe Zambia	Czech Rep. Thailand	Argentina Azerbaijan Croatia Ethiopia Kenya Kyrgyz Republic Lao PDR[5] Moldova[6] Mongolia Pakistan Rwanda Serbia and Montenegro[11] Tajikistan Vietnam	Afghanistan Algeria[3] Angola[3] Burundi[3] Dominican Rep.[3,5] Guatemala[3] Haiti[3,6] India[3] Iraq[10] Kazakhstan[3] Mauritania Myanmar[3,5,6] Nigeria Paraguay[3] Russian Federation Singapore[3] Slovak Rep.[3] Trinidad and Tobago Uzbekistan[3,5]
Independently floating (36)			Malawi* Sierra Leone* Sri Lanka Uruguay Yemen, Rep. of	Australia Brazil* Canada Chile[3] Colombia Iceland Korea Mexico New Zealand Norway Peru*† Philippines Poland South Africa Sweden Turkey* United Kingdom	Albania Armenia Congo, Dem. Rep. of Georgia Madagascar Mozambique Tanzania Uganda	Japan[3] Liberia[3] Papua New Guinea[3] Somalia[3,10] Switzerland[3] United States[3]

Sources: IMF Country Reports; and *International Financial Statistics.*

[1]An asterisk (*) indicates that the country has an IMF-supported or other monetary program. A dagger (†) indicates that the country adopts more than one nominal anchor in conducting monetary policy (it should be noted, however, that it would not be possible, for practical reasons, to infer from this table which nominal anchor plays the principal role in conducting monetary policy).

[2]These countries have a currency board arrangement.

[3]The country has no explicitly stated nominal anchor, but rather monitors various indicators in conducting monetary policy.

Table II.13 *(concluded)*

[4]For El Salvador, the printing of new colones, the domestic currency, is prohibited, but the existing stock of colones will continue to circulate, along with the U.S. dollar as legal tender until all colón notes wear out physically.

[5]The member maintains an exchange arrangement involving more than one market. The arrangement shown is that maintained in the major market.

[6]The regime operating de facto in the country is different from its de jure regime.

[7]Comoros has the same arrangement with the French Treasury as the CFA franc zone countries do.

[8]The band widths for these countries are Cyprus (±15%), Denmark (±2.25%), Hungary (±15%), Sudan (±2%), and Tonga (±5%).

[9]The band widths for these countries are Belarus (±5%), Honduras (±7%), Israel (±22%), and Romania and Slovenia (unannounced).

[10]Insufficient information on the country is available for classification.

[11]Effective February 4, 2003, the Federal Republic of Yugoslavia changed its name to Serbia and Montenegro.

Principal Policy Decisions of the Executive Board

A. Disposition of Net Income for FY2003

1. SDR 69 million of the Fund's net income for FY2003 derived from the application of paragraph 2 of Decision No. 12730-(02/43),[1] adopted April 26, 2002, shall be placed to the Fund's Special Reserve after the end of the financial year.

2. The expense derived from the application of International Accounting Standard 19—Employee Benefits during FY2003 shall be charged against the Fund's Special Reserve and shall be recorded separately in the financial records of the Fund (EBS/03/43, 4/7/03).

Decision No. 12987-(03/36)
April 21, 2003

B. Rate of Charge on Use of Fund Resources for FY2004

1. Notwithstanding Rule I-6(4)(a), effective May 1, 2003, the proportion of the rate of charge referred to in Rule I-6(4) to the SDR interest rate under Rule T-1 shall be 132 percent.

2. The net income target for FY2004 shall be SDR 108 million. Any net income for financial year 2004 in excess of SDR 108 million shall be used to reduce retroactively the proportion of the rate of charge for financial year 2004. If net income for financial year 2004 is below SDR 108 million, the amount of projected net income for financial year 2005 shall be increased by the equivalent of that shortfall. For the purpose of this provision, net income shall be calculated without taking into account net operational income generated by the surcharges on purchases under the Supplemental Reserve Facility and Contingent Credit Lines, the surcharge on purchases in the credit tranches and under the Extended Fund Facility or the effect on income of the implementation of International Accounting Standard 19—Employee Benefits (EBS/03/43, 4/7/03).

Decision No. 12988-(03/36)
April 21, 2003

C. Burden Sharing—Implementation in FY2004

Section I. Principles of Burden Sharing

1. The financial consequences for the Fund that stem from the existence of overdue financial obligations shall be shared between debtor and creditor member countries.

2. The sharing shall be applied in a simultaneous and symmetrical fashion.

Section II. Determination of the Rate of Charge

The rate of charge referred to in Rule I-6(4) shall be adjusted in accordance with the provisions of Section IV of this decision and Section IV of Executive Board Decision No. 12189-(00/45),[2] adopted April 28, 2000.

Section III. Adjustment for Deferred Charges

Notwithstanding paragraph 1(a) of Section IV of Executive Board Decision No. 12189-(00/45), adopted April 28, 2000, the rate of charge and the rate of remuneration determined under that Section shall be rounded to two decimal places.

Section IV. Amount for Special Contingent Account–1

1. An amount of SDR 94 million shall be generated during financial year 2004 in accordance with the provisions of this Section and shall be placed to the Special Contingent Account–1 referred to in Decision No. 9471-(90/98), adopted June 20, 1990.

2. (a) In order to generate the amount to be placed to the Special Contingent Account–1 in accordance with paragraph 1 of this Section, notwithstanding Rule I-6(4)(a) and (b) and Rule I–10, the rate of charge referred to in Rule I-6(4) and, subject to the limitation in (b), the rate of remuneration prescribed in Rule I-10 shall be adjusted in accordance with the provisions of this paragraph.

(b) Notwithstanding paragraph 1 above, adjustments to the rate of charge and the rate of remuneration under this paragraph shall be rounded to two decimal places. No adjustment in the rate of remuneration under this paragraph shall be carried to the point where the average remuneration coefficient would be reduced below 85 percent for an adjustment period.

(c) The adjustments under this paragraph shall be made as of May 1, 2003, August 1, 2003, November 1, 2003, and February 1, 2004; shortly after July 31 for the period May 1 to July 31; shortly after October 31 for the period from August 1 to October 31; shortly after January 31 for the period from November 1 to January 31; shortly after April 30 for the period from February 1 to April 30.

3. (a) Subject to paragraph 3 of Decision No. 8780-(88/12), adopted January 29, 1988, the balances held in the Special Contingent Account–1 shall be distributed in accordance with the provisions of this paragraph to members that have paid additional charges or have received reduced remuneration as a result of the adjustment when there are no outstanding

[1]See *Selected Decisions*, Twenty-Seventh Issue (December 31, 2002), page 386.

[2]Ibid., page 378.

overdue charges and repurchases, or at such earlier time as the Fund may decide.

(b) Distributions under (a) shall be made in proportion to the amounts that have been paid or have not been received by each member because of the respective adjustments.

(c) If a member that is entitled to a payment under this paragraph has any overdue obligation to the Fund in the General Department at the time of payment, the member's claim under this paragraph shall be set off against the Fund's claim in accordance with Decision No. 8271-(86/74),[3] adopted April 30, 1986, or any subsequent decision of the Fund.

(d) Subject to paragraph 4 of Decision No. 8780-(88/12), adopted January 29, 1988, if any loss is charged against the Special Contingent Account–1, it shall be recorded in accordance with the principles of proportionality set forth in (b).

Section V. Review

The operation of this decision shall be reviewed when the adjustment in the rate of remuneration reduces the remuneration coefficient to the limit set forth in paragraph 2(b) of Section IV of this decision and Section IV of Executive Board Decision No. 12189-(00/45),[4] adopted April 28, 2000 (EBS/03/43, 4/7/03).

Decision No. 12989-(03/36)
April 21, 2003

D. Surcharges on Purchases Under Supplemental Reserve Facility and Contingent Credit Lines, and in Credit Tranches and Under Extended Fund Facility —Disposition of Net Operating Income

For financial year 2004, after meeting the cost of administering the PRGF Trust, any remaining net operational income generated by the surcharges on purchases under the Supplemental Reserve Facility and the Contingent Credit Lines and the surcharges on purchases in the credit tranches and under the Extended Fund Facility shall be placed, after the end of that financial year, to the General Reserve (EBS/03/43, 4/7/03).

Decision No. 12990-(03/36) SRF/CCL
April 21, 2003

E. Review of System of Special Charges

The Fund has reviewed the system of special charges applicable to overdue obligations to the General Resources Account, the Structural Adjustment Facility, and the Trust Fund (EBS/03/43, 4/7/03).

Decision No. 12991-(03/36) G/SAF/TR
April 21, 2003

F. Framework Administered Account for Technical Assistance Activities—Pacific Financial Technical Assistance Center Subaccount

In accordance with the terms and conditions of the Instrument establishing the Framework Administered Account for Technical Assistance Activities (Decision No. 10942-(95/33)),[5] as amended, the Fund hereby approves the establishment of the "Pacific Financial Technical Assistance Center Subaccount," which shall be used by the Fund to administer resources to be contributed by the Government of Australia, and any subsequent Contributors, as described in EBS/02/84, 5/15/02.

Decision No. 12751-(02/52)
May 22, 2002

G. Framework Administered Account for Technical Assistance Activities—Africa Regional Technical Assistance Centers Subaccount

In accordance with the terms and conditions of the Instrument establishing the Framework Administered Account for Technical Assistance Activities (Decision No. 10942-(95/33)),[6] as amended, the Fund hereby approves the establishment of the Africa Regional Technical Assistance Centers Subaccount, which shall be used by the Fund to administer resources to be contributed by the Governments of France, the Federal Republic of Germany, Italy, the Netherlands, Norway/Ministry of Foreign Affairs, Sweden, and the United Kingdom, and any subsequent Contributors, as described in EBS/02/135 (7/26/02).

Decision No. 12832-(02/88)
August 9, 2002

H. Implementation of Procedures for Surveillance: 2002 Review

The Executive Board has reviewed the general implementation of the Fund's surveillance over members' exchange rate policies, as required by paragraph VI of Procedures for Surveillance contained in the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63),[7] adopted April 29, 1977, as amended. The next review shall be conducted no later than August 10, 2002.

The Executive Board has reviewed the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, as amended, as required by paragraph 2 of that decision. The next review of the document shall be conducted no later than August 10, 2002.

Decision No. 12178-(00/41)
April 10, 2000,
as amended by Decision Nos. 12713-(02/38), April 5, 2002, and 12792-(02/75),
July 10, 2002

I. Implementation of Procedures for Surveillance: 2002 Review

The Executive Board has reviewed the general implementation of the Fund's surveillance over members' exchange rate policies, as required by paragraph VI of Procedures for Surveillance contained in the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, as amended. The next review shall be conducted no later than July 15, 2004.

[3] Ibid., page 372.
[4] Ibid., page 378.
[5] Ibid., page 150.
[6] Ibid., page 150.
[7] Ibid., page 10.

The Executive Board has reviewed the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, as amended, as required by paragraph 2 of that decision. The next review of the document shall be conducted no later than July 15, 2004 (SM/02/184, Sup. 1, 6/18/02).

Decision No. 12793-(02/76)
July 15, 2002

J. Biennial Review of Implementation of Fund Surveillance and of 1977 Surveillance Review—Changes in Article IV Consultation Cycles

1. Each member presently receiving financial assistance under a Fund arrangement shall immediately be placed on the 24-month consultation cycle and, in future, whenever a Fund arrangement is approved for a member, that member shall automatically be placed on the 24-month consultation cycle. Article IV consultations with such members shall be conducted in accordance with the procedures specified below.

2. Article IV consultations with a member receiving financial assistance under a Fund arrangement will be expected to be completed within 24 months of the date of completion of the previous Article IV consultation with that member, except that the consultation cycle will be shortened under the following circumstances:

(a) where the most recent Article IV consultation with the member was completed 6 months or more before the date of approval of the relevant arrangement, the next Article IV consultation with that member will be expected to be completed by the later of (i) 6 months after the date of approval of the arrangement, and (ii) 12 months, plus a grace period of three months, after the date of completion of the previous Article IV consultation; and

(b) where, with respect to a member whose circumstances do not fall within paragraph 2(a), a program review under an arrangement for that member is not completed by the date for completion specified in the arrangement, the next Article IV consultation with that member will be expected to be completed by the later of (i) 6 months after the date specified in the arrangement for completion of the review, and (ii) 12 months, plus a grace period of 3 months, after the date of completion of the previous Article IV consultation, provided, however, that, where the relevant program review is completed before the later of the dates specified in (i) and (ii) above, the next Article IV consultation will be expected to be completed within 24 months of the date of completion of the previous Article IV consultation with that member.

Upon the expiration or cancellation of an arrangement for a member, that member shall automatically be placed on the standard 12-month consultation cycle and the next Article IV consultation with that member will be expected to be completed by the later of (i) 6 months after such expiration or cancellation, and (ii) 12 months, plus a grace period of 3 months, after the date of completion of the previous Article IV consultation, but in no event later than 24 months after the completion of the previous Article IV consultation (SM/02/184, Sup. 1, 6/18/02, Sup. 3, 9/5/02).

Decision No. 12794-(02/76), July 15, 2002,
as amended by Decision No. 12854-(02/96),
September 12, 2002

K. Modalities for Surveillance over Euro-Area Policies in Context of Article IV Consultations with Member Countries

The current frequency of Article IV consultations with individual euro-area countries, which are generally on the standard 12-month cycle, will be maintained.

There will be twice-yearly staff discussions with EU institutions responsible for common policies in the euro area. These discussions will be held separately from the discussions with individual euro-area countries, but are considered an integral part of the Article IV process for each member. The discussions with individual euro-area countries will be clustered, to the extent possible, around the discussions with the relevant EU institutions.

There will be an annual staff report and Board discussion on Euro-Area Policies in the Context of the Article IV Consultations with Member Countries, which will be considered part of the Article IV consultation process with individual members. In addition to monetary and exchange rate policies, the staff report will also cover from a regional perspective other economic policies relevant for Fund surveillance. Staff will report informally to the Board on the second round of discussions with EU institutions to provide adequate context for bilateral consultations with euro-area countries that do not coincide broadly with the annual Board discussion on the euro area.

There will be a summing up of the conclusion of the Board's annual discussion on Euro-Area Policies in the Context of the Article IV Consultations with Member Countries. It will be cross-referenced in the summings up for the Article IV consultations with euro-area countries at the conclusion of the Article IV process for each country. To the extent that the summing up for the euro area covers economic policies that apply to all EU member countries and that are considered relevant for Fund surveillance, the pertinent parts of the summing up for the euro area could also be referred to in the bilateral Article IV consultations with EU member countries that are not part of the euro area (SM/02/359, 11/21/02).

Decision No. 12899-(02/119)
December 4, 2002

L. Eleventh General Review of Quotas—Period for Consent to Increases—Extension

Pursuant to Paragraph 4 of the Resolution of the Board of Governors No. 53-2,[8] "Increase in Quotas of Fund Members—Eleventh General Review," the Executive Board decides that notices of consent from members to increases in their quotas must be received in the Fund by 6:00 p.m., Washington time, on January 31, 2003.

Decision No. 12802-(02/78)
July 19, 2002

M. Eleventh General Review of Quotas—Period for Consent to Increases—Extension

Pursuant to Paragraph 4 of the Resolution of the Board of Governors No. 53-2, "Increase in Quotas of Fund Members—Eleventh General Review," the Executive Board

[8] Ibid., pages 680–84.

decides that notices of consent from members to increases in their quotas must be received in the Fund by 6:00 p.m., Washington time, on July 31, 2003 (EBD/03/3, 1/15/03).

Decision No. 12930-(03/3)
January 23, 2003

N. PRGF Trust and PRGF-HIPC Trust—Reserve Account—September 2002 Review

Pursuant to Decision No. 10286-(93/23)[9] ESAF, the Fund has reviewed the adequacy of the Reserve Account of the PRGF Trust, and determines that amounts held in the account are sufficient to meet all obligations which could give rise to a payment from the Reserve Account to lenders to the Loan Account of the PRGF Trust in the six months from April 1, 2002, to September 30, 2002 (SM/02/273, 8/21/02).

Decision No. 12847-(02/94) PRGF
September 6, 2002

O. Establishment of a Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations

1. The Fund adopts the Instrument to Establish a Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations, which is annexed to this decision.

2. The Fund shall conduct semiannual reviews of the financing of the Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations.

Decision No. 11436-(97/10)
February 4, 1997,
as amended by Decision Nos.11492-(97/45), April 24, 1997,
11861-(98/131) ESAF, December 18, 1998,
12087-(99/118) PRGF, October 21, 1999,
effective November 2, 1999,
12132-(00/9) PRGF, January 27, 2000,
12349-(00/118), December 1, 2000,
12561-(01/85) PRGF, August 23, 2001,
effective September 19, 2001,
12680-(02/17) PRGF, February 20, 2002
12696-(02/27) PRGF, March 15, 2002, and
12777-(02/65), June 20, 2002,
and 12874-(02/110),
October 25, 2002

P. Access Policy in Capital Account Crises—Modifications to Supplemental Reserve Facility and Follow-Up Issues Related to Exceptional Access Policy

Decision No. 11627-(97/123),[10] adopted December 17, 1997, on the Supplemental Reserve Facility and Contingent Credit Lines shall be amended as follows:

1. In Section I on the Supplemental Reserve Facility, paragraphs 6(a) and (b) shall read:

"6 (a) A member making purchases under this section shall repurchase the outstanding amounts of its currency resulting from such purchases within two and a half to three years from the date of each purchase in two equal installments; the first installment shall become due two and a half years and the second installment shall become due three years from the date of each purchase.

(b) The member will be expected to repurchase those amounts six months before they become due, provided that the Fund may, upon request by the member, decide to extend one or more such repurchase expectations by six months. If a member fails to make a repurchase as expected, the Fund may require the member to make the repurchase in question within a specified period not to exceed the repurchase schedule under (a) above."

2. In Section II on Contingent Credit Lines,

(i) a new paragraph 18 bis shall be added:

"18 bis

(a) A member making purchases under this section shall repurchase the outstanding amounts of its currency resulting from such purchases within two to two and a half years from the date of each purchase in two equal semi-annual installments; the first installment shall become due two years and the second installment two and a half years from the date of each purchase.

(b) The member will be expected to repurchase those amounts one year before they become due, provided that the Fund may, upon request by the member, decide to extend each such repurchase expectation by up to one year. If a member fails to make a repurchase as expected, the Fund may require the member to make the repurchase in question within a specified period not to exceed the repurchase schedule under (a) above.

(c) The Fund shall not approve, and the Managing Director shall not recommend for approval, a request for the use of the general resources of the Fund by a member that is failing to meet a repurchase expectation under (b) above. Provision shall be made in each stand-by and extended arrangement for the suspension of further purchases under the arrangement whenever a member fails to meet a repurchase expectation under (b) above."

(ii) in paragraph 19, the reference to "paragraph 6" shall be deleted.

3. The changes made by this decision to the Supplemental Reserve Facility shall apply only to purchases made after the date of this decision.

Decision No. 12943-(03/15)
February 21, 2003

Q. PRGF Trust and PRGF-HIPC Trust—Reserve Account—Review

Pursuant to Decision No. 10286-(93/23) ESAF,[11] adopted on February 22, 1993, as amended, the Fund has reviewed

[9] Ibid., page 413.
[10] Ibid., pages 325 and 627.
[11] Ibid., page 413.

the adequacy of balances in the Reserve Account of the PRGF Trust, and determines that they are sufficient to meet all obligations that could give rise to payments from the Account to lenders to the Loan Account of the PRGF Trust in the six months from April 1, 2003, to September 30, 2003 (SM/03/100, 3/21/03).

Decision No. 12979-(03/31) PRGF
March 31, 2003

R. Joint Vienna Institute—Amendment of Agreement

The Managing Director is authorized to consent to the First Amendment to the Agreement for the Establishment of the Joint Vienna Institute pursuant to Article XI of that Agreement (EBAP/03/16, 2/11/03).

Decision No. 12941-(03/13)
February 19, 2003

APPENDIX IV

Relations with Other International Organizations

In the face of uneven global economic recovery and heightened geopolitical tensions, close cooperation between the IMF and other international organizations continued to be of critical importance over FY2003. In an increasingly integrated financial system, identifying risks and generating sustained and widespread momentum for economic growth require a high level of collaboration among the Fund, the World Bank, the United Nations (UN) and its specialized agencies, the World Trade Organization (WTO), the Organization for Economic Cooperation and Development (OECD), the Bank for International Settlements (BIS), regional development banks, and intergovernmental groups.

Regional Representation and Technical Assistance

The IMF's offices in Europe and the Regional Office for Asia and the Pacific maintain close ties with other international organizations. In FY2003, the Fund's offices in Europe were reorganized to establish a new presence in Brussels and to streamline the staffing and management of the three European offices (Paris, Geneva, and Brussels). The new Brussels Office was created to enhance cooperation with European Union institutions, strengthen IMF surveillance activities in the area, and mount more effective outreach with a range of Brussels-based agencies.

The Paris Office remains the center of the IMF's European representation, liaising with regional and international institutions located in Europe and contributing to the Fund's European operations focusing on multilateral and regional surveillance. Paris Office staff regularly represent the Fund at donor and surveillance committees of the OECD in Paris, and one member of the Paris Office staff serves on the Secretariat of the Group of Ten (G-10). Additionally, they keep close contact with the BIS in Basel, and attend, on an ad hoc basis, meetings of organizations such as the Financial Action Task Force (FATF), the European Parliament, and the Council of Europe.

The Geneva Office monitors, analyzes, and reports on activities of Geneva-based socioeconomic agencies with particular emphasis on the multilateral trading system, along with trade-related developments in the European Union. These institutions include the WTO, the International Labor Organization (ILO), the UN Conference on Trade and Development (UNCTAD), the UN High Commissioner for Refugees (UNHCR), the UN Office of the High Commissioner for Human Rights (OHCHR), the World Health Organization (WHO), the UN Economic Commission for Europe (ECE), and the Inter-Parliamentary Union.

The IMF's Regional Office for Asia and the Pacific, located in Tokyo, is responsible for enhancing surveillance and promoting the IMF's initiatives in the Asia region. The Office works closely with regional groupings, such as the Asia-Pacific Economic Cooperation (APEC), the Association of South East Asian Nations (ASEAN), the South Pacific Forum (FORUM), the South Asian Association for Regional Cooperation (SAARC), the South East Asian Central Banks (SEACEN), and the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP). In addition to providing the Secretariat for the Manila Framework Group, the Office also maintains close contact with two regional organizations, the Asian Development Bank (AsDB) and the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), and with the World Bank's Office in Japan. It also facilitates the IMF's participation in the Consultative Group meetings of donor nations held in the Asia and Pacific region.

The Africa Regional Technical Assistance Center (AFRITAC) in East Africa was opened in Dar es Salaam, Tanzania, on October 24, 2002, to strengthen locally based technical assistance and training, and thus to further efforts by the IMF and World Bank, in cooperation with donor parties, to build country ownership of poverty reduction efforts. Five such AFRITACs are planned for sub-Saharan Africa; the next to open will strengthen capacity building in West Africa. Originally planned to be based in Abidjan, it has temporarily been relocated to Bamako, Mali, because of civil unrest in Côte d'Ivoire. The IMF provides similar technical assistance to assist its members in improving their economic and fiscal management practices in the Asia-Pacific region through the Pacific Financial Technical Assistance Center (PFTAC) and in the Caribbean through the Caribbean Regional Technical Assistance Center (CARTAC). The IMF also provides policy-related training to public sector officials and private sector managers through its support of the Joint Africa Institute, the Joint Vienna Institute, and the Singapore Regional Training Institute. Each of these facilities offers courses and seminars on topics of relevance to regional capacity building.

Collaboration with the World Bank

The collegial relationship between the IMF and the World Bank has existed since their founding at the Bretton Woods Conference of 1944. As mandated in their respective Articles of Agreements and in the joint 1989 Concordat, each plays an important, complementary role in ensuring the world's economic growth and stability. Both institutions conduct regular consultations of their senior staff, participate together on

missions, attend joint meetings, and share documents. Collaboration at the staff level, both in policy advice and on operational matters, is also guided by the ongoing dialogue between IMF and Bank management.

As the missions of the two institutions have evolved, it has been necessary periodically to redefine the rules of engagement and division of labor between the two organizations, with a view toward enhancing their overall effectiveness. Building upon the momentum of the previous year to strengthen the framework for Bank-Fund collaboration, the two institutions continued in FY2003 to consider ways to streamline and focus conditionality so as to strengthen country ownership of policy reform programs, thereby making them more effective. In August 2002, the Executive Boards of the IMF and the Bank reviewed the experience gained to date in implementing the Guidance Note on Operationalizing Bank-Fund Collaboration in Country Programs and Conditionality, issued in spring 2002. The Guidance Note forms the basis for collaboration on country programs and conditionality between the area departments of the Fund and the regional departments at the Bank. This review indicated broad support for the approach taken in the Guidance Note (see Chapter 4), and recommended that a further review should be undertaken in two years' time.

The Fund and Bank also cooperate closely in monitoring financial system stability, especially through the Financial Sector Assessment Program (FSAP), which aims to increase the effectiveness of efforts to promote the soundness of financial systems in member countries. Detailed Financial System Stability Assessments (FSSAs) of observance of relevant financial sector standards and codes are a key component of the FSAP and in turn give rise to Reports on Observance of Standards and Codes (ROSCs) as a by-product. The value added from the program derives importantly from its collaborative nature.

On March 14 and 18, 2003, the IMF's Executive Board reviewed experience to date with the FSAP. Ninety-five countries have already participated or agreed to participate in an FSAP assessment, including a significant number of systemically or regionally important countries and economies. Given the increasing number of countries now participating in the FSAP, the Fund and Bank will continue to work closely together over the coming year on developing ways to further streamline, focus, and prioritize the program.

Given synergies with assessments of prudential supervisory standards, the FSAP provides a suitable context to undertake assessments of countries' efforts in respect of anti-money-laundering (AML) and combating the financing of terrorism (CFT). In its communiqué of September 28, 2002, the International Monetary and Financial Committee endorsed the earlier conditional agreement by the Boards of the Fund and Bank to add the Financial Action Task Force (FATF) 40 + 8 Recommendations to the list of standards for which ROSCs are prepared. In October 2002, the FATF Plenary endorsed the common AML/CFT methodology document developed by the Fund and Bank over FY2002, and agreed that it would be used in both Fund-Bank-led ROSCs and those led by the FATF and FATF-style regional bodies (FSRBs). Following this endorsement, on October 15, 2002 the Fund and Bank initiated a 12-month pilot program of AML/CFT assessments using the common methodology. It is expected that between 45 and 56 assessments will be completed over this period, including at least 36 led by IMF/Bank staff. Planning and executing the pilot program has involved extensive coordination and cooperation among the Fund, Bank, the FATF, FSRBs, and their members.

The joint Financial Sector Liaison Committee (FSLC) provides another mechanism for close Fund-Bank cooperation in identifying financial system weakness. Established in 1998, the FSLC helps to integrate into a coherent joint work program the various financial sector tasks assigned to the two institutions, and to facilitate coordination with the work of other institutions, especially in relation to reform of the financial sector. In September 2002, the FSLC reported to the Boards of the Fund and the Bank, focusing particularly on its ongoing work to improve the coordination of financial technical assistance between the two institutions, as well as with other donor organizations.

One of the most important areas of IMF and World Bank cooperation is their work toward the common objective of stimulating economic growth through the reduction of poverty and through debt relief. Launched by the Bank and Fund in 1996, the HIPC Initiative is a comprehensive approach to debt reduction for poor countries that entails coordinated action by the international financial community, including multilateral institutions. The HIPC Initiative is based on the country's continued effort toward macroeconomic adjustment and structural and social policy reforms, while also providing financing for social sector programs—primarily basic health and education. All countries requesting HIPC Initiative assistance must have adopted a Poverty Reduction Strategy Paper (PRSP) through a broad-based participatory process. Fund and Bank staff work closely together in evaluating PRSPs and Interim Poverty Reduction Strategy Papers (I-PRSPs). The staffs of both institutions work together to prepare Joint Staff Assessments (JSAs) of the PRSPs, for referral to the Executive Boards of both institutions for decision. Over FY2003, 28 JSAs were completed by Fund and Bank staff.

Relations with the United Nations

The IMF works closely with the United Nations, through the IMF Special Representative to the UN and through other extensive institutional contacts. The mandate of the Special Representative, operating out of the Office at the United Nations in New York, is to foster communications and cooperation between the IMF and the UN. The most prominent functions of the UN Office include making the IMF's views known, providing input for the deliberations at the UN on IMF-related issues, keeping the IMF informed of major developments within the UN system, and facilitating cooperation between the institutions.

During FY2003, collaboration between the IMF and the UN continued to focus on the challenges of financing development around the world. Following the commitments made at the UN International Conference on Financing for Development (FfD) in Monterrey, Mexico, in 2001 (the "Monterrey Consensus"), attention has increasingly focused on translating broad concepts for reducing poverty into a program for implementation. In his remarks to the annual High-Level Meeting of the UN Economic and Social Council (ECOSOC) held in New York on July 1, 2002, Managing Director Horst Köhler noted the need for concrete actions

for addressing the "foremost challenge" of poverty and achieving measurable progress toward the Millennium Development Goals (MDGs). On July 11–13, 2002, IMF officials met with ministers and representatives of several other international organizations, including the UN, World Bank, OECD, the Asian and African Development Banks, and the European Commission in Rosendal, Norway, for informal discussions on maintaining a dynamic process for progressing the agreements reached at Doha and Monterrey.

Those objectives, and the importance of reducing poverty, were subsequently reaffirmed by Heads of State at the World Summit on Sustainable Development held in Johannesburg, South Africa, during August 29–September 5, 2002. The summit confirmed the primacy of macroeconomic stability and growth as the foundation of sustainable development, and recognized the Poverty Reduction Strategy Paper (PRSP) approach, suitably extended to encompass environmental concerns, as the basis of national sustainable development programs, where applicable. The Plan of Implementation agreed at the summit also confirms the commitments toward reducing poverty in the areas of trade and finance, globalization, institutional arrangements, and governance, all of which are directly relevant to the Fund's mandate and work. The IMF, World Bank, and United Nations Environment Program (UNEP) presented a joint paper on "Financing for Sustainable Development" at the summit, and IMF staff participated in several panel discussions.

At the following High-Level Meeting of the ECOSOC held on April 14, 2003, Deputy Managing Director Eduardo Aninat reiterated the Fund's strong commitment to poverty reduction in the context of its mandate, and cochaired a roundtable discussion on the domestic policies required to help achieve the MDGs. The continuing dialogue among the UN's ECOSOC, the Bretton Woods institutions, and the WTO is an important means of enhancing policy coherence at national, regional, and international levels, since it brings together the different cultures of finance, trade, development, and foreign affairs.

Liaison with Other Intergovernmental Groups

As a member of the Financial Stability Forum (FSF), the IMF takes the lead on developing, organizing, and carrying out a process for assessing Offshore Financial Centers' adherence to international standards. IMF staff attended the eighth meeting of the FSF held on September 3–4, 2002, in Toronto, Canada, at which progress on development of a methodology for Reports on Standards and Codes was noted. IMF staff also attended the FSF's second regional meeting with financial stability authorities from the Asia-Pacific region in Beijing on October 11–12, 2002, and the ninth meeting of the FSF in Berlin on March 24–25, 2003. The Chairman of the FSF participated as an observer at the October 2002 and April 2003 meetings of the International Monetary and Financial Committee.

Collaboration between the IMF and World Trade Organization (WTO) takes place formally as well as informally, as outlined in their Cooperation Agreement signed in December 1996. Under the agreement, the IMF has observer status in WTO meetings and regularly attends formal meetings of most WTO bodies. In particular, IMF staff participate in the WTO-led Integrated Framework for Trade-Related Technical Assistance (a joint effort by six agencies, including the World Bank), contributes to the work of the WTO Working Group on Trade, Debt and Finance, and is a regular member of the Committee on Balance of Payments Restrictions. On August 9, 2002, First Deputy Managing Director Anne Krueger met with the outgoing Director-General of the WTO (Mr. Michael Moore) to explore avenues for cooperation in research. The Managing Director subsequently met with the incoming Director-General, Dr. Supachai Panitchpakdi, on October 13, 2002, to discuss areas where the Fund's cooperation with the WTO may be particularly effective in the support of the Doha Development Agenda.

Throughout FY2003, the IMF continued to participate actively in the meetings and activities of other major intergovernmental groups, including the Group of Seven (G-7), Group of Ten (G-10), Group of Twenty (G-20), and Group of Twenty-Four (G-24). First Deputy Managing Director Anne Krueger attended the Annual Meeting of the G-20 Finance Ministers and Central Bank Governors on November 22–23, 2002. The Managing Director attended the meeting of G-7 Ministers and Central Bank Governors in Paris on February 22, 2003.

Cooperation with Regional Development Banks

Whether working to prevent crises, alleviate poverty, combat financial abuse, or strengthen the global economic system, the IMF works closely with the world's multilateral and regional development banks. This collaboration includes formulation and implementation of policies in the economic and financial areas, release of information, and exchange of staff visits. In FY2003, the IMF worked with the Islamic Development Bank to facilitate establishment of the Islamic Financial Services Board; with the Inter-American Development Bank (IDB) to address the crisis in Uruguay; and with the African Development Bank (AfDB) to launch the AFRITACs. The Fund also participated with the European Bank for Reconstruction and Development (EBRD), Asian Development Bank (AsDB), World Bank, and other donor organizations in cosponsoring the third Forum on Poverty Reduction Strategies for the Commonwealth of Independent States (CIS-7), held in Almaty, Kazakhstan, on December 11–13, 2002. Deputy Managing Director Shigemitsu Sugisaki opened the follow-up high-level CIS-7 conference in Lucerne, Switzerland, in January 2003, which focused on "The Low-Income Countries of the CIS: Progress and Challenges in Transition" (see Box 5.2 in Chapter 5).

Role of IMF Management

In a globalized world, close cooperation among financial, trade, and development organizations is essential. Efforts to prevent crises and to promote growth depend upon the coordinated actions of many international institutions. This is especially true in times of economic uncertainty. IMF management plays an important role in promoting this multilateral collaboration in many international forums.

During April 28–May 3, 2002, Managing Director Horst Köhler conducted his third tour of the African continent since assuming office. He visited Dar es Salaam, Kinshasa, Abidjan, Ouagadougou, and Accra, where he attended meetings with heads of state, participated in a series of workshops, and held discussions with a broad cross section of society on a range of topics of importance to Africa. At the High-Level Meeting of the ECOSOC in New York on July 1, 2002, he reaffirmed the

IMF's commitment to the implementation of the Monterrey consensus. The Managing Director addressed the Treasury Select Committee of the House of Commons in London on July 4, 2002, and discussed the IMF's work program and the fundamental changes it had undertaken in the areas of transparency, surveillance, conditionality, standards and codes, and other areas of the IMF's core business. At the Symposium to Commemorate the 50th Anniversary of Japan's membership in the IMF and World Bank, held in Tokyo on September 10, 2002, he spoke of the importance of strong leadership by the advanced economies to bolster investor confidence and sustain global economic recovery, and the specific need for Japan to undertake decisive reforms of the banking and corporate sectors and pursue antideflationary macroeconomic policies. The Managing Director traveled to Latin America during December 6–12, 2002, in order to meet with the presidents of Brazil, Colombia, and Chile—his second visit to Latin America since taking office. On March 11, 2003, he spoke at the Bank of Spain on the prospects for economic recovery in Latin America, noting that Mexico and Chile had been bright spots in an area facing particularly difficult economic circumstances, and that better policies in several countries, including Brazil and Colombia, had enabled them to withstand these pressures reasonably well.

The IMF's Deputy Managing Directors also attended many conferences, meetings, and seminars throughout the year. On July 17, 2002, First Deputy Managing Director Anne Krueger addressed a National Bureau for Economic Research (NBER) conference on the lessons to be learned from the crisis in Argentina and how these could be used to raise the effectiveness of IMF efforts to prevent and resolve financial crises. Ms. Krueger participated in a panel discussion on "A World Without Globalization" at the World Economic Forum meeting held in Davos, Switzerland, on January 23–28, 2003. Deputy Managing Director Shigemitsu Sugisaki presented remarks on international perspectives on achieving financial stability at the first annual forum of the APEC Finance and Development Program in Beijing on May 26, 2002. Deputy Managing Director Eduardo Aninat delivered the keynote address at the opening of the AFRITAC in East Africa on October 24, 2002, and spoke of the importance of capacity building in Africa to develop strong and independent domestic institutions that are both a precondition to economic development and an insurance policy against external shocks. Mr. Aninat also traveled to Latin America in January 2003, and outlined a "self-help" agenda at conferences at the University of Viña del Mar in Chile and the Central Bank in Lima, Peru.

External Communications

In FY2003, the IMF continued to develop its ongoing efforts to improve understanding of and support for the Fund and its activities. Particular importance was placed on two-way communication with people through nonofficial channels, as the Fund continues to engage in self-assessment and reform and seeks to learn from its interlocutors. (For an account of developments in the IMF's initiative to become more transparent and open to outside input, see Chapter 7.) Some activities in the main areas of external communications are described in this Appendix.

Public Statements and Publications

In accordance with the IMF's transparency policy, a further large volume of ***policy and country papers***, and summaries of Board discussions, was released during FY2003. The Fund's external website *(www.imf.org)* continued to be the primary vehicle for dissemination. During the year, an average of 120 items a month were added to the *What's New* section of the website.

Enhancements were made to the site's search feature and navigation. New sections continued to be added, especially for Resident Representatives.

Inviting comments from the public on IMF policy proposals via the external website and in specially convened meetings and conferences has become commonplace. Recent examples include the Poverty Reduction Strategy Paper and Poverty Reduction and Growth Facility reviews, the review of IMF conditionality, and the establishment and work program of the Independent Evaluation Office.

Speeches and other public appearances by management and senior staff conveyed the IMF's views on broad policy and economic issues ranging from IMF reform to the outlook for the world economy, and on specific country and regional issues. The IMF posted most speeches on the website within hours of delivery.

Publication of economic and financial research and policy analysis papers included two issues of the *World Economic Outlook*; four issues of the *Global Financial Stability Report*; the quarterly magazine *Finance & Development*; and a wide array of books, manuals and guides, Occasional Papers, Working Papers, Policy Discussion Papers, pamphlets, and leaflets (see Table V.1).

To make the IMF's technical and analytical work more accessible, the IMF published new titles in its *Economic Issues*, *Issues Briefs* and *Factsheets* series. *Economic Issues* are brief, simplified summaries of policy-related economic research findings. *Issues Briefs* discuss key issues facing the IMF and the global economy, while *Factsheets* explain in plain language how the IMF works.

The Media

Press briefings covering the IMF by the Director of the External Relations Department were held at headquarters for Washington-based journalists roughly every two weeks. Transcripts and videos of the briefings were posted on the IMF's website shortly afterwards.

Press Releases on decisions taken by the Executive Board, and ***News Briefs*** expressing the views of management and senior staff on topical matters, were posted on the website and also distributed directly by fax to journalists and others. Over the course of the financial year, roughly 350 press releases and other communications to the press were prepared and distributed. From December 31, 2002, the *News Brief* series was consolidated into the *Press Release* series.

Press conferences with management and senior staff, held on such occasions as the Spring and Annual Meetings, and on release of major reports such as the *World Economic Outlook* and the *Global Financial Stability Report*, were also made widely available to the public as transcripts and videos posted on the website.

To reach wider audiences in a variety of countries and languages, the IMF has begun more frequently to prepare ***media articles***—"op-eds," which appear opposite a newspaper's editorials—on country-specific issues. In particular, opportunities are being sought to place op-eds at important junctures, for instance, at the conclusion of an Article IV consultation or approval of a Fund arrangement.

Outreach to Civil Society

In December 2002, the IMF undertook a ***survey of outreach activities*** in its member countries. The survey confirmed that extensive outreach was being conducted by Fund staff, but revealed considerable variation across countries and regions. In general, the IMF's dialogue with civil society, parliaments, and the media appears well-established in Africa and in the transition countries of Asia and Europe.

Following the Executive Board's review of the IMF's external communications strategy, the Fund initiated an examination of its ***relations with civil society organizations*** (CSOs). To ensure that the process was independent and reflected a balanced spectrum of views from civil society, the IMF approached an outside expert to facilitate the discussion within the Fund and seek ideas from a variety of CSOs. One intended output of this study is a guide to good practices for IMF staff relations with CSOs.

The IMF also developed the *Civil Society Newsletter* into a quarterly electronic format, to disseminate information about

Fund activities and policies of particular concern to civil society.

Public Outreach

IMF staff expanded efforts to ***engage students, academics, and the policy research community***, and participated in discussions and delivered presentations on the IMF's work, including governance, globalization, trade, and regional and country matters. In FY2003, some 170 separate briefings were given, along with the launching of biannual briefings to Washington-area "think tanks" to provide background on key issues surrounding upcoming Spring and Annual Meetings.

The IMF Center hosted close to 13,000 visitors in 2003. Well-established educational segments such as the "IMF in Action" and "Money Matters" were supplemented by new website educational offerings, such as interactive money and trading games for younger students, "Where in the World and What in the World is Money?" and "Trading Around the World." Special events hosted by the Center in 2003 included the Carolyn Ball Award ceremony honoring retired IMF economist Margaret de Vries; the Global Ethics Exhibit, highlighting the role of religion and ethics in promoting peace and understanding; and the Peace Pole award presented to the IMF for its role in promoting international monetary and exchange rate cooperation. The Center also served as a polling station for the Foggy Bottom community during the mayoral election.

Through the ***IMF Civic Program***, over $665,000 was donated to charities working to reduce poverty in the Washington, D.C., metropolitan region and in low-income countries. Close coordination between IMF staff and families and their World Bank and Inter-American Development Bank counterparts played an important part in strengthening these initiatives. In addition, goods—such as used computers and furniture—were donated to charitable and educational organizations.

Table V.1

Publications Issued, Financial Year Ended April 30, 2003

*Available in English and selected other languages in full text on the IMF's website *(www.imf.org)*.

Reports and Other Documents

*Annual Report of the Executive Board for the Financial Year Ended April 30, 2002**
(Chinese, English, French, German, and Spanish). Free.

Annual Report on Exchange Arrangements and Exchange Restrictions, 2002
$110; $55 to full-time university faculty members and students.

Summary Proceedings of the Fifty-Sixth Meeting of the Board of Governors (2001).* Free.

*The IMF Committee on Balance of Payments Statistics, Annual Report, 2002.** Free.

Selected Decisions and Selected Documents of the International Monetary Fund, 27th edition. Free.

IMF Financial Statements, Quarters ended April 30, 2002; October 31, 2002; January 31, 2003. Free.

Periodic Publications

Balance of Payments Statistics Yearbook
Vol. 53, 2002. A two-part yearbook. $98 a year.

Direction of Trade Statistics
Quarterly, with yearbook. $155 a year; $129 to full-time university faculty members and students. $70 for yearbook only.

*Finance and Development**
Quarterly (Arabic, Chinese, English, French, and Spanish). Free by subscription. Airspeed delivery, $20. Individual copies, $10.

Government Finance Statistics Yearbook
Vol. 26, 2002 (Introduction and titles of lines in English, French, and Spanish). $80.

International Financial Statistics
Monthly, with yearbook. $495 a year; $247 to full-time university faculty members and students. $95 for yearbook only; $65 for monthly issues. *International Financial Statistics* is also available on CD-ROM and on the Internet at *www.imfstatistics.org*; price information is available on request.

*IMF Staff Papers**
Three times a year. $72 a year; $46 to full-time university faculty members and students.

IMF Staff Papers: Special Issue of the Proceedings of the Second Annual Research Conference (Vol. 49, 2002). $18.

*IMF Research Bulletin**
Quarterly. Free.

*IMF Survey**
Twice monthly, once in December (English, French, and Spanish). Private firms and individuals are charged an annual rate of $109. Vol. 32-2002 (English), Vol. 32-2002 (French), and Vol. 32-2002 (Spanish).

Occasional Papers

No. 214. ***Advanced Country Experiences with Capital Account Liberalization***, by Age Bakker and Bryan Chapple. 2002.

No. 216. ***Is the PRGF Living Up to Expectations?—An Assessment of Program Design***, by Sanjeev Gupta, Mark Plant, Benedict Clements, Thomas Dorsey, Emanuele Baldacci, Gabriela Inchauste, Shamsuddin Tareq, and Nita Thacker. 2002.

No. 217. ***Managing Financial Crises: Recent Experience and Lessons for Latin America***, edited by Charles Collyns and G. Russell Kincaid. 2003.

No. 218. ***Fiscal Vulnerability and Financial Crises in Emerging Market Economies***, by Richard Hemming, Michael Kell, and Axel Schimmelpfenning. 2003.

Recent Occasional Papers are available for $25 each, with a price of $22 each to full-time university faculty members and students.

World Economic and Financial Surveys

*World Economic Outlook**
A Survey by the Staff of the International Monetary Fund.
Twice a year (April and September) (Arabic, English, French, and Spanish).
$49; $46 to full-time university faculty members and students.

Table V.1 *(concluded)*

Global Financial Stability Report, June, September, December 2002, March 2003.
$49; $46 to full-time university faculty members and students.

Exchange Arrangements and Foreign Exchange Markets: Developments and Issues, March 2003.
$42; $35 to full-time university faculty members and students.

Books and Seminar Volumes

Building Strong Banks Through Surveillance and Resolution, edited by Charles A. Enoch, David Marston and Michael W. Taylor. $38.

China: Competing in the Global Economy, edited by Wanda Tseng and Markus Rodlauer. $26.

Governance, Corruption, and Economic Performance, edited by George T. Abed and Sanjeev Gupta. $37.50.

Guyana: Experience with Macroeconomic Stabilization and Structural Adjustment and Poverty Reduction, by Philippe Egoumé-Bossogo, Ebrima Faal, Raj Nallari, and Ethan Weisman. $18.

Into the EU: Policy Frameworks in Central Europe, prepared by a staff team led by Robert Feldman and C. Maxwell Watson. $26.

Japan's Lost Decade: Policies for Economic Revival, edited by Timothy Callen and Jonathan D. Ostry. $28.

Korean Crisis and Recovery, edited by David T. Coe and Se-Jik Kim. $32.

Statistical Implications of Inflation Targeting: Getting the Right Numbers and Getting the Numbers Right, by Carol S. Carson, Charles A. Enoch and Claudia H. Dziobek. $42.50.

Sweden's Welfare State: Can the Bumblebee Keep Flying? by Subhash M. Thakur, Michael J. Keen, Balázs Horváth, and Valerie Cerra. $23.50.

The West Bank and Gaza: Economic Performance, Prospects, and Policies—Achieving Prosperity and Confronting Demographic Challenges, by Rosa A. Valdivieso, Ulric Erickson von Allmen, Geoffrey J. Bannister, Hamid R. Davoodi, Felix Fischer, Eva Jenkner, and Mona Said (Arabic). $25.

Manuals and Guides

Coordinated Portfolio Investment Survey Guide (Second Edition), by the Statistics Department (English, French, and Spanish). $26.

Government Finance Statistics Manual 2001, by the Statistics Department (Spanish, Chinese). $50.

International Reserves and Foreign Currency Liquidity for a Data Template, by Anne Y. Kester (French and Russian). $23.

Manual of Statistics of International Trade in Services, by staffs of the UN, EU, IMF, OECD, UNCTAD, and WTO (English). $30.

Manual on Fiscal Transparency, prepared by the Fiscal Affairs Department (Russian). $19.50.

Measuring the Non-Observed Economy: A Handbook, by staffs of the OECD, IMF, ILO, and Interstate Statistical Committee of the CIS (English). $50.

Monetary and Financial Statistics Manual, by the Statistics Department (Arabic). $40.

Quarterly National Accounts Manual: Concepts, Data Sources, and Compilation, by Adriaan M. Bloem, Robert J. Dippelsman, and Nils Ø. Mæhle (Russian). $40.

Economic Issues Series*

No. 26. *Rural Poverty In Developing Countries: Implications for Public Policy*, by Vito Tanzi and Howell Zee (Arabic). Free.

No. 28. *Moral Hazard: Does IMF Financing Encourage Imprudence by Borrowers and Lenders?* Timothy Lane and Steven Phillips (English, French, Spanish, Chinese, and Russian). Free.

No. 29. *The Pension Puzzle: Prerequisites and Policy Choices in Pension Design*, by Nicholas Barr (French, Spanish, Chinese, and Russian). Free.

No. 30. *Hiding in the Shadows: The Growth of the Underground Economy*, by Friedrich Schneider with Dominik Enste (French, Spanish, and Russian). Free.

No. 31. *Corporate Sector Restructuring: The Role of Government in Times of Crisis*, by Mark R. Stone (English). Free.

Pamphlet Series*

No. 45. *Financial Organization and Operations of the IMF*, Sixth Edition, by the Treasurer's Department (French, Spanish, and Russian). Free.

No. 53. *Governance of the International Monetary Fund: Decision Making, Institutional Oversight, Transparency, and Accountability*, by Leo Van Houtven. Free.

No. 54. *Fiscal Dimensions of Sustainable Development*, by Sanjeev Gupta, Michael J. Keen, Benedict J. Clements, Kevin T. Fletcher, Luiz R. De Mello, Jr., and Muthukumara Mani (English, French, and Spanish). Free.

Guide to the IMF Series*

What Is the International Monetary Fund? (Arabic.) Free.

Independent Evaluation Office Reports

Evaluation of Prolonged Use of IMF Resources, by the Independent Evaluation Office. $25

Working Papers and Policy Discussion Papers*

IMF Working Papers and *Policy Discussion Papers* are designed to make IMF staff research available to a wider audience. They represent work in progress and reflect the views of the individual authors rather than those of the IMF.

Working Papers 02/78–02/240 and 03/1–91 were issued in FY2003. $15 each; $375 for annual subscription.

Policy Discussion Papers 02/7–02/13 and 03/1–03/2 were issued in FY2003. $10 each; annual subscription is included as part of the subscription to Working Papers.

Country Reports*

IMF Country Reports provide comprehensive material on economic developments and trends in member countries, including key statistics.

Country Reports 02/92–02/270 and 03/1–03/120 were issued in FY2003. $15 each.

Copies of IMF publications and videos may be obtained from Publication Services, International Monetary Fund, 700 19th Street, N.W., Washington, D.C. 20431, U.S.A.

Telephone: (202) 623-7430
Telefax: (202) 623-7201
E-mail: *publications@imf.org*
Internet: *http://www.imf.org*

Additional information about the IMF and its publications and videos—including the current *Publications Catalog*, a searchable IMF Publications Database, and ordering information and forms—is available on the World Wide Web (*www.imf.org*).

Press Communiqués of the International Monetary and Financial Committee and the Development Committee

International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund

PRESS COMMUNIQUÉS

Sixth Meeting, Washington D.C., September 28, 2002

1. The International Monetary and Financial Committee held its sixth meeting in Washington, D.C., on September 28, 2002, under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom.

The Global Economy and Financial Markets

2. The Committee observes that the global economic recovery is proceeding, although at a slower pace than expected earlier this year. Growth is expected to strengthen in the near term, supported by a strong policy response across the international community. However, there remain downside risks and uncertainties, as well as medium-term challenges associated with persistent imbalances, underscoring the need for vigilance. IMF members should continue to be ready to adapt policies as necessary in order to foster broad and sustained growth, to strengthen policy and regulatory frameworks, and to support durable poverty reduction. The Committee underscores the importance of stability in oil markets at prices reasonable for consumers and producers.

3. In the advanced economies, growth generally is expected to strengthen. However, monetary policymakers should remain ready to respond to developments where necessary and to ease policy further if the risk of economic weakness intensifies and inflation prospects remain subdued. In Japan, monetary easing should help end deflation. In many countries, there is scope for automatic stabilizers to operate, but fiscal policy needs to be attentive to the medium-term challenge of consolidation in order to ensure sustainable debt levels, improve the scope to respond flexibly to future economic shocks, and help address challenges such as those associated with population aging. Structural reforms should also be pursued vigorously to further improve growth prospects and strengthen resilience:

- In the United States, the actions under way to strengthen corporate governance, accounting, and auditing are important to underpin confidence;
- In Europe, further reforms, particularly in labor and product markets, are needed;
- In Japan, banking and corporate restructuring should be vigorously pursued, in particular addressing the issue of nonperforming loans.

4. Performance in emerging markets has been mixed, reflecting both global developments and domestic circumstances. While growth in Asia has picked up strongly, several economies in Latin America in particular are facing a deterioration in conditions due to external developments, country-specific vulnerabilities, and policy uncertainties. In countries that have room to maneuver, the policy stance should generally remain accommodative, but countries facing external financing difficulties will need to continue to give priority to restoring market confidence. The Committee welcomes Brazil's commitment to sound policies. It acknowledges the positive steps taken in recent months by Argentina to address its difficult economic situation, and urges the authorities, in cooperation with the Fund, to move quickly to reach agreement on a sustainable economic program that could receive the support of the international financial institutions and provide the basis for the reestablishment of stability and growth.

5. Many of the developing countries have also been affected by global developments and adverse movements in commodity prices, as well as domestic circumstances. The Committee reiterates the need for sustained international efforts to fight poverty. The Global Development Compact embodied in the Monterrey Consensus and the Doha Development Agenda—based on mutual accountability, country ownership, sound domestic policies and institutions, good governance, increased and more effective international support, and commitment to an open multilateral trading system—was reaffirmed at the World Summit in Johannesburg. The Committee looks forward to the effective implementation, with international assistance, of the New Partnership for Africa's Development (NEPAD) to strengthen institutional foundations, governance, and infrastructure. Stressing the critical importance of technical assistance to

support this effort, the Committee looks forward to the important contribution that the AFRITACs will play. It also calls for urgent international assistance to address the human and economic toll exacted by the drought in southern Africa. It also stresses the positive role of the CIS-7 initiative in improving prospects for enhanced growth and reduced poverty.

6. The Committee underscores the vital importance for global growth and effective development of achieving substantial trade liberalization in the Doha round of multilateral trade negotiations, which will benefit both developed and developing countries. Urgent progress is essential in enlarging market access for developing countries and phasing out trade-distorting subsidies in developed countries. Developing countries should also further liberalize their trade regimes to maximize growth and development opportunities. Trade-related technical assistance is also important to support developing countries' capacity building.

Strengthening Crisis Prevention and Resolution

7. The Committee welcomes the Managing Director's report on the IMF in a Process of Change, which sets out the reforms under way to make the Fund more effective in promoting greater financial stability and stronger global growth, the progress which is being made, and the agenda for the period ahead.

8. The Committee supports the steps taken by the Fund to improve the quality and effectiveness of its policy advice, and to help countries strengthen policy frameworks and prevent crises. These are the key priorities for surveillance. In particular, the Committee:

- stresses that rigorous vulnerability assessments will be key to the Fund's crisis prevention efforts, and, in this regard, welcomes the progress in improving the framework for assessing debt sustainability and looks forward to its application to all members;
- welcomes in this context the increased focus on the interactions between external shocks and domestic vulnerabilities, the strengthened focus on global capital markets in the Fund's multilateral surveillance, and the recent steps to further improve data provision by members to the Fund;
- emphasizes the importance of surveillance of systemically important countries and their impact on the global economy;
- supports the Fund's ongoing work to ensure that surveillance in program countries reassesses economic developments and strategy from a fresh perspective; and
- underlines the need for high-quality and persuasive surveillance of all member countries to help them act promptly to minimize emerging vulnerabilities and avoid policies that might have negative regional or global effects.

The Committee will review, at its next meeting, ways of further enhancing the effectiveness of Fund surveillance. It looks forward to further progress in the voluntary publication of country staff reports, building on the positive role that improved transparency and data dissemination by the Fund and its membership are playing in informing the public and supporting financial market assessments.

9. The Committee notes the substantial progress on the Financial Sector Assessment Program and the standards and codes initiative, including their increasing integration into Fund surveillance. It looks forward to the forthcoming reviews of these initiatives, and calls on the Fund to consider ways to build on this progress, together with the World Bank and relevant standard-setting bodies, to address gaps, strengthen technical assistance, and promote broader participation. The Committee notes the importance of enhanced standards and principles on corporate governance, accounting, and auditing, and of stronger national practice. It also underscores the role that precautionary access to Fund financing can play in safeguarding sound policy frameworks in the face of uncertainty in international capital markets. The Committee looks forward to the forthcoming review of the Contingent Credit Lines.

10. The Committee endorses the Fund's continuing work on private sector involvement and a stronger framework for crisis resolution to provide members and markets with greater clarity and predictability, including about the decisions the Fund will take in crisis management. In particular, the Committee welcomes the work under way to strengthen the policy on exceptional access to Fund resources. This involves more clearly defined criteria to justify exceptional access, and strengthened procedures for early consultation and decision making. The priority now is to finalize and implement the new framework, and the Committee calls for a progress report by the Spring meetings.

11. The Committee strongly welcomes the progress made with the contractual and statutory approaches to restructuring unsustainable sovereign debts. It welcomes the ongoing dialogue on collective action clauses in the G-10 and other fora with private creditors and emerging market sovereign issuers. Going forward, the Committee encourages the official community, the private sector, and sovereign debt issuers to continue working together to develop collective action clauses, and to promote their early inclusion in international sovereign bond issues; in that regard, it welcomes the recent decision by many countries to include collective action clauses. The Committee also calls on the Fund to consider the issues further and to develop, for consideration at its next meeting, a concrete proposal for a statutory sovereign debt restructuring mechanism to be considered by the membership.

The Fund's Role in Low-Income Countries

12. The Committee supports the Fund's continuing role in helping poor countries address the challenge of meeting the Millennium Development Goals by supporting economic reforms aimed at accelerating growth and reducing poverty. It welcomes the increased momentum in countries' efforts to develop and implement their PRSPs, and the Fund's and donors' efforts to align their support more closely with PRSPs. It recognizes that there may be a need to consider mobilizing new PRGF resources if high demand for PRGF financing continues. The Committee stresses the importance of: sound macroeconomic frameworks that can respond flexibly to changes in the external environment; identifying ways to encourage higher and sustainable growth; good governance; improving public expenditure and financial management systems; and using poverty and social impact analysis more systematically, and building country capacity

in this area. The Committee encourages the Fund and Bank to continue their collaboration on these issues and looks forward to reviewing progress. Furthermore, it looks forward to considering the results of the Fund's work to better meet the diverse needs of its low-income members, including those stemming from disruptive exogenous shocks and emergence from conflict.

13. The Committee welcomes the progress made on the HIPC Initiative, allowing countries to benefit from lower debt servicing and higher social spending. It recognizes that significant challenges remain to ensure that countries achieve a lasting exit from unsustainable debt. The Committee reaffirms the commitment to implement the initiative and finance it fully to help countries overcome the burden of unsustainable debt, and underscores that the HIPC Initiative has the flexibility to provide additional debt relief at the completion point to help countries that have suffered a fundamental change in their economic circumstances due to exceptional exogenous shocks. These elements, together with sustained commitment to sound economic policies—including efforts to improve resilience to external shocks, to manage debt prudently, and to reinforce good governance—and new financing on appropriately concessional terms, should provide a basis for long-term sustainability. The Committee notes that the financing shortfall in the HIPC Trust Fund could be up to $1 billion, and welcomes the recent pledges of support. It calls on other governments to make firm pledges and contributions as a matter of urgency. Furthermore, it urges all official and commercial creditors that have not yet done so to fully participate in the HIPC Initiative. The Committee acknowledges that the issues of HIPC-to-HIPC debt relief and creditor litigation raise serious issues that should be addressed.

Combating Money Laundering and the Financing of Terrorism

14. The Committee welcomes the actions taken by many countries to combat money laundering and the financing of terrorism, in response to the action plan agreed in Ottawa last year, and urges countries that have not fully responded to do so urgently. It also urges rapid progress on the exchange of information between authorities. The Committee commends the substantial progress made by the Fund, in close collaboration with the Bank, in advancing the action plan. It endorses the conditional addition of the Financial Action Task Force (FATF) recommendations to the list of standards and codes for which Reports on the Observance of Standards and Codes (ROSCs) are prepared, and looks forward to the final adoption of the methodology and an early start of the 12-month pilot program of assessments and accompanying ROSCs. The Committee encourages countries to make available additional experts and resources for the IMF/World Bank pilot program, welcomes the pledges made so far, and urges the IMF and World Bank to coordinate closely with the strong international and bilateral efforts to provide critically important technical assistance. The Committee looks forward to an interim report at its next meeting and a full report at the conclusion of the pilot program.

Other Issues

15. The Committee welcomes the adoption by the Fund's Executive Board of new guidelines on conditionality, thus bringing to a successful conclusion the review of conditionality initiated by the Managing Director two years ago. The consistent implementation of these guidelines will help enhance the effectiveness of Fund-supported programs by fostering national ownership and streamlining conditionality, focusing it on elements critical to the success of members' economic programs. The Committee stresses that strengthened collaboration with the World Bank is an integral part of these efforts to enable both institutions to provide complementary and effective support.

16. The Committee stresses the importance of the Fund having adequate resources to fulfill its financial responsibilities. Quotas should reflect developments in the international economy. The Committee notes that the Executive Board is continuing its consideration of the Twelfth General Review of Quotas and will present its report to the Board of Governors by January 2003. It recommends an early implementation of the Fourth Amendment.

17. The Committee welcomes the first report of the Independent Evaluation Office on "Prolonged Use of Fund Resources" to the Executive Board. It welcomes the establishment by Fund Management of an internal task force to propose steps to carry forward the report's recommendations, as appropriate.

18. The next meeting of the IMFC will be held in Washington, D.C., on April 12, 2003.

Annex: International Monetary And Financial Committee Attendance September 28, 2002

Chairman
Gordon Brown

Managing Director
Horst Köhler

Members or Alternates
Ibrahim A. Al-Assaf, Minister of Finance and National Economy, Saudi Arabia
Julio Marcelino V. Bessa, Minister of Finance, Angola
Sir Edward George, Governor, Bank of England, United Kingdom
(Alternate for Gordon Brown, Chancellor of the Exchequer, United Kingdom)
Tobías Nóbrega, Minister of Finance, República Bolivariana de Venezuela
(Alternate for Diego L. Castellanos, Governor, Banco Central de Venezuela)
Peter Costello, Treasurer of the Commonwealth of Australia
Dai Xianglong, Governor, People's Bank of China
Ernst Welteke, President, Deutsche Bundesbank, Germany
(Alternate for Hans Eichel, Minister of Finance, Germany)
Nicolás Eyzaguirre, Minister of Finance, Chile
Geir Hilmar Haarde, Minister of Finance, Iceland
Hans Hoogervorst, Minister of Finance, The Netherlands
Mohammed K. Khirbash, Minister of State for Finance and Industry, United Arab Emirates
Aleksei Kudrin, Deputy Chairman of the Government and Minister of Finance, Russian Federation

Mohammed Laksaci, Governor, Banque d'Algérie
Pedro Sampaio Malan, Minister of Finance, Brazil
John Manley, Minister of Finance, Canada
Francis Mer, Minister of Economy, Finance and Industry, France
Paul H. O'Neill, Secretary of the Treasury, United States
Didier Reynders, Minister of Finance, Belgium
Syahril Sabirin, Governor, Bank Indonesia
Masaru Hayami, Governor, Bank of Japan (Alternate for Masajuro Shiokawa, Minister of Finance, Japan)
Jaswant Singh, Minister of Finance and Company Affairs, India
Paul Toungui, Minister of State, Minister of Finance, Economy, Budget and Privatization, Gabon
Giulio Tremonti, Minister of Economy and Finance, Italy
Kaspar Villiger, President of the Swiss Confederation and Minister of Finance, Switzerland

Observers
Yilmaz Akyuz, Director, Division for Globalization and Development Strategies, United Nations Conference on Trade and Development (UNCTAD)
Andrew D. Crockett, Chairman, Financial Stability Forum (FSF)
Willem F. Duisenberg, President, European Central Bank (ECB)
André Icard, Deputy General Manager, Bank for International Settlements (BIS)
Donald J. Johnston, Secretary-General, Organization for Economic Cooperation and Development (OECD)
Ian Kinniburgh, Director, Development Policy Analysis, Department of Economic and Social Affairs, United Nations (UN)
Eddy Lee, Director, International Policy Group Department, International Labor Organization (ILO)
Trevor A. Manuel, Chairman, Joint Development Committee
Pedro Solbes Mira, Commissioner for Economic and Monetary Affairs, European Commission
Supachai Panitchpakdi, Director-General, World Trade Organization (WTO)
James D. Wolfensohn, President, World Bank

Seventh Meeting, Washington D.C., April 12, 2003

1. The International Monetary and Financial Committee held its seventh meeting in Washington, D.C., on April 12, 2003, under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom.

Global Economic Outlook

2. Meeting at a time of economic uncertainty, the Committee reaffirms its commitment to close international cooperation to strengthen confidence and support the global recovery. It underscores the importance of continued vigilance. But with readiness to adjust policies as necessary and determined further action on the structural front, the world economy has the prospect of strengthening growth and renewed prosperity. Substantial and concrete progress with multilateral trade liberalization is a key priority for the coming months and has the full political commitment of Ministers.

3. In the advanced economies, sound fundamentals and policies should deliver stronger growth in the second half of the year. With inflationary pressures well contained, monetary policies should remain accommodative, and in many countries there is room to ease monetary policy further if needed. On the fiscal side, the automatic stabilizers should be generally allowed to operate, though in many countries action is needed to address medium-term fiscal pressures, including those arising from aging populations. The advanced economies have a shared responsibility to go further in implementing structural reforms—to enhance prospects for a sustained broad-based world recovery that helps correct global imbalances. In the United States, policies consistent with a sound medium-term fiscal position remain important. In Europe, labor and product market reforms need to be accelerated. In Japan, further steps are needed to strengthen the banking and corporate sectors and end deflation, accompanied by a start toward strengthening the medium-term fiscal position.

4. Emerging market countries will need to continue to strengthen their policies for macroeconomic stability and structural reforms and therefore their resilience to adverse global developments. In countries facing external financing constraints, efforts to sustain macroeconomic stability will continue to be key to restoring confidence. For all countries, the continued implementation of reforms to strengthen banking and corporate sectors and underpin growth remains a priority. The IMF has a key role to play in supporting these efforts.

5. Prospects for stronger growth in low-income countries should be supported by improved economic policies, stronger institutions, progress in resolving regional conflicts, and increased donor resources, including through debt relief under the HIPC Initiative. Sustained implementation of sound policies, supported by strong ownership and the Monterrey Consensus, will remain key to reducing poverty and meeting the Millennium Development Goals (MDGs). African countries need to continue to press ahead with the wide-ranging reforms embedded in the New Partnership for Africa's Development (NEPAD)—in particular to improve the quality of their institutions and ensure peace and security. The Committee reiterates the importance of technical assistance, including the contribution of AFRITACs and other regional technical assistance centers. It calls on the international community to urgently mobilize additional assistance to address the serious food shortage in Africa.

6. The Committee notes that the present situation in Iraq poses significant challenges, with an urgent need to restore security, relieve human suffering, and promote economic growth and poverty reduction. We support a further UN Security Council resolution. We further note that engagement by the international community, including the Bretton Woods institutions, would be essential for sustained economic, social, and political development in Iraq, recognizing that the Iraqi people have the responsibility to implement the right policies and build their own future. The IMF and the World Bank stand ready to play their normal role in Iraq's redevelopment at the appropriate time. They will also monitor closely the impact of the conflict on all their members and stand ready to help and support those adversely affected. It is important to address the debt issue, and we look forward to early engagement of the Paris Club.

7. The Committee—having greatly benefited from the views of Dr. Supachai Panitchpakdi, Director-General of the World Trade Organization—underscores the urgency of concrete progress toward multilateral trade liberalization under the Doha Round through the continued commitment of the international community. This will be critical in supporting higher economic growth and poverty reduction, and enabling developing countries to participate more fully in the benefits of globalization. The Committee accordingly calls on industrial, emerging, and developing countries to play their part in renewed efforts to address obstacles to further progress in advance of the ministerial meeting of the World Trade Organization in Cancún next September. Urgent progress is needed in a number of areas, including agriculture, where better market access and lower trade distorting subsidies are particularly important for developing countries. The IMF, in collaboration with other international institutions, stands ready to support members' closer regional cooperation in the context of deeper integration into world markets.

Strengthening Crisis Prevention

8. The Committee reiterates the importance it attaches to strengthening the IMF's crisis prevention capacity and welcomes the steps in many countries to improve economic resilience and financial stability. However, there is still room for further improvement. Going forward, sustained implementation of a strengthened framework of bilateral, regional, and multilateral surveillance will be essential to provide more robust assessments of crisis vulnerabilities, debt sustainability, currency mismatches and other balance sheet and capital account developments, as well as further progress in strengthening data provision to the IMF and data dissemination to the public.

9. The Committee welcomes progress with the standards and codes process and the Financial Sector Assessment Program (FSAP) and the role these play in enhancing IMF surveillance. It calls on the IMF to continue to move forward with these initiatives to strengthen members' institutions, policy frameworks, and financial sectors, including through technical assistance. It stresses the importance of further enhancing the quality and effectiveness of standards and codes assessments, and calls on the IMF to implement quickly agreed measures to strengthen prioritization, technical assistance, and follow up of FSAP and ROSC assessments. In this context, the Committee looks forward to the further work of the Financial Stability Forum and standard-setting bodies on strengthening the content and coverage of standards in accounting, auditing, and corporate governance, and on improving transparency and financial disclosure.

10. The Committee supports the IMF's continued efforts to make surveillance more comprehensive and accountable, including through strengthening the IMF's policy advice on reducing vulnerabilities; greater attention to the spillovers from policies in countries of systemic or regional importance; more effective use of the IMF's cross-country experience; enhanced awareness of political economy factors; and bringing to bear a fresh perspective in surveillance of program countries. The Committee looks forward to the IMF's further work on surveillance and other crisis prevention issues and a report on progress for this year's Annual Meetings.

11. The Committee welcomes the increase in voluntary publication of country staff reports, but notes that the rate of publication across countries and regions remains uneven. It looks forward to further progress through the forthcoming review of the IMF's transparency policy, and stresses that the candor of the IMF's analysis and advice should be preserved.

12. The Committee emphasizes support for ways to achieve the objectives of the Contingent Credit Lines (CCL) in encouraging policies to reduce vulnerabilities and providing a means of support for members with strong policies in dealing with global financial developments. It looks forward to a report on how best to promote these objectives following the conclusion of the review of the facility.

Improving the Capacity to Resolve Financial Crises

13. Effective crisis resolution mechanisms, by promoting sound policies and better functioning capital markets, contribute to crisis prevention. The Committee welcomes the strengthened framework on access to IMF resources. This includes: the substantive criteria for exceptional access in capital account crises; and strengthened procedures, such as early involvement of the Executive Board in the process and a separate report evaluating the case for exceptional access. Consistent implementation of the framework will provide members and markets with clarity and predictability about IMF decisions in crises.

14. The Committee welcomes the inclusion of collective action clauses (CACs) by several countries, most recently Mexico, in international sovereign bond issues. It also welcomes the announcement that, by June of this year, those EU countries issuing bonds under foreign jurisdictions will include CACs. The Committee welcomes the work of the G-10, emerging markets, and the private sector in contributing to the development of CACs. It looks forward to the inclusion of CACs in international bond issues becoming standard market practice, and calls on the IMF to promote the voluntary inclusion of CACs in the context of its surveillance. The Committee welcomes recent initiatives to formulate a voluntary code of conduct for debtors and their creditors, which will improve the restructuring process, and encourages the IMF to contribute to this work.

15. The Committee welcomes the work of the IMF in developing a concrete proposal for a statutory sovereign debt restructuring mechanism (SDRM) and expresses its appreciation for the IMF management and staff's efforts. The extensive analysis and consultation undertaken in developing the proposal have served to promote better understanding of the issues to be addressed in bringing about orderly resolution of crises. The Managing Director's report sets out the current position. The Committee, while recognizing that it is not feasible now to move forward to establish the SDRM, agrees that work should continue on issues raised in its development that are of general relevance to the orderly resolution of financial crises. These issues include intercreditor equity considerations, enhancing transparency and disclosure, and aggregation issues. The IMF will report on progress at the Committee's next meeting.

Implementing Initiatives to Support Low-Income Countries

16. The Committee recognizes the urgent need to address the challenge of meeting the Millennium Development Goals, and reiterates that the IMF continues to have an important role to play in assisting low-income countries'

progress toward them. This will require enhanced efforts by developing and developed countries working in partnership. The Committee stresses the importance of sound macroeconomic policies and strong public expenditure and financial management systems. The Committee recognizes the urgent need to enhance market access and to increase the level and effectiveness of donor resources for developing countries. Proposals to achieve this, including facilities, are being considered, and the Committee looks forward to progress in the coming months. Building on countries' Poverty Reduction Strategy Papers (PRSPs), the Committee encourages the IMF to work with low-income countries to strengthen further the alignment of the PRGF, domestic budgets, and the PRSP approach. This will be facilitated through more realistic economic projections, systematic analysis of the sources of growth, effective Bank-Fund collaboration, and flexibility in program design, including to accommodate higher aid inflows. The Committee encourages donors to coordinate and harmonize their assistance in line with PRSP priorities, and to provide technical assistance to help members build the needed capacity to design and operationalize PRSP strategies and to improve public expenditure management. It endorses further work on the linkages between growth and poverty reduction, including the role of the private sector. The Committee also looks forward to the review of the role of the IMF in low-income countries over the medium term, and its paper on helping low-income countries to deal with shocks.

17. The Committee welcomes the further progress made in implementing the HIPC Initiative, but notes that some countries have experienced delays in reaching the completion point, and that other eligible countries are facing obstacles to participation in the Initiative. It looks forward to a review of these issues at its next meeting. The Committee reaffirms its commitment to the full financing of the Initiative. It urges all creditors to participate fully, and encourages further Bank-Fund efforts to help creditor and debtor countries address HIPC-to-HIPC debt relief and creditor litigation issues. It emphasizes the need to ensure lasting debt sustainability, which will require both the full implementation and financing of the Initiative, and continued sound economic policies, good governance, and prudent debt management. In this context, the Committee welcomes the efforts by some countries to provide additional debt relief beyond HIPC terms. The Committee supports joint Bank-Fund work to improve its assessments of longer-term debt sustainability for heavily indebted poor countries, and looks forward to a progress report at the next meeting.

Other Issues

18. The Committee welcomes the further actions by members to combat money laundering and the financing of terrorism, and notes with satisfaction the progress with the 12-month pilot program of AML/CFT assessments. It underscores the importance of continued close cooperation between the IMF, the World Bank, the FATF, and regional bodies to complete the pilot successfully, and of further enhancing the delivery of critically needed technical assistance. The Committee encourages all members to adopt AML/CFT laws and practices consistent with the agreed international standards, and looks forward to a full report at the conclusion of the pilot program.

19. The Committee considers it important that, as pointed out in the Monterrey Consensus, all members should have an adequate voice and representation in the institution. It welcomes recent administrative steps to strengthen the capacity of the African constituencies. The Committee notes that the Twelfth General Review of Quotas has been concluded and that the IMF is well positioned to meet the projected needs of its members. The Committee looks forward to receiving a status report by the 2003 Annual Meetings on the adequacy of IMF resources, the distribution of quotas, and measures to strengthen IMF governance, consistent with the resolution of the Board of Governors, in the context of the Thirteenth General Review of Quotas. The Committee recommends completion of the ratification of the Fourth Amendment.

20. The Committee welcomes the thorough follow-up being given to the first report of the Independent Evaluation Office on prolonged use of IMF resources. It looks forward to future IEO reports as a way of enhancing the listening and learning culture within the IMF.

21. The Committee expresses its appreciation of the work of Eduardo Aninat as Deputy Managing Director.

22. The next meeting of the IMFC will be held in Dubai, on September 21, 2003.

Annex: International Monetary and Financial Committee Attendance April 12, 2003

Chairman
Gordon Brown

Managing Director
Horst Köhler

Members or Alternates

Hamad Al-Sayari, Governor, Saudi Arabian Monetary Agency
(Alternate for Ibrahim A. Al-Assaf, Minister of Finance and National Economy, Saudi Arabia)

Sir Edward George, Governor, Bank of England, United Kingdom
(Alternate for Gordon Brown, Chancellor of the Exchequer, United Kingdom)

Felipe Pérez Martí, Minister of Planning and Development, República Bolivariana de Venezuela
(Alternate for Diego L. Castellanos, Governor, Banco Central de Venezuela)

Ian Campbell, Parliamentary Secretary to the Treasurer, Australia
(Alternate for Peter Costello, Treasurer of the Commonwealth of Australia)

Job Graca, Deputy Minister of Finance, Angola
(Alternate for José Pedro de Morais, Jr., Minister of Finance, Angola)

Hans Eichel, Minister of Finance, Germany

Geir Hilmar Haarde, Minister of Finance, Iceland

A.H.E.M. Wellink, President, De Nederlandsche Bank N.V.
(Alternate for Hans Hoogervorst, Minister of Finance, The Netherlands)

Jamaludin Mohd Jarjis, Finance Minister II, Malaysia

Mohammed K. Khirbash, Minister of State for Finance and Industry, United Arab Emirates
Aleksei Kudrin, Deputy Chairman of the Government and Minister of Finance, Russian Federation
Mohammed Laksaci, Governor, Banque d'Algérie
Roberto Lavagna, Minister of Economy, Argentina
John Manley, Minister of Finance, Canada
Francis Mer, Minister of Economy, Finance and Industry, France
Antonio Palocci, Minister of Finance, Brazil
Guy Quaden, Governor, Banque Nationale de Belgique (Alternate for Didier Reynders, Minister of Finance, Belgium)
Masajuro Shiokawa, Minister of Finance, Japan
Bimal Jalan, Governor, Reserve Bank of India (Alternate for Jaswant Singh, Minister of Finance and Company Affairs, India)
John W. Snow, Secretary of the Treasury, United States
Paul Toungui, Minister of State, Minister of Finance, Economy, Budget and Privatization, Gabon
Giulio Tremonti, Minister of Economy and Finance, Italy
Kaspar Villiger, Minister of Finance, Switzerland
Li Ruogu, Assistant Governor, People's Bank of China (Alternate for Zhou Xiaochuan, Governor, People's Bank of China)

Observers
Oscar de Rojas, Acting Head, Financing for Development Office, Department of Economic and Social Affairs, United Nations (UN)
Willem F. Duisenberg, President, European Central Bank (ECB)
Heiner Flassbeck, Chief, Macroeconomic and Development Policies Branch, United Nations Conference on Trade and Development (UNCTAD)
Donald J. Johnston, Secretary-General, Organization for Economic Cooperation and Development (OECD)
Malcolm D. Knight, General Manager, Bank for International Settlements (BIS)
Caio Koch-Weser, Interim Chairman, Financial Stability Forum (FSF)
Eddy Lee, Economic Adviser and Director, International Policy Group Department, International Labor Organization (ILO)
Trevor A. Manuel, Chairman, Joint Development Committee
Pedro Solbes, Commissioner for Economic and Monetary Affairs, European Commission
Supachai Panitchpakdi, Director-General, World Trade Organization (WTO)
James D. Wolfensohn, President, World Bank

Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee)

PRESS COMMUNIQUÉS

Sixty-Sixth Meeting, Washington D.C., September 28, 2002

1. We met today to discuss implementation of the strategies and decisions agreed in Monterrey and Johannesburg and achieving debt sustainability for heavily indebted poor countries.

2. At our meeting last April, we welcomed the very important progress achieved in Monterrey laying out a new partnership between developed and developing countries, based on mutual responsibility and accountability, to achieve measurable improvements in sustainable growth and poverty reduction. We welcomed the announcements by a number of donors of significant increases in their ODA. Earlier this month, the WSSD concluded in Johannesburg with a number of decisions that provide additional direction to our task of eradicating poverty and achieving sustainable development. A series of important commitments were made in the areas of water and sanitation, energy, health, agriculture, biodiversity, and ecosystem management, accompanied by the launch of implementation initiatives. Today we committed ourselves with a new vigor and determination to implement the agreed strategies and partnerships and to use our future meetings regularly to review progress through clear and measurable indicators. Building on the outcomes of Monterrey and Johannesburg, we also intend to have further discussions on global public goods.

3. The global community must now convert the ideas and the shared approaches agreed in Doha, Monterrey, and Johannesburg into concrete action and measure ongoing progress. Experience has repeatedly shown that progress will only be made through implementation of sound and sustainable country-driven strategies. To make existing and new aid commitments more effective, these strategies must also be supported by better coordination and cooperation among development partners and by effective alignment of donor support with country strategies. We underline our commitment to work together and with civil society and the private sector, under the leadership of the government concerned, in a coherent way to achieve concrete results.

4. We reaffirmed the crucial importance of trade as a source of growth and poverty reduction. We recognized that it is essential for developed countries to do more to open their markets and eliminate trade-distorting subsidies for products that represent major potential exports for developing countries, such as agriculture, textiles, and clothing. At the same time, we recognized the importance of continued efforts towards trade liberalization in developing countries as part of an overall development strategy, in conjunction with the necessary policies and capacities that facilitate an appropriate supply response and minimize the adjustment burdens on the poor. We therefore welcomed the increased attention to trade issues in the work of the World Bank and International

Monetary Fund in support of a successful Doha Development Agenda. We urged intensified efforts to mainstream trade in the development dialogue with the Bank's members, with an enhanced operational focus on building both institutional and physical capacity to help developing countries take advantage of new trade opportunities.

5. Last April, we endorsed a World Bank plan to help make primary education a reality for all children by 2015 and gender equality in primary and secondary education by 2005. Today we reviewed implementation of the Fast Track Initiative and requested a progress report on results achieved for our next meeting. In addition, we considered the challenges of scaling up activities in two additional areas—HIV/AIDS/Communicable Diseases and water and sanitation. We urged the World Bank to pursue its work in these areas.

6. We endorsed the overall approach set out for discussion today for making results central to the management of development programs in both developing countries and in development agencies. We urged the Bank to expedite implementation of the action plan for increasing its results orientation and to intensify its work with multilateral and bilateral partners to share information on planned and ongoing country development activities, including diagnostic work and operational support, as a basis for enhanced alignment of donor support for national development strategies. We also urged increased use of joint evaluations of donor programs, especially for country and sector program support, to complement assessments of individual agencies' performance, including as development partners. We highlighted the need for increased and coordinated donor support for capacity building, including for results-oriented monitoring and evaluation and statistics. We asked the Bank to report on these efforts at our next meeting.

7. We recognized the need for intensified efforts to harmonize operational policies and procedures of bilateral and multilateral agencies at the institutional and country levels so as to enhance aid effectiveness and efficiency and promote greater ownership by developing countries. We committed to further action in streamlining such policies, procedures, and requirements over the period leading to the high-level forum scheduled in Rome in February 2003 and beyond.

8. Recognizing the special challenges faced by Africa in meeting the Millennium Development Goals, we urge the Bank and the IMF to scale up assistance to these countries and to build on the NEPAD initiative as a unique opportunity to make significant and quick progress building on African leadership.

9. Our discussions have reinforced our conviction that major progress on achieving the Millennium Development Goals is possible. What is needed now is determined implementation of agreed strategies and partnerships on the part of both developed and developing countries, as well as multilateral agencies, and the setting out of a clear framework identifying responsibilities and accountabilities by which progress can be regularly measured. The Development Committee intends to contribute to moving this implementation agenda forward through regular monitoring and review of the policies, actions, and outcomes needed to achieve these goals. We request the Bank and the Fund to present proposals at our next meeting for taking this forward, while recognizing the role of the United Nations in monitoring the MDGs.

10. The Monterrey Summit also stressed the importance of greater coherence, coordination, and cooperation among multilateral organizations and the need to broaden and strengthen participation of developing countries and countries with economies in transition in international decision making and norm setting. The Summit encouraged the World Bank and the IMF to find pragmatic and innovative ways to further enhance participation of these countries and thereby to strengthen the international dialogue and work of these institutions. We requested the Bank and the Fund to prepare a background document to facilitate consideration of these important issues at our next meeting.

11. We welcomed the continued progress made on the HIPC Initiative and reconfirmed our commitment to its implementation and full financing. We fully support the objective of helping our poorest, most heavily indebted members achieve an enduring exit from unsustainable debt but we recognize that considerable challenges remain. Success will require: a sustained commitment by HIPC countries to improvements in domestic policies and economic management; capacity building for the management of financial assets and liabilities; full participation and delivery of relief by all affected creditors; and adequate and sufficiently concessional financing by international financial institutions and the donor community. We call upon all official and commercial creditors that have not yet done so to fully participate in the HIPC Initiative. We have asked the Bank and the Fund to undertake an early review of the difficult issues of HIPC-to-HIPC debt relief and creditor litigation. We stressed the urgency of meeting the financing shortfall of the HIPC Trust Fund, which could be up to $1 billion. We welcome the recent announcements of support and call upon other donor countries to make firm pledges and contributions as early as possible. At the same time, we reaffirm our commitment to ensuring that the cost of debt relief to IDA is not permitted to compromise IDA's resources, and we note the arrangements in place to accomplish this objective.

12. We reviewed further experience with PRSPs, which confirmed the broad findings of the joint Bank/Fund review earlier this year. The Committee is encouraged by the increased momentum in countries' efforts to develop and implement their PRSPs. We call on the Fund and Bank together with all donors to align their support with country PRSPs and to collaborate with each other to: strengthen their analysis of the sources of growth; streamline conditionality; help countries improve their public expenditure management systems; facilitate an environment conducive to private sector development; and intensify efforts to help countries undertake poverty and social impact analyses on a more systematic basis.

13. Finally, we reviewed the role being played by the Bank and Fund, in collaboration with other international institutions, in combating money laundering and the financing of terrorism (AML/CFT). We endorse the conditional addition of the FATF 40+8 Recommendations to the list of international standards and codes useful to the operational work of the Bank and the Fund, and the conditional beginning of the 12-month pilot program of comprehensive AML/CFT assessments and accompanying ROSCs, in accordance with the voluntary, cooperative, and uniform approach. We encourage the Bank and the Fund to continue to integrate these issues into their diagnostic and surveillance work

in line with their respective mandates and to enhance their technical and capacity-building efforts.

14. We express our deep condolences to the family of the late Mr. Bernard Chidzero, former Minister of Finance of Zimbabwe. Minister Chidzero served with great skill and distinction as Chairman of the Development Committee from 1986 to 1990.

15. The next meeting of the Development Committee will be held in Washington, D.C. on April 13, 2003.

Sixty-Seventh Meeting, Washington D.C., April 13, 2003

1. We met today to review progress in the work of implementing the strategies, partnerships, and actions agreed in Monterrey and Johannesburg to achieve the Millennium Development Goals[1] and to consider ways to enhance the voice and participation of developing and transition countries in our institutions.

2. Since our meeting last fall, the global environment has become more uncertain. Slower economic growth, the war in Iraq, and failure to make more substantive progress on the Doha Development Agenda add to the challenge of implementing the global development agenda. We therefore strongly reaffirmed our commitment to the global effort needed to reduce poverty in developing and transition countries and achieve the MDGs.

3. To accelerate progress toward these and related goals, we emphasized the need for policies by both developed and developing countries in partnership to generate stronger economic growth complemented by actions to enhance the capabilities of poor people to participate in growth and access key social services. For developing countries, three interrelated areas in particular require strengthened efforts: improving the environment for investment and private sector activity, including macroeconomic stability and supporting infrastructure; strengthening governance, including public financial management, and capacity in the private and public sector; and increasing human capital through broader and more effective delivery of basic and social services to the poor. Such stronger reform efforts by developing countries would lay the foundations for enhanced growth and private financing. As agreed at Monterrey, these efforts need to be matched with stronger support from developed countries, in particular through increased market access for developing country exports, debt relief, and increases in the volume, predictability and effectiveness of aid. Proposals to achieve this, including facilities, are being considered, and we look forward to progress in the coming months. We are pleased that on April 8, IDA's Thirteenth Replenishment became effective. We also reaffirmed our commitment to increased assistance to the sub-Saharan African and other countries that face special challenges in meeting the MDGs.

4. On improving aid quality, including its delivery and management aspects, we called for swift progress in implementing the results agenda and the agreements in the Rome Declaration on Harmonization. We underlined the central importance of anchoring strengthened efforts in country-owned strategies, as set out for low-income countries in PRSPs, linked to national budget processes and providing the country context within which donors and international agencies can align support.

5. We welcomed the progress on developing a global monitoring framework to allow the Committee to regularly assess progress and to reinforce accountabilities among developing and developed countries, as well as institutional partners, for the policies and actions for achieving the MDGs and related outcomes. We urged the Bank and the Fund to continue to work closely with partner agencies—UN, regional development banks, OECD/DAC, and WTO—using institutional mandates to guide the division of responsibilities for monitoring work. We called upon both multilateral agencies and bilateral donors to take the necessary steps to refine and harmonize their instruments of analysis and measurement. In this context, we urged the Bank, working in a participatory manner, to continue to improve the Country Policy and Institutional Assessment (CPIA) methodology and the transparency of its application. The urgency of the work on statistical capacity building, especially for those countries most at risk of not meeting the MDGs, was underlined. We look forward to the next global monitoring report.

6. Continuing progress on the Fast Track Initiative on Education for All was welcomed, although we recognized that more needs to be done to follow up on the commitment to adequately fund the initial seven countries and to provide the required support to other countries that meet the eligibility criteria. Furthermore, extra efforts are needed to achieve the 2005 MDG on gender parity in access to primary and secondary education. We asked, before our next meeting, to be informed on progress. We reviewed progress on water and sanitation and underlined the important contribution that these make to the other development goals. We welcomed the Bank's recent strategy to enhance support to the water sector and look forward to its implementation. We noted the recent report of the Panel on Financing Water Infrastructure, and asked the Bank to consider, before our next meeting, how it can implement relevant recommendations of the Panel report. We also considered progress in health and HIV/AIDS and encouraged the Bank to strengthen further its cooperation with other partners and to intensify its efforts at the country level. While each service sector will have to find its own approach to accelerating progress, we underlined the importance of anchoring the efforts to achieve MDG goals in country-owned strategies such as in PRSPs for low-income countries. We stressed that sound policies and efforts by developing countries should be supported by adequate and appropriate financing and we asked the Bank to report on progress in this regard at our next meeting.

7. We emphasized the critical role of investment in infrastructure for economic growth, and its linkages with the provision of social services and the attainment of the MDGs. We welcomed the Bank's renewed commitment to increase its support to such investment and asked the Bank to report on its further efforts at our next meeting.

8. Trade remains of crucial importance to growth and poverty reduction. At a time of global uncertainty, it is even more important to demonstrate that multilateral cooperation can succeed in meeting the ambitious targets set for the Doha Development Agenda. We urge countries to come to an

[1]From the UN Millennium Declaration, endorsed by Heads of State and Government in the UN General Assembly on September 8, 2000.

agreement quickly in those areas where Doha deadlines have already been missed. It is essential for developed countries to do more to liberalize their markets and eliminate trade-distorting subsidies, including in the areas of agriculture, textiles, and clothing, which are of particular importance for developing countries. At the same time, we emphasize the importance of trade facilitation and liberalization efforts in developing countries. These efforts must be integrated into an overall development strategy, in conjunction with the necessary policies, infrastructure, and institutional capacities that strengthen their ability to participate in international trade. We call on the Bank and the Fund to continue to step up their efforts to support trade. We urge that future Country Assistance Strategies include trade-enhancing lending operations and capacity building for member countries where such trade-related support is a clear country priority.

9. Enhancing the voice and effective participation of developing and transition countries in the work and decision making of the Bretton Woods Institutions can contribute importantly to strengthening the international dialogue and the effectiveness of these institutions. We welcomed the recent capacity-enhancing decisions by the Executive Boards of the Bank and the Fund and we urge them to consider additional steps that might be taken. These decisions will help to ensure that a more effective capacity exists to articulate the views and concerns of all members. We encourage potential donors to actively pursue the idea of creating a financing mechanism that could support independent research and advice in key policy areas. Broader and more far-reaching ideas have also been advanced to help achieve enhanced participation in the institutions. We note that a status report by the Fund Executive Board to the IMFC on the adequacy of IMF resources, the distribution of quotas and the strengthening of Fund governance is to be prepared for its next meeting. We requested the Boards of the Bank and Fund to consider and elaborate upon options with a potential for broad support, taking account of shareholder and institutional implications. On this basis, we will pursue our discussions of these matters and requested a progress report for our next meeting.

10. We welcomed the progress made on the HIPC Initiative and reconfirmed our commitment to its implementation and full financing. We recalled that achievement of long-term debt sustainability will require actions on the part of HIPC countries as well as development partners to complement debt relief under the enhanced HIPC Initiative. We also recalled that within existing guidelines, additional relief can be provided at the completion point, on a case-by-case basis. We welcomed the donor community pledges to close the financing gap in the HIPC Trust Fund and urged donors to translate these into concrete contributions in the coming months. We welcomed the recent paper by the Bank and the Fund that reviewed the difficult issues of creditor participation, including HIPC-to-HIPC debt relief and creditor litigation, and welcomed the decision by the Bank to explore options to assist with HIPC-to-HIPC debt. We once again reiterated the request that all official bilateral and commercial creditors that have not yet done so participate in the HIPC Initiative. We look forward to reviewing implementation, including any difficulties encountered in reaching decision and completion points, at our next meeting.

11. We noted that the present situation in Iraq poses significant challenges, with an urgent need to restore security, relieve human suffering, and promote economic growth and poverty reduction. We support a further UN Security Council resolution. We further note that engagement by the international community, including the Bretton Woods institutions, would be essential for sustained economic, social, and political development in Iraq, recognizing that the Iraqi people have the responsibility to implement the right policies and build their own future. The World Bank and the IMF stand ready to play their normal role in Iraq's redevelopment at the appropriate time. They will also monitor closely the impact of the conflict on all their members and stand ready to help and support those adversely affected. It is important to address the debt issue, and we look forward to early engagement of the Paris Club.

12. The next meeting of the Development Committee will be held in Dubai, United Arab Emirates, on September 22, 2003.

APPENDIX VII

Executive Directors and Voting Power on April 30, 2003

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of IMF Total[2]
Appointed				
Nancy P. Jacklin	United States	371,743	371,743	17.11
Meg Lundsager				
Ken Yagi	Japan	133,378	133,378	6.14
Haruyuki Toyama				
Karlheinz Bischofberger	Germany	130,332	130,332	6.00
Ruediger von Kleist				
Pierre Duquesne	France	107,635	107,635	4.95
Sébastien Boitreaud				
Tom Scholar	United Kingdom	107,635	107,635	4.95
Martin A. Brooke				
Elected				
Willy Kiekens	Austria	18,973		
(Belgium)	Belarus	4,114		
Johann Prader	Belgium	46,302		
(Austria)	Czech Republic	8,443		
	Hungary	10,634		
	Kazakhstan	3,907		
	Luxembourg	3,041		
	Slovak Republic	3,825		
	Slovenia	2,567		
	Turkey	9,890	111,696	5.14
Jeroen Kremers	Armenia	1,170		
(Netherlands)	Bosnia and Herzegovina	1,941		
Yuriy G. Yakusha	Bulgaria	6,652		
(Ukraine)	Croatia	3,901		
	Cyprus	1,646		
	Georgia	1,753		
	Israel	9,532		
	Macedonia, former Yugoslav Republic of	939		
	Moldova	1,482		
	Netherlands	51,874		
	Romania	10,552		
	Ukraine	13,970	105,412	4.85
Hernán Oyarzábal	Costa Rica	1,891		
(República Bolivariana	El Salvador	1,963		
de Venezuela)	Guatemala	2,352		
Mario Beauregard	Honduras	1,545		
(Mexico)	Mexico	26,108		
	Nicaragua	1,550		
	Spain	30,739		
	Venezuela, República Bolivariana de	26,841	92,989	4.28
Pier Carlo Padoan	Albania	737		
(Italy)	Greece	8,480		
Harilaos Vittas	Italy	70,805		
(Greece)	Malta	1,270		
	Portugal	8,924		
	San Marino	420		
	Timor-Leste	332	90,968	4.19

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of IMF Total[2]
Elected ***(continued)***				
Ian E. Bennett	Antigua and Barbuda	385		
(Canada)	Bahamas, The	1,553		
Nioclás A. O'Murchú	Barbados	925		
(Ireland)	Belize	438		
	Canada	63,942		
	Dominica	332		
	Grenada	367		
	Ireland	8,634		
	Jamaica	2,985		
	St. Kitts and Nevis	339		
	St. Lucia	403		
	St. Vincent and the Grenadines	333	80,636	3.71
Vilhjálmur Egilsson	Denmark	16,678		
(Iceland)	Estonia	902		
Benny Andersen	Finland	12,888		
(Denmark)	Iceland	1,426		
	Latvia	1,518		
	Lithuania	1,692		
	Norway	16,967		
	Sweden	24,205	76,276	3.51
Michael J. Callaghan	Australia	32,614		
(Australia)	Kiribati	306		
Michael H. Reddell	Korea	16,586		
(New Zealand)	Marshall Islands	285		
	Micronesia, Federated States of	301		
	Mongolia	761		
	New Zealand	9,196		
	Palau	281		
	Papua New Guinea	1,566		
	Philippines	9,049		
	Samoa	366		
	Seychelles	338		
	Solomon Islands	354		
	Vanuatu	420	72,423	3.33
Sulaiman M. Al-Turki (Saudi Arabia) *Abdallah S. Alazzaz* *(Saudi Arabia)*	Saudi Arabia	70,105	70,105	3.23
Sri Mulyani Indrawati	Brunei Darussalam	2,402		
(Indonesia)	Cambodia	1,125		
Ismail Alowi	Fiji	953		
(Malaysia)	Indonesia	21,043		
	Lao People's Democratic Republic	779		
	Malaysia	15,116		
	Myanmar	2,834		
	Nepal	963		
	Singapore	8,875		
	Thailand	11,069		
	Tonga	319		
	Vietnam	3,541	69,019	3.18
Ismaila Usman	Angola	3,113		
(Nigeria)	Botswana	880		
Peter J. Ngumbullu	Burundi	1,020		
(Tanzania)	Eritrea	409		
	Ethiopia	1,587		
	Gambia, The	561		
	Kenya	2,964		
	Lesotho	599		
	Malawi	944		
	Mozambique	1,386		
	Namibia	1,615		
	Nigeria	17,782		
	Sierra Leone	1,287		

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of IMF Total[2]
Elected ***(continued)***				
	South Africa	18,935		
	Sudan	1,947		
	Swaziland	757		
	Tanzania	2,239		
	Uganda	2,055		
	Zambia	5,141		
	Zimbabwe	3,784	69,005	3.18
A. Shakour Shaalan	Bahrain	1,600		
(Egypt)	Egypt	9,687		
Oussama T. Kanaan	Iraq	5,290		
(Jordan)	Jordan	1,955		
	Kuwait	14,061		
	Lebanon	2,280		
	Libya	11,487		
	Maldives	332		
	Oman	2,190		
	Qatar	2,888		
	Syrian Arab Republic	3,186		
	United Arab Emirates	6,367		
	Yemen, Republic of	2,685	64,008	2.95
WEI Benhua	China	63,942	63,942	2.94
(China)				
WANG Xiaoyi				
(China)				
Fritz Zurbrügg	Azerbaijan	1,859		
(Switzerland)	Kyrgyz Republic	1,138		
Wieslaw Szczuka	Poland	13,940		
(Poland)	Serbia and Montenegro	4,927		
	Switzerland	34,835		
	Tajikistan	1,120		
	Turkmenistan	1,002		
	Uzbekistan	3,006	61,827	2.85
Aleksei V. Mozhin	Russia	59,704	59,704	2.75
(Russia)				
Andrei Lushin				
(Russia)				
Murilo Portugal	Brazil	30,611		
(Brazil)	Colombia	7,990		
Roberto Steiner	Dominican Republic	2,439		
(Colombia)	Ecuador	3,273		
	Guyana	1,159		
	Haiti	857		
	Panama	2,316		
	Suriname	1,171		
	Trinidad and Tobago	3,606	53,422	2.46
Abbas Mirakhor	Afghanistan	1,454		
(Islamic Republic of Iran)	Algeria	12,797		
Mohammed Daïri	Ghana	3,940		
(Morocco)	Iran, Islamic Republic of	15,222		
	Morocco	6,132		
	Pakistan	10,587		
	Tunisia	3,115	53,247	2.45
Yaga V. Reddy	Bangladesh	5,583		
(India)	Bhutan	313		
R.A. Jayatissa	India	41,832		
(Sri Lanka)	Sri Lanka	4,384	52,112	2.40
Guillermo Le Fort	Argentina	21,421		
(Chile)	Bolivia	1,965		
A. Guillermo Zoccali	Chile	8,811		
(Argentina)	Paraguay	1,249		
	Peru	6,634		
	Uruguay	3,315	43,395	2.00

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of IMF Total[2]
Elected *(continued)*				
Damian Ondo Mañe	Benin	869		
(Equatorial Guinea)	Burkina Faso	852		
Laurean W. Rutayisire	Cameroon	2,107		
(Rwanda)	Cape Verde	346		
	Central African Republic	807		
	Chad	810		
	Comoros	339		
	Congo, Democratic Republic of	5,580		
	Congo, Republic of	1,096		
	Côte d'Ivoire	3,502		
	Djibouti	409		
	Equatorial Guinea	576		
	Gabon	1,793		
	Guinea	1,321		
	Guinea-Bissau	392		
	Madagascar	1,472		
	Mali	1,183		
	Mauritania	894		
	Mauritius	1,266		
	Niger	908		
	Rwanda	1,051		
	São Tomé and Príncipe	324		
	Senegal	1,868		
	Togo	984	30,749	1.41
			2,171,658[3,4]	99.92[5]

[1]Voting power varies on certain matters pertaining to the General Department with use of the IMF's resources in that Department.

[2]Percentages of total votes of 2,173,313 in the General Department and the Special Drawing Rights Department.

[3]This total does not include the votes of Somalia, which did not participate in the 2000 and 2002 Regular Election of Executive Directors. The total votes of this member are 692—0.03 percent of those in the General Department and Special Drawing Rights Department.

[4]This total does not include the votes of Liberia, which was suspended effective March 5, 2003, pursuant to Article XXVI, Section 2 *(b)* of the Articles of Agreement. The total votes of this member are 963—0.04 percent of those in the General Department and Special Drawing Rights Department.

[5]This figure may differ from the sum of the percentages shown for individual Directors because of rounding.

Changes in Membership of the Executive Board

Changes in the membership of the Executive Board between May 1, 2002, and April 30, 2003, were as follows:

Fernando Varela (Spain) relinquished his duties as Executive Director for Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, and Venezuela, effective June 30, 2002.

Hernán Oyarzábal (Venezuela), formerly Alternate Executive Director to Fernando Varela (Spain), was elected Executive Director by Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, and Venezuela, effective July 1, 2002.

Fernando Varela (Spain) was appointed Alternate Executive Director to Hernán Oyarzábal (Venezuela), effective July 1, 2002.

Vijay L. Kelkar (India) relinquished his duties as Executive Director for Bangladesh, Bhutan, India, and Sri Lanka, effective July 31, 2002.

Roberto Junguito (Colombia) relinquished his duties as Alternate Executive Director to Murilo Portugal (Brazil), effective July 31, 2002.

Yaga V. Reddy (India) was elected Executive Director by Bangladesh, Bhutan, India, and Sri Lanka on August 1, 2002.

Roberto Steiner (Colombia) was appointed Alternate Executive Director to Murilo Portugal (Brazil), effective August 26, 2002.

Ahmed Saleh Alosaimi (Saudi Arabia) relinquished his duties as Alternate Executive Director to Sulaiman Al-Turki (Saudi Arabia), effective September 12, 2002.

Abdallah S. Alazzaz (Saudi Arabia) was appointed Alternate Executive Director to Sulaiman Al-Turki (Saudi Arabia), effective September 13, 2002.

Alexandre Barro Chambrier (Gabon) completed his term of service as Executive Director for Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé and Príncipe, Senegal, and Togo, effective October 31, 2002.

Mohamad B. Chatah (Lebanon) relinquished his duties as Alternate Executive Director to A. Shakour Shaalan (Egypt), effective October 31, 2002.

Roberto Cippà (Switzerland) completed his term of service as Executive Director for Azerbaijan, Kyrgyz Republic, Poland, Serbia and Montenegro, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan, effective October 31, 2002.

Dono Iskander Djojosubroto (Indonesia) completed his term of service as Executive Director for Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, and Vietnam, effective October 31, 2002.

Kwok Mun Low (Singapore) relinquished his duties as Alternate Executive Director to Dono Iskander Djojosubroto (Indonesia), effective October 31, 2002.

Cyrus Rustomjee (South Africa) completed his term of service as Executive Director for Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe, effective October 31, 2002.

Fernando Varela (Spain) relinquished his duties as Alternate Executive Director to Hernán Oyarzábal (Venezuela), effective October 31, 2002.

A. Guillermo Zoccali (Argentina) completed his term of service as Executive Director for Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay, effective October 31, 2002.

Sulaiman Al-Turki (Saudi Arabia) was reelected Executive Director by Saudi Arabia, effective November 1, 2002.

Ian E. Bennett (Canada) was reelected Executive Director by Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and St. Nevis, St. Lucia, and St. Vincent and the Grenadines, effective November 1, 2002.

Mario Beauregard (Mexico) was appointed Alternate Executive Director to Hernán Oyarzábal (Venezuela), effective November 1, 2002.

Michael J. Callaghan (Australia) was reelected Executive Director by Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Palau, Papua New Guinea, Philippines, Samoa, Seychelles, Solomon Islands, and Vanuatu, effective November 1, 2002.

Willy Kiekens (Belgium) was reelected Executive Director by Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovak Republic, Slovenia, and Turkey, effective November 1, 2002.

Ólafur Ísleifsson (Iceland) was reelected Executive Director by Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden, effective November 1, 2002.

Sri Mulyani Indrawati (Indonesia) was elected Executive Director by Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, and Vietnam, effective November 1, 2002.

Ismail Alowi (Malaysia) was appointed Alternate Executive Director to Sri Mulyani Indrawati (Indonesia), effective November 1, 2002.

Guillermo Le Fort (Chile), formerly Alternate Executive Director to A. Guillermo Zoccali (Argentina), was elected Executive Director by Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay, effective November 1, 2002.

Abbas Mirakhor (Islamic Republic of Iran) was reelected Executive Director by Algeria, Ghana, Islamic Republic of Iran, Morocco, Pakistan, and Tunisia, effective November 1, 2002.

Aleksei V. Mozhin (Russia) was reelected Executive Director by Russia, effective November 1, 2002.

Damian Ondo Mañe (Equatorial Guinea), formerly Alternate Executive Director to Alexandre Barro Chambrier (Gabon), was elected Executive Director by Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé and Príncipe, Senegal, and Togo, effective November 1, 2002.

Hernán Oyarzábal (Venezuela) was elected Executive Director by Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, and Venezuela, effective November 1, 2002.

Pier Carlo Padoan (Italy) was reelected Executive Director by Albania, Greece, Italy, Malta, Portugal, San Marino, and Timor-Leste, effective November 1, 2002.

Murilo Portugal (Brazil) was reelected Executive Director by Brazil, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, and Trinidad and Tobago, effective November 1, 2002.

Yaga V. Reddy (India) was reelected Executive Director by Bangladesh, Bhutan, India, and Sri Lanka, effective November 1, 2002.

Laurean Rutayisire (Rwanda) was appointed Alternate Executive Director to Damian Ondo Mañe (Equatorial Guinea), effective November 1, 2002.

A. Shakour Shaalan (Egypt) was reelected Executive Director by Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, and Yemen, effective November 1, 2002.

Ismaila Usman (Nigeria), formerly Alternate Executive Director to Cyrus Rustomjee (South Africa), was elected Executive Director by Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe, effective November 1, 2002.

WEI Benhua (China) was reelected Executive Director by China, effective November 1, 2002.

J. de Beaufort Wijnholds (Netherlands) was reelected Executive Director by Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, former Yugoslav Republic of Macedonia, Moldova, Netherlands, Romania, and Ukraine, effective November 1, 2002.

Fritz Zurbrügg (Switzerland) was elected Executive Director by Azerbaijan, Kyrgyz Republic, Poland, Serbia and Montenegro, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan, effective November 1, 2002.

A. Guillermo Zoccali (Argentina) was appointed Alternate Executive Director to Guillermo Le Fort (Chile), effective November 1, 2002.

Peter J. Ngumbullu (Tanzania) was appointed Alternate Executive Director to Ismaila Usman (Nigeria), effective November 4, 2002.

Nancy P. Jacklin (United States) was appointed Executive Director by the United States on December 4, 2002.

Oussama T. Kanaan (Jordan) was appointed Alternate Executive Director to A. Shakour Shaalan, effective January 7, 2003.

J. de Beaufort Wijnholds (Netherlands) relinquished his duties as Executive Director for Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, former Yugoslav Republic of Macedonia, Moldova, Netherlands, Romania, and Ukraine, effective January 14, 2003.

Jeroen Kremers (Netherlands) was elected Executive Director by Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, former Yugoslav Republic of Macedonia, Moldova, Netherlands, Romania, and Ukraine, effective January 15, 2003.

Ólafur Ísleifsson (Iceland) relinquished his duties as Executive Director for Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden, effective January 15, 2003.

Vilhjálmur Egilsson (Iceland) was elected Executive Director by Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden, effective January 16, 2003.

Diwa Guinigundo (Philippines) relinquished his duties as Alternate Executive Director to Michael J. Callaghan (Australia), effective March 2, 2003.

Michael H. Reddell (New Zealand) was appointed Alternate Executive Director to Michael J. Callaghan (Australia), effective March 3, 2003.

Hernán Oyarzábal (Venezuela) relinquished his duties as Executive Director for Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, and Venezuela, effective April 30, 2003.

APPENDIX IX

Financial Statements

April 30, 2003

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
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1301 K Street NW
Washington DC 20005
Telephone (202) 414 1000
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Report of the Independent Accountants

**To the Board of Governors
of the International Monetary Fund:**

In our opinion, the accompanying balance sheets and the related statements of income, changes in resources and cash flows give a true and fair view of the financial condition of the General Department of the International Monetary Fund (the "IMF") as at April 30, 2003 and 2002, and its results of operations and cash flows for the years then ended in conformity with International Accounting Standards. These financial statements are the responsibility of the IMF's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with International Standards on Auditing, which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 162 to 167 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

June 16, 2003

General Department

Balance Sheets
as at April 30, 2003 and 2002

(In thousands of SDRs)

	2003	2002
Assets		
Credit outstanding	65,977,977	52,080,697
Usable currencies	97,028,740	102,460,003
Other currencies	47,692,348	54,625,246
Total currencies (Notes 3 and 4)	210,699,065	209,165,946
SDR holdings	962,641	1,484,927
Gold holdings (Note 5)	5,851,771	5,851,771
Receivables (Note 6)	576,570	500,670
Other assets (Notes 7 and 14)	714,092	752,987
Investments held in the Special Disbursement Account (Note 8)	2,590,349	2,537,301
Structural Adjustment Facility loans (Note 3)	136,816	341,692
Total Assets	221,531,304	220,635,294

	2003	2002
Liabilities and Resources		
Liabilities:		
Remuneration payable	244,544	272,187
Other liabilities	140,347	120,750
Special Contingent Account (Note 10)	1,401,019	1,307,019
Total Liabilities	1,785,910	1,699,956
Members' Resources:		
Quotas, represented by:		
Reserve tranche positions (Notes 2 and 4)	68,008,951	55,327,139
Subscription payments: Usable	97,028,740	102,460,003
Other	47,693,609	54,628,758
Total quotas	212,731,300	212,415,900
Reserves of the General Resources Account	4,286,929	3,640,445
Accumulated resources of the Special Disbursement Account	2,727,165	2,878,993
Total Liabilities and Resources	221,531,304	220,635,294

The accompanying notes are an integral part of these financial statements.

/s/ Eduard Brau
Director, Finance Department

/s/ Horst Köhler
Managing Director

General Department
Income Statements
for the Years Ended April 30, 2003 and 2002

(In thousands of SDRs)

	2003	2002
Operational Income		
Interest and charges (Note 6)	2,295,250	1,985,921
Interest on SDR holdings	28,038	41,284
Investment income of the Special Disbursement Account	61,431	132,503
Other charges and income (Note 6)	131,629	157,496
	2,516,348	2,317,204
Operational Expenses		
Remuneration (Note 9)	1,201,347	1,293,961
Administrative Expenses (Note 13)	607,086	530,794
	1,808,433	1,824,755
Total Net Income	707,915	492,449
Net Income of the General Department comprises:		
Net Income of the General Resources Account	646,484	359,946
Income of the Special Disbursement Account	61,431	132,503
	707,915	492,449

The accompanying notes are an integral part of these financial statements.

General Department

Statements of Changes in Resources for the Years Ended April 30, 2003 and 2002

(In thousands of SDRs)

		General Resources Account			Special Disbursement Account
	Quotas	Special Reserve	General Reserve	Total Reserves	Accumulated Resources
Balance at April 30, 2001	212,414,900	2,344,982	935,517	3,280,499	2,838,454
Quota subscriptions	1,000	—	—	—	—
Net income	—	46,242	313,704	359,946	132,503
Transfers from the Trust Fund	—	—	—	—	191
Transfers from the Supplementary Financing Facility Subsidy Account	—	—	—	—	103
Transfers to the PRGF Trust	—	—	—	—	(30,658)
Transfers to the PRGF-HIPC Trust	—	—	—	—	(61,600)
Balance at April 30, 2002	212,415,900	2,391,224	1,249,221	3,640,445	2,878,993
Quota subscriptions	315,400	—	—	—	—
Net (loss)/income	—	(9,770)	656,254	646,484	61,431
Transfers to the PRGF Trust	—	—	—	—	(149,259)
Transfers to the PRGF-HIPC Trust	—	—	—	—	(64,000)
Balance at April 30, 2003	212,731,300	2,381,454	1,905,475	4,286,929	2,727,165

The accompanying notes are an integral part of these financial statements.

General Department

Statements of Cash Flows for the Years Ended April 30, 2003 and 2002

(In thousands of SDRs)

	2003	2002
Usable currencies and SDRs from operating activities		
Net income	707,915	492,449
Adjustments to reconcile net income to usable resources generated by operations:		
Changes in receivables and other assets	(37,005)	3,948
Changes in remuneration payable and other liabilities	(8,046)	(149,227)
Increase in the Special Contingent Account	94,000	94,000
Unrealized losses on investments	—	24,415
Usable currencies and SDRs from credit to members:		
Purchases in currencies and SDRs, including reserve tranche purchases	(21,783,516)	(29,194,497)
Repurchases in currencies and SDRs	7,783,894	19,207,036
Repayments of Structural Adjustment Facility loans	204,876	90,834
Net usable currencies and SDRs used in operating activities	**(13,037,882)**	**(9,431,042)**
Usable currencies and SDRs from investment activities		
Net acquisition of investments by the Special Disbursement Account	(53,048)	(155,788)
Net usable currencies and SDRs used by investment activities	**(53,048)**	**(155,788)**
Usable currencies and SDRs from financing activities		
Subscription payments in SDRs and usable currencies	78,850	250
Changes in composition of usable currencies	7,271,790	1,532,302
Transfers to the PRGF Trust, PRGF-HIPC Trust, and other accounts	(213,259)	(91,964)
Net usable currencies and SDRs provided by financing activities	**7,137,381**	**1,440,588**
Net decrease in usable currencies and SDRs	(5,953,549)	(8,146,242)
Usable currencies and SDRs, beginning of period	103,944,930	112,091,172
Usable currencies and SDRs, end of period	**97,991,381**	**103,944,930**

The accompanying notes are an integral part of these financial statements.

General Department

Notes to the Financial Statements as at April 30, 2003 and 2002

1. Purpose and Organization

The IMF is an international organization of 184 member countries. It was established to promote international monetary cooperation and exchange stability and to maintain orderly exchange arrangements among members; to facilitate the expansion and balanced growth of international trade, and contribute thereby to the promotion and maintenance of high levels of employment; and to provide temporary financial assistance to member countries under adequate safeguards to help ease balance of payments adjustment. The IMF conducts its operations and transactions through the General Department and the Special Drawing Rights Department (the SDR Department). The General Department consists of the General Resources Account (GRA), the Special Disbursement Account (SDA), and the Investment Account. The latter has not been activated. The IMF also administers trusts and accounts established to perform financial and technical services and financial operations consistent with the purposes of the IMF. The resources of these trusts and accounts are contributed by members or the IMF through the SDA. The financial statements of the SDR Department and these trusts and accounts are presented separately.

General Resources Account

The GRA holds the general resources of the IMF. Its resources reflect the receipt of quota subscriptions, use and repayment of IMF credit, collection of charges on the use of credit, payment of remuneration on creditor positions, borrowings, and payment of interest and repayment of borrowings.

Special Disbursement Account

The assets and resources of the SDA are held separately from other accounts of the General Department. Resources of the SDA include transfers received from the Trust Fund, an account administered by the IMF, and part of the proceeds from the sales of the IMF's gold in the past (there were no gold sales in financial year 2003 or 2002). Income from the investment of gold profits in the SDA is to be transferred, as needed, to the Poverty Reduction and Growth Facility–Heavily Indebted Poor Countries Trust (PRGF-HIPC Trust), in accordance with decisions of the IMF. The SDA also holds outstanding loans extended under the Structural Adjustment Facility (SAF), which was established in March 1986 to provide balance of payments assistance on concessional terms to qualifying low-income developing country members.

Assets that exceed the financing needs of the SDA, excluding investments arising from the sales of gold undertaken pursuant to the 1999 decision on gold sales by the IMF, are transferred to the Reserve Account of the Poverty Reduction and Growth Facility Trust (PRGF Trust), which is administered separately by the IMF as trustee.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the IMF are prepared in accordance with International Accounting Standards (IAS). Specific accounting principles and disclosure practices are explained further below. The preparation of financial statements in conformity with IAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue and Expense Recognition

The financial statements are prepared on the accrual basis; accordingly, income is recognized as it is earned, and expenses are recorded as they are incurred.

Unit of Account

The financial statements are expressed in terms of SDRs. The value of the SDR is determined by the IMF each day by summing the values in U.S. dollars, based on market exchange rates, of the currencies in the SDR valuation basket. The IMF reviews the SDR valuation basket every five years. The latest review was completed in October 2000, and the new composition of the SDR valuation basket became effective on January 1, 2001. The currencies in the basket as of April 30, 2003 and 2002 and their amounts were as follows:

Currency	Amount
Euro	0.426
Japanese yen	21.0
Pound sterling	0.0984
U.S. dollar	0.577

As of April 30, 2003, one SDR was equal to 1.38391 U.S. dollars (one SDR was equal to 1.26771 U.S. dollars as of April 30, 2002).

Credit Outstanding

The IMF provides balance of payments assistance in accordance with established policies by selling to members, in exchange for their own currencies, SDRs or currencies of other members. When members make purchases, they incur obligations to repurchase the IMF's holdings of their currencies arising from the purchases within specified periods by payments in SDRs or other currencies, as determined by the IMF. Fund credit is subject to specific repayment schedules over periods which vary depending on the type of facility used. Repayment schedules comprise two elements: (i) repurchase expectations, aimed at securing early repayment from members in a position to do so, in keeping with a long-standing principle of the IMF that its resources should be used only as long as there is a balance of payments need, and (ii) repurchase obligations. Repayments on the *expectation* schedules can be extended by a period of up to one year for credit

tranche and Supplemental Reserve Facility (SRF) purchases or three years for Extended Fund Facility (EFF) purchases (up to six months for SRF and one year for Contingent Credit Lines (CCL) purchases after February 21, 2003), upon a member's request if its external position is not sufficiently strong.

In financial year 2003, the IMF approved requests from Argentina to extend by one year repurchase expectations amounting to SDR 5.8 billion (one repurchase from Argentina in financial year 2002 for an amount of SDR 741 million was extended by one year). The financial year 2003 extensions include scheduled repurchase expectations in the period from May to August 2003 amounting to SDR 390 million. The IMF also approved requests from Ecuador, Sri Lanka and Uruguay to extend by one year repurchase expectations amounting to SDR 14 million, SDR 52 million and SDR 129 million arising during financial years 2004, 2004 and 2003, respectively.

A member is considered overdue after failure to make payment on a repurchase obligation. Failure to obtain an extension from the IMF for payment according to the repurchase expectations schedule date would result, inter alia, in a suspension of the right to make further purchases, including prospective purchases under an existing arrangement. The IMF's policies on the use of its general resources are intended to ensure that their use is temporary and will be reversed within agreed-upon repurchase periods.

A member is entitled to repurchase, at any time, the IMF's holdings of its currency on which charges are levied and is expected to make repurchases as and when its balance of payments and reserve position improve.

Overdue Obligations and the First Special Contingent Account

It is the policy of the IMF to exclude from current income, charges due by members that are six months or more overdue in meeting payments to the IMF, unless these members are current in the payment of charges.

Debtor and creditor members share equally the financial consequences of overdue obligations under a mechanism referred to as burden sharing. The IMF recovers amounts equal to unpaid and deferred charges, excluding special charges, by adjusting the rates of charge and remuneration. Members that have borne the financial consequences of overdue charges will receive refunds only to the extent that overdue charges that had given rise to burden sharing adjustments are settled, and these adjustments are therefore not presented as liabilities. In view of the risk resulting from overdue credit, the IMF also accumulates balances in the first Special Contingent Account (SCA-1). In assessing the risk of impairment, the IMF considers balances in the SCA-1. Allocations to the SCA-1 are financed by further adjustments to the rates of charge and remuneration (see Note 10).

Currencies

Currencies consist of members' currencies and securities held by the IMF. Each member has the option to substitute non-negotiable and non-interest-bearing securities for the IMF's holdings of its currency that exceed ¼ of 1 percent of the member's quota. These securities are encashable by the IMF on demand.

Each member is required to pay to the IMF its initial quota and subsequent quota increases partly in its own currency, with the remainder to be paid in usable currencies prescribed by the IMF, or SDRs. One exception was the quota increase of 1978, which was paid entirely in members' own currencies.

Usable Currencies

Usable currencies consist of currencies of members considered by the IMF to have strong balance of payment and reserve positions. These currencies are included in the IMF's financial transactions plan to finance purchases and other transfers of the IMF. Participation in the financial transactions plan is reviewed on a quarterly basis. The IMF considers cash and cash equivalents to be usable currencies and SDR holdings. The changes in non-usable currency result from the IMF's transactions (purchases and repurchases) where a member's currency is exchanged for another member's currency, or from the inclusion/exclusion of a member's currency in the IMF's transaction plan.

Valuation of Currencies

Currencies, including securities, are valued in terms of the SDR on the basis of the currency/SDR exchange rate determined for each currency. Securities are not marketable, but can be converted into cash on demand. Each member is obligated to maintain, in terms of the SDR, the SDR value of the balances of its currency held by the IMF in the GRA. This requirement is referred to as the maintenance-of-value obligation. Whenever the IMF revalues its holdings of a member's currency, a receivable or a payable is established for the amount required to maintain the SDR value of the IMF's holdings of that currency. The currency balances in the balance sheet include these receivables and payables. All currencies were revalued in terms of the SDR on April 30, 2003 and 2002.

SDR Holdings

Although SDRs are not allocated to the IMF, the IMF may acquire, hold, and dispose of SDRs through the GRA. The IMF receives SDRs from members in the settlement of their financial obligations to the IMF and uses SDRs in transactions and operations with members. The IMF earns interest on its SDR holdings at the same rate as all other holders of SDRs.

SDR Interest Rate

The SDR interest rate is determined weekly by reference to a combined market interest rate, which is a weighted average of yields on short-term instruments in the capital markets of the euro area, Japan, the United Kingdom, and the United States.

Gold Holdings

The Articles of Agreement limit the use of gold in the IMF's operations and transactions. Any use provided for in the Articles requires a decision supported by an 85 percent majority of the total voting power. In accordance with the provisions of the Articles, whenever the IMF sells gold held on the date of the Second Amendment of the IMF's Articles of Agreement (April 1, 1978), the portion of the proceeds equivalent at the time of sale to one SDR per 0.888671 gram of fine gold, which is equal to SDR 35 per fine troy ounce, must be

placed in the GRA. Any excess over this value will be held in the SDA or transferred to the Investment Account. The IMF may also sell gold held on the date of the Second Amendment to those members that were members on August 31, 1975, in proportion to their quotas on that date, in exchange for their own currencies, at a price equivalent at the time of sale to one SDR per 0.888671 gram of fine gold.

The IMF values its gold holdings at historical cost using the specific identification method (see Note 5).

SAF Loans in the Special Disbursement Account

SAF loans in the SDA are held at historical cost. Allowances for loan losses would be established if and when the IMF expected to incur a loss; no losses have been incurred in the past, and it is the current expectation that no losses will be incurred in the future. Repayments of all SAF loans are transferred to the PRGF Trust Reserve Account when received.

Investments in the Special Disbursement Account

The resources of the SDA are invested pending their use. Investments are made in debt securities and fixed-term deposits, either directly or by participation in an investment pool. Debt securities comprise securities issued by international financial organizations and domestic government bonds in the euro area, Japan, the United Kingdom and the United States. Investments are marked to market on the last business day of the accounting period. The carrying amounts of investments approximate their fair value. Purchases are valued and reflected on the trade date basis and sales are based on the actual settlement date valuations. Investment income comprises interest earned on investments, realized and unrealized gains and losses on investments, and currency valuation differences arising from exchange rate movements against the SDR.

Interest rate risk is managed by limiting the investment portfolio to a weighted average effective duration that does not exceed three years. Currency risk is minimized by investing in securities denominated in SDRs or in the constituent currencies of the SDR valuation basket. Risk is further minimized by ensuring that the currency composition of the investment portfolio matches, as closely as possible, the currency composition of the SDR valuation basket.

Fixed Assets

Fixed assets with a cost in excess of a threshold amount are capitalized at cost. Buildings and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, which range from 3 years for equipment to 30 years for buildings.

Quotas

Each member is assigned a quota that forms the basis of its financial and organizational relationship with the IMF. A member's quota is related to, but not strictly determined by, economic factors such as national income, the value of external trade and payments, and the level of official reserves. Quotas determine members' subscriptions to the IMF, their relative voting power, access to financing, and their share in SDR allocations. Should a member withdraw from the Fund, quotas are repayable to the extent they are not needed to settle other net obligations of the member to the Fund.

Reserve Tranche Position

A member has a reserve tranche in the IMF when the IMF's holdings of its currency, excluding holdings that reflect the member's use of IMF credit, are less than the member's quota. A member's reserve tranche is considered a part of the member's external reserves and the member may draw on the reserve tranche at any time when it represents that it has a balance of payments need. Reserve tranche purchases are not subject to repurchase obligations or charges.

Reserves

The IMF determines annually what part of its net income will be retained and placed to the General Reserve or the Special Reserve, and what part, if any, will be distributed. The Articles of Agreement permit the IMF to use the Special Reserve for any purpose for which it may use the General Reserve, except distribution. After meeting the cost of administering the PRGF Trust, net operational income generated from the surcharges on purchases under the SRF, the credit tranches, and the EFF, has been transferred to the General Reserve. All other income has been transferred to the Special Reserve.

Charges

The IMF levies periodic charges on members' use of IMF credit. The rate of charge is set as a proportion of the SDR interest rate. For financial year 2003, the basic rate of charge after the retroactive reduction in charges was 123.5 percent (116.4 percent during financial year ended April 30, 2002) of the SDR interest rate. The basic rate of charge is increased to offset the effect on the IMF's income of the deferral of unpaid charges and to finance the additions to the SCA-1. The average adjusted rate of charge before applicable surcharges for financial year 2003 was 2.74 percent (for financial year 2002 the average rate was 3.44 percent). A surcharge progressing from 150 to 500 basis points above the rate of charge applies to use of credit under the SRF and the CCL. In addition, credit outstanding in excess of 200 percent of quota, resulting from purchases after November 28, 2000 in the credit tranches and under the EFF (other than those under the SRF and CCL), is subject to a surcharge of 100–200 basis points. Special charges are levied on members' currency holdings that are not repurchased when due and on overdue charges. Special charges do not apply to members that are six months or more overdue to the IMF. A service charge is levied by the IMF on all purchases, except reserve tranche purchases. A refundable commitment fee is charged on Stand-By and Extended Arrangements. At the expiration or cancellation of an arrangement, the unrefunded portion of the commitment fee is taken into income.

Remuneration

The IMF pays interest, referred to as remuneration, on a member's reserve tranche position. The rate of remuneration is equal to the SDR interest rate, adjusted downward to finance a share of the nonpayment of charges and additions to the SCA-1. The average adjusted rate of remuneration for the financial year ended April 30, 2003 was 1.96 percent (2.65

percent for the financial year 2002). A portion of the reserve tranche is unremunerated and is equal to 25 percent of the member's quota on April 1, 1978—that part of the quota that was paid in gold prior to the Second Amendment of the Fund's Articles. For a member that joined the Fund after that date, the unremunerated reserve tranche is the same percentage of its initial quota as the average unremunerated reserve tranche was as a percentage of the quotas of all other members when the new member joined the Fund. The unremunerated reserve tranche remains fixed for each member in nominal terms, but because of subsequent quota increases, it is now significantly lower when expressed as a percentage of quota. The average is equal to 3.8 percent of quota at April 30, 2003 and 2002, but the actual percentage is different for each member.

Pension and Other Post-Retirement Obligations

The IMF operates two defined-benefit pension plans and provides post-retirement benefits to retired staff.

The pension plans are funded by payments from the staff and the IMF, taking into account the recommendations of independent actuaries. Assets of the plans are held in separate trustee-managed funds and are measured at fair value as of the balance sheet date. Pension obligations are measured using the Projected Unit Credit Method, which measures the present value of the estimated future cash outflows, using interest rates of government securities that have maturities approximating the terms of the pension liabilities.

The assets set aside for the provision of post-retirement benefits are held in an investment account administered by the IMF. This account is funded by contributions from the IMF. The expected costs of the post-retirement medical and life insurance benefits are accrued over the period of employment using the Projected Unit Credit Method. Valuations of these obligations are carried out by independent actuaries.

Comparatives

When necessary, comparative figures have been reclassified to conform with changes in the presentation of the current year.

During the current year, the presentation in the income statement of amounts collected for the SCA-1 has been changed. Since these amounts are refundable once arrears to the IMF are cleared, or earlier if the IMF so decides, the amounts are more properly reflected as adjustments to charges collected and remuneration paid. They are therefore no longer included in the income statement. Accordingly, comparative figures in the income statement for the year ended April 30, 2002 have been reclassified as follows: periodic charges have been decreased by SDR 47 million, remuneration has been increased by SDR 47 million and the allocation to the SCA-1 has been decreased by SDR 94 million. These reclassifications do not have any impact on the net income of the IMF for the year ended April 30, 2002.

Further, the operating results of the General Department have been amended to reflect a total revenues presentation for the income of the Special Disbursement Account and the General Resources Account with one single net income for the General Department.

3. Credit Outstanding

Changes in the outstanding use of IMF credit under the various facilities of the GRA during the years ended April 30, 2003 and 2002 were as follows:

	April 30, 2001	Purchases	Repurchases	April 30, 2002	Purchases	Repurchases	April 30, 2003
	In millions of SDRs						
Credit tranches	16,706	17,219	(5,698)	28,227	9,664	(3,993)	33,898
Extended Fund Facility	15,957	959	(1,425)	15,491	1,451	(2,000)	14,942
Supplemental Reserve Facility	4,085	10,891	(9,101)	5,875	10,566	(741)	15,700
Systemic Transformation Facility	1,933	—	(622)	1,311	—	(667)	644
Enlarged Access	430	—	(109)	321	—	(42)	279
Compensatory and Contingency Financing Facility	2,992	—	(2,246)	746	—	(332)	414
Supplementary Financing Facility	116	—	(6)	110	—	(9)	101
Total credit outstanding	42,219	29,069	(19,207)	52,081	21,681	(7,784)	65,978

As of April 30, 2003 and 2002, SDA loans and interest receivable computed at 0.5 percent a year, consisted of the following:

	2003	2002
	In millions of SDRs	
Structural Adjustment Facility loans	137	341
Interest accrued	1	8
Less: interest deferred	(1)	(8)
	137	341

Scheduled repurchases in the GRA and repayments of SAF loans in the SDA are summarized below:

Financial Year Ending April 30	General Resources Account	Special Disbursement Account
	In millions of SDRs	
2004	22,837	51
2005	17,476	40
2006	14,478	37
2007	5,656	—
2008	2,464	—
2009 and beyond	2,330	—
Overdue	737	9
Total	65,978	137

As of April 30, 2003 and 2002, use of credit in the GRA by the largest users was as follows:

	2003		2002	
	In millions of SDRs and as a percent of total GRA credit outstanding			
Largest user of credit	18,192	27.6%	14,510	27.9%
Three largest users of credit	45,382	68.8%	32,337	62.1%
Five largest users of credit	56,127	85.1%	41,143	79.0%

The five largest users of credit as of April 30, 2003 were Brazil, Turkey, Argentina, Indonesia, and the Russian Federation. Outstanding credit, by member, is provided in Schedule 1. The concentration of GRA outstanding credit by regional geographical area as of April 30, 2003 and 2002 was as follows:

	2003		2002	
	In millions of SDRs and as a percent of total GRA credit outstanding			
Africa	1,751	2.6%	2,195	4.2%
Asia and Pacific	8,742	13.3%	10,769	20.7%
Europe	7,704	11.7%	9,129	17.5%
Latin America and the Caribbean	30,824	46.7%	15,100	29.0%
Middle East and Turkey	16,957	25.7%	14,888	28.6%
Total	65,978	100%	52,081	100%

Overdue Obligations

At April 30, 2003, six members (as of April 30, 2002, seven members) were six months or more overdue in settling their financial obligations to the IMF. Four (five members as of April 30, 2002) of these members were overdue to the General Department.

GRA repurchases, GRA charges, SAF loan repayments, and SAF interest that are six or more months overdue in the General Department were as follows:

	Repurchases and SAF Loans		Charges and SAF Interest	
	2003	2002	2003	2002
	In millions of SDRs			
Total overdue	746	1,033	993	1,055
Overdue for six months or more	726	1,010	982	1,039
Overdue for three years or more	663	977	900	930

The type and duration of the overdue amounts in the General Department as of April 30, 2003, were as follows:

	Repurchases and SAF Loans	Charges and SAF Interest	Total Obligation	Longest Overdue Obligation
	In millions of SDRs			
Liberia	201	245	446	May 1985
Somalia	105	94	199	July 1987
Sudan	357	646	1,003	July 1985
Zimbabwe	83	8	91	February 2001
Total	746	993	1,739	

4. Currencies

Changes in the IMF's holdings of members' currencies for the years ended April 30, 2003 and 2002 were as follows:

	April 30, 2001	Net Change	April 30, 2002	Net Change	April 30, 2003
	In millions of SDRs				
Members' quotas	212,415	1	212,416	315	212,731
Members' outstanding use of IMF credit in the GRA	42,219	9,862	52,081	13,897	65,978
Members' reserve tranche positions in the GRA	(46,733)	(8,594)	(55,327)	(12,682)	(68,009)
Administrative currency balances	3	(7)	(4)	3	(1)
Total currencies	207,904	1,262	209,166	1,533	210,699

Receivables and payables arising from valuation adjustments at April 30, 2003, when all holdings of currencies of members were last revalued, amounted to SDR 20,947 million and SDR 4,985 million, respectively (SDR 17,953 million and SDR 3,648 million, respectively, at April 30, 2002). Settlements of these receivables or payables are required to be made promptly after the end of each financial year.

Other currency holdings, other than those resulting from the use of credit or usable currencies, amounted to SDR 47,692 million (SDR 54,625 million as of April 30, 2002); of this amount SDR 28,335 million (SDR 28,996 million as of April 30, 2002) represents currencies of members that use IMF credit.

5. Gold Holdings

At April 30, 2003 and 2002, the IMF held 3,217,341 kilograms of gold, equal to 103,439,916 fine ounces of gold, at designated depositories. As of April 30, 2003, the value of the IMF's holdings of gold calculated at the market price was SDR 25.2 billion (SDR 25.1 billion at April 30, 2002).

6. Interest and Charges

As of April 30, 2003, the total holdings on which the IMF levies charges amounted to SDR 65,978 million (SDR 52,081 million as of April 30, 2002). Charges and other receivables due to the IMF as of April 30, 2003 and 2002 were as follows:

	2003	2002
	In millions of SDRs	
Periodic charges	1,568	1,546
Less: deferred income	(996)	(1,053)
	572	493
Other receivables	5	8
Receivables	577	501

Periodic charges for the years ended April 30, 2003 and 2002 consisted of the following:

	2003	2002
	In millions of SDRs	
Periodic charges	2,267	2,002
Adjustments for deferred charges, net of refunds	(28)	17
Settlements of deferred charges above/(below) income deferred	56	(33)
Total periodic charges	2,295	1,986

Interest earned on SAF loans for the years ended April 30, 2003 and 2002 amounted to SDR 8.4 million and SDR 1.1 million, respectively.

Special charges, service charges and the unrefunded commitment fees are included in *Other Charges and Income* which amounted to SDR 132 million (SDR 157 million for the year ended April 30, 2002).

7. Fixed Assets

Other assets include fixed assets, which at both April 30, 2003 and 2002 amounted to SDR 238 million, and consisted of:

	2003	2002
	In millions of SDRs	
Land and buildings	326	314
Equipment	39	45
Total fixed assets	365	359
Less: accumulated depreciation	(127)	(121)
Net fixed assets	238	238

8. Investments

As at April 30, 2003 the investments in the SDA consisted of fixed-term deposits with maturity of less than one year and amounted to SDR 2,590 million (SDR 2,537 million as at April 30, 2002). Fixed-term deposits include cash equivalents amounting to SDR 21 million (SDR 2,166 million as at April 30, 2002) comprising short-term deposits with maturities of less then ninety days.

Investment income for the years ended April 30 included the following:

	2003	2002
	In millions of SDRs	
Interest income	53	96
Realized gains	—	60
Unrealized losses	—	(25)
Total income	53	131

9. Remuneration

At April 30, 2003, total creditor positions on which the IMF paid remuneration amounted to SDR 61,428 million (SDR 48,817 million at April 30, 2002). Remuneration for the years ended April 30, 2003 and 2002 consisted of the following:

	2003	2002
	In millions of SDRs	
Remuneration	1,173	1,311
Adjustments for deferred charges net of refunds	28	(17)
	1,201	1,294

10. Deferred Income and the First Special Contingent Account

The SCA-1 is financed by quarterly adjustments to the rate of charge and the rate of remuneration. Balances in the SCA-1 are to be distributed to the members that shared the cost of its financing when there are no outstanding overdue repurchases and charges, or at such earlier time as the IMF may decide. At April 30, 2003, the balances held in the SCA-1 amounted to SDR 1,401 million (SDR 1,307 million at April 30, 2002).

Cumulative charges, net of settlements, that have been deferred since May 1, 1986 and have resulted in adjustments to charges and remuneration amounted to SDR 810 million at April 30, 2003 (SDR 865 million at April 30, 2002). The cumulative refunds for the same period, resulting from the settlements of deferred charges for which burden sharing adjustments have been made, amounted to SDR 1,072 million (SDR 994 million at April 30, 2002).

11. Borrowings

Under the General Arrangements to Borrow (GAB), the IMF may borrow up to SDR 18.5 billion when supplementary resources are needed, in particular, to forestall or to cope with an impairment of the international monetary system. The GAB became effective on October 24, 1962, and has been renewed through December 25, 2008. Interest on borrowings under the GAB is calculated at a rate equal to the SDR interest rate.

Under the New Arrangements to Borrow (NAB), the IMF may borrow up to SDR 34 billion of supplementary resources. The NAB is the facility of first and principal recourse, but it does not replace the GAB, which will remain in force. Outstanding drawings and commitments under these two borrowing arrangements are limited to a combined total of SDR 34 billion. The NAB became effective for a five-year period on November 17, 1998 and was activated on December 2, 1998. In November 2002, the NAB was renewed through November 16, 2008. Interest on borrowings under the NAB is payable to the participants at the SDR interest rate or any such higher rate as may be agreed between the IMF and participants representing 80 percent of the total credit arrangement.

12. Arrangements and Commitments in the General Department

An arrangement is a decision of the IMF that gives a member the assurance that the IMF stands ready to provide SDRs or usable currencies during a specified period and up to a specified amount, in accordance with the terms of the arrangement. Credit under these arrangements is subject to interest and charges that are uniform to all members and that reflect the cost to the IMF of financing such credit, plus a margin. In addition, certain surcharges may apply. At April 30, 2003, the undrawn balances under the 18 arrangements that were in effect in the GRA amounted to SDR 23,620 million (SDR 26,908 million under 17 arrangements at April 30, 2002).

The IMF has committed to lease commercial office space through 2005. Expenditures totaling SDR 15 million will be incurred over this period.

13. Administrative Expenses

The administrative expenses for the years ended April 30, 2003 and 2002 were as follows:

	2003	2002
	In millions of SDRs	
Personnel	370	338
Pension and other related expenses	79	5
Travel	72	73
Other	88	117
Less: reimbursements for the administration of the SDR Department	(2)	(2)
Total administrative expenses, net of reimbursements	607	531

The majority of these expenses are incurred in U.S. dollars; exchange gains and losses incurred in the normal course of business are reflected in administrative expenses and are not significant.

The GRA is reimbursed for the cost of administering the SDR Department.

The GRA is to be reimbursed annually for expenses incurred in administering the SDA and the PRGF Trust. Following the establishment of the SRF and CCL and the consequent increase in net operational income, the Executive Board decided to forgo reimbursement of the expenses incurred in administering the PRGF Trust for financial years 2003 and 2002 and to transfer the amounts that would otherwise have been reimbursed to the GRA from the PRGF Trust Reserve Account, through the SDA, to the PRGF-HIPC Trust. These transfers amounted to SDR 64.0 million for financial year 2003 (SDR 61.6 million for financial year 2002) and have been included under transfers to the PRGF-HIPC Trust in the statement of income and changes in resources.

14. Pension and Other Post-Retirement Benefits

The IMF has a defined-benefit Staff Retirement Plan (SRP) that covers substantially all eligible staff and a Supplemental Retirement Benefits Plan (SRBP) for selected participants of the SRP. Participants contribute a fixed percentage of their pensionable remuneration. The IMF contributes the remainder of the cost of funding the plans and pays certain administrative costs of the plans. In addition, the IMF provides other employment and post-retirement benefits, including medical, life insurance and other long-term benefits. In 1995, the IMF established a separate account, the Retired Staff Benefits Investment Account (RSBIA), to hold and invest resources set aside to fund the cost of these other benefits.

In December 2002, a plan amendment was adopted to allow certain periods of past employment to qualify for determination of participants' benefits in the SRP and the SRBP. This plan amendment will become operational in financial year 2004 and the estimated liability resulting from the amendment has been recognized in the actuarial valuation (SDR 32 million).

The obligations of the SRP, SRBP, and RSBIA are valued by independent actuaries every year using the Projected Unit Credit Method. The latest actuarial valuations were carried out as at April 30, 2003. The key assumptions used are as shown below. The present value of the defined-benefit obligation and current service cost was calculated using the Projected Unit Credit Method.

Amounts recognized in the balance sheet are as follows:

	2003				2002
	SRP	SRBP	RSBIA	Total	Total
	In millions of SDRs				
Fair value of plan assets	2,478	—	269	2,747	3,099
Present value of the defined benefit obligation	(1,934)	(99)	(421)	(2,454)	(2,884)
Unrecognized actuarial gains/(losses)	216	(41)	(76)	99	242
Unrecognized prior service cost	14	18	11	43	13
Net balance sheet asset/(liability)	774	(122)	(217)	435	470

Movement in the net balance sheet asset:

	2003				2002
	SRP	SRBP	RSBIA	Total	Total
	In millions of SDRs				
Net balance sheet asset/(liability), beginning of year	778	(108)	(200)	470	431
Income/(expense) recognized in income statement	(21)	(18)	(40)	(79)	(5)
Contributions paid	17	4	23	44	44
Net balance sheet asset/(liability), end of year	774	(122)	(217)	435	470

The expense recognized in the income statement includes SDR 40 million which represents the effect of a change in the actuarial cost resulting from a revision in some participants' data. This expense relates for the most part to the present value of the defined benefit obligation as originally estimated when IAS 19 was introduced in financial year 2000. The amounts recognized in the income statements are as follows:

	2003				2002
	SRP	SRBP	RSBIA	Total	Total
	In millions of SDRs				
Current service cost	69	12	25	106	116
Interest cost	158	8	37	203	186
Expected loss on assets	(248)	—	(26)	(274)	(295)
Amortization of actuarial loss/(gain)	—	—	2	2	(2)
Prior service cost	42	(2)	2	42	—
Total (income)/expense recognized in income statement	21	18	40	79	5
Actual (loss)/return on assets	(75)	0	3	(72)	(79)

Principal actuarial assumptions used:

	2003	2002
	In percent	
Discount rate	6.5	7.5
Expected return on plan assets	8.3	9.3
Future salary increases	4.0–6.75	6.4–10.8
Ultimate health care costs growth rates	4.0	5.5

Schedule 1

General Department

Quotas, IMF's Holdings of Currencies, Reserve Tranche Positions, and Members' Use of Resources as at April 30, 2003

(In thousands of SDRs)

	General Resources Account				Credit Outstanding				
		IMF's holdings of currencies[1]			GRA			PRGF	
Member	Quota	Total	Percent of quota	Reserve tranche position	Amount (A)	Percent[2]	+ SDA[3] (B)	+ Trust[4] (C)	= Total[5] (D)
Afghanistan, Islamic State of	120,400	119,688	99.4	728	—	—	—	—	—
Albania	48,700	45,350	93.1	3,355	—	—	—	61,229	61,229
Algeria	1,254,700	2,056,781	163.9	85,082	887,161	1.34	—	—	887,161
Angola	286,300	286,445	100.1	—	—	—	—	—	—
Antigua and Barbuda	13,500	13,499	100.0	6	—	—	—	—	—
Argentina	2,117,100	12,724,723	601.0	25	10,607,635	16.08	—	—	10,607,635
Armenia, Republic of	92,000	104,661	113.8	—	12,656	0.02	—	135,850	148,506
Australia	3,236,400	1,793,188	55.4	1,443,222	—	—	—	—	—
Austria	1,872,300	1,124,310	60.0	748,015	—	—	—	—	—
Azerbaijan	160,900	250,811	155.9	10	89,911	0.14	—	91,856	181,767
Bahamas, The	130,300	124,063	95.2	6,239	—	—	—	—	—
Bahrain, Kingdom of	135,000	66,099	49.0	68,932	—	—	—	—	—
Bangladesh	533,300	557,650	104.6	186	24,531	0.04	—	—	24,531
Barbados	67,500	62,594	92.7	4,916	—	—	—	—	—
Belarus, Republic of	386,400	415,608	107.6	20	29,208	0.04	—	—	29,208
Belgium	4,605,200	2,759,904	59.9	1,845,300	—	—	—	—	—
Belize	18,800	14,562	77.5	4,239	—	—	—	—	—
Benin	61,900	59,721	96.5	2,188	—	—	350	53,290	53,640
Bhutan	6,300	5,280	83.8	1,020	—	—	—	—	—
Bolivia	171,500	205,518	119.8	8,875	42,880	0.06	—	140,300	183,180
Bosnia and Herzegovina	169,100	261,009	154.4	—	91,904	0.14	—	—	91,904
Botswana	63,000	37,399	59.4	25,601	—	—	—	—	—
Brazil	3,036,100	21,228,575	699.2	—	18,191,872	27.57	—	—	18,191,872
Brunei Darussalam	215,200	157,127	73.0	58,288	—	—	—	—	—
Bulgaria	640,200	1,401,612	218.9	32,778	794,170	1.20	—	—	794,170
Burkina Faso	60,200	52,937	87.9	7,264	—	—	3,476	85,590	89,066
Burundi	77,000	86,266	112.0	360	9,625	0.01	—	—	9,625
Cambodia	87,500	88,021	100.6	—	521	—	—	75,300	75,821
Cameroon	185,700	185,125	99.7	613	—	—	—	223,098	223,098
Canada	6,369,200	3,663,916	57.5	2,705,292	—	—	—	—	—
Cape Verde	9,600	9,596	100.0	5	—	—	—	2,460	2,460
Central African Republic	55,700	55,569	99.8	134	—	—	—	24,480	24,480
Chad	56,000	55,719	99.5	282	—	—	—	77,281	77,281
Chile	856,100	474,057	55.4	382,045	—	—	—	—	—
China	6,369,200	3,625,683	56.9	2,743,564	—	—	—	—	—
Colombia	774,000	488,202	63.1	285,803	—	—	—	—	—
Comoros	8,900	8,362	94.0	540	—	—	270	—	270
Congo, Democratic Republic of	533,000	533,000	100.0	—	—	—	—	446,667	446,667
Congo, Republic of	84,600	95,558	113.0	536	11,480	0.02	—	9,727	21,207
Costa Rica	164,100	144,113	87.8	20,000	—	—	—	—	—
Côte d'Ivoire	325,200	324,721	99.9	482	—	—	—	355,099	355,099
Croatia, Republic of	365,100	364,943	100.0	159	—	—	—	—	—
Cyprus	139,600	90,492	64.8	49,115	—	—	—	—	—
Czech Republic	819,300	619,941	75.7	199,364	—	—	—	—	—
Denmark	1,642,800	928,518	56.5	714,288	—	—	—	—	—
Djibouti	15,900	15,699	98.7	1,100	899	—	—	13,630	14,529
Dominica	8,200	10,242	124.9	9	2,050	—	—	—	2,050
Dominican Republic	218,900	233,786	106.8	3	14,888	0.02	—	—	14,888
Ecuador	302,300	542,079	179.3	17,153	256,930	0.39	—	—	256,930
Egypt	943,700	943,716	100.0	—	—	—	—	—	—

Schedule 1 *(continued)*

Member	General Resources Account				Credit Outstanding				
		IMF's holdings of currencies[1]			GRA			PRGF	
	Quota	Total	Percent of quota	Reserve tranche position	Amount (A)	Percent[2]	+ SDA[3] (B)	+ Trust[4] (C)	= Total[5] (D)
El Salvador	171,300	171,303	100.0	—	—	—	—	—	—
Equatorial Guinea	32,600	32,609	100.0	—	—	—	443	109	552
Eritrea	15,900	15,900	100.0	5	—	—	—	—	—
Estonia, Republic of	65,200	65,195	100.0	6	—	—	—	—	—
Ethiopia	133,700	126,520	94.6	7,188	—	—	7,766	94,056	101,822
Fiji	70,300	55,209	78.5	15,126	—	—	—	—	—
Finland	1,263,800	757,025	59.9	506,862	—	—	—	—	—
France	10,738,500	6,388,793	59.5	4,349,862	—	—	—	—	—
Gabon	154,300	203,658	132.0	179	49,531	0.08	—	—	49,531
Gambia, The	31,100	29,618	95.2	1,485	—	—	—	23,500	23,500
Georgia	150,300	171,113	113.8	10	20,813	0.03	—	193,800	214,613
Germany	13,008,200	7,758,331	59.6	5,249,939	—	—	—	—	—
Ghana	369,000	369,004	100.0	—[8]	—	—	—	264,545	264,545
Greece	823,000	500,550	60.8	322,451	—	—	—	—	—
Grenada	11,700	14,631	125.1	—	2,930	—	—	—	2,930
Guatemala	210,200	210,206	100.0	—	—	—	—	—	—
Guinea	107,100	107,026	99.9	75	—	—	—	99,000	99,000
Guinea-Bissau	14,200	17,040	120.0	—[8]	2,840	—	—	13,349	16,189
Guyana	90,900	90,902	100.0	—	—	—	492	65,768	66,260
Haiti	60,700	66,323	109.3	68	5,691	0.01	—	12,140	17,831
Honduras	129,500	138,687	107.1	8,627	17,813	0.03	—	119,148	136,961
Hungary	1,038,400	574,794	55.4	463,607	—	—	—	—	—
Iceland	117,600	99,016	84.2	18,585	—	—	—	—	—
India	4,158,200	3,669,344	88.2	488,881	—	—	—	—	—
Indonesia	2,079,300	8,402,605	404.1	145,500	6,468,801	9.80	—	—	6,468,801
Iran, Islamic Republic of	1,497,200	1,497,204	100.0	—	—	—	—	—	—
Iraq	504,000	504,013	100.0	—	—	—	—	—	—
Ireland	838,400	492,535	58.7	345,870	—	—	—	—	—
Israel	928,200	596,198	64.2	332,009	—	—	—	—	—
Italy	7,055,500	4,073,766	57.7	2,981,734	—	—	—	—	—
Jamaica	273,500	288,092	105.3	—	14,542	0.02	—	—	14,542
Japan	13,312,800	7,769,164	58.4	5,544,900	—	—	—	—	—
Jordan	170,500	500,747	293.7	52	330,297	0.50	—	—	330,297
Kazakhstan, Republic of	365,700	365,700	100.0	5	—	—	—	—	—
Kenya	271,400	258,795	95.4	12,612	—	—	—	64,616	64,616
Kiribati	5,600	5,601	100.0	5	—	—	—	—	—
Korea	1,633,600	1,222,627	74.8	411,069	—	—	—	—	—
Kuwait	1,381,100	815,983	59.1	565,125	—	—	—	—	—
Kyrgyz Republic	88,800	88,800	100.0	5	—	—	—	138,351	138,351
Lao People's Democratic Republic	52,900	52,900	100.0	—	—	—	—	30,011	30,011
Latvia, Republic of	126,800	136,296	107.5	55	9,531	0.01	—	—	9,531
Lebanon	203,000	184,168	90.7	18,833	—	—	—	—	—
Lesotho	34,900	31,361	89.9	3,543	—	—	—	15,133	15,133
Liberia	71,300	272,062	381.6	28	200,781	0.30	—	—	223,671
Libya	1,123,700	728,206	64.8	395,505	—	—	—	—	—
Lithuania, Republic of	144,200	186,018	129.0	16	41,831	0.06	—	—	41,831
Luxembourg	279,100	166,762	59.7	112,348	—	—	—	—	—
Macedonia, former Yugoslav Republic of	68,900	87,619	127.2	—	18,717	0.03	—	27,185	45,902
Madagascar	122,200	122,174	100.0	27	—	—	—	108,653	108,653
Malawi	69,400	84,462	121.7	2,290	17,350	0.03	—	50,117	67,467
Malaysia	1,486,600	877,957	59.1	608,649	—	—	—	—	—
Maldives	8,200	6,646	81.0	1,554	—	—	—	—	—
Mali	93,300	84,457	90.5	8,846	—	—	508	121,069	121,577
Malta	102,000	61,741	60.5	40,261	—	—	—	—	—
Marshall Islands	3,500	3,500	100.0	1	—	—	—	—	—

Schedule 1 *(continued)*

Member	Quota	General Resources Account: IMF's holdings of currencies[1] Total	Percent of quota	Reserve tranche position	Credit Outstanding: GRA Amount (A)	GRA Percent[2]	+ SDA[3] (B)	+ PRGF Trust[4] (C)	= Total[5] (D)
Mauritania	64,400	64,406	100.0	—	—	—	—	77,500	77,500
Mauritius	101,600	87,125	85.8	14,476	—	—	—	—	—
Mexico	2,585,800	2,279,346	88.1	306,529	—	—	—	—	—
Micronesia, Federated States of	5,100	5,100	100.0	1	—	—	—	—	—
Moldova, Republic of	123,200	203,200	164.9	5	80,000	0.12	—	27,720	107,720
Mongolia	51,100	51,017	99.8	85	—	—	—	29,298	29,298
Morocco	588,200	517,760	88.0	70,441	—	—	—	—	—
Mozambique	113,600	113,600	100.0	7	—	—	—	144,375	144,375
Myanmar	258,400	258,402	100.0	—	—	—	—	—	—
Namibia	136,500	136,458	100.0	45	—	—	—	—	—
Nepal	71,300	65,557	91.9	5,746	—	—	—	1,679	1,679
Netherlands	5,162,400	3,018,010	58.5	2,144,401	—	—	—	—	—
New Zealand	894,600	530,258	59.3	364,357	—	—	—	—	—
Nicaragua	130,000	130,010	100.0	—	—	—	—	128,291	128,291
Niger	65,800	57,240	87.0	8,561	—	—	—	76,344	76,344
Nigeria	1,753,200	1,753,121	100.0	143	—	—	—	—	—
Norway	1,671,700	945,469	56.6	726,247	—	—	—	—	—
Oman	194,000	114,968	59.3	79,090	—	—	—	—	—
Pakistan	1,033,700	1,744,395	168.8	118	710,812	1.08	—	737,640	1,448,452
Palau	3,100	3,100	100.0	1	—	—	—	—	—
Panama	206,600	230,585	111.6	11,860	35,833	0.05	—	—	35,833
Papua New Guinea	131,600	216,778	164.7	368	85,540	0.13	—	—	85,540
Paraguay	99,900	78,428	78.5	21,475	—	—	—	—	—
Peru	638,400	745,433	116.8	—	107,000	0.16	—	—	107,000
Philippines	879,900	1,881,914	213.9	87,276	1,089,282	1.65	—	—	1,089,282
Poland, Republic of	1,369,000	855,136	62.5	513,864	—	—	—	—	—
Portugal	867,400	514,358	59.3	353,082	—	—	—	—	—
Qatar	263,800	155,709	59.0	108,092	—	—	—	—	—
Romania	1,030,200	1,393,613	135.3	—	363,408	0.55	—	—	363,408
Russian Federation	5,945,400	10,220,142	171.9	1,184	4,275,896	6.48	—	—	4,275,896
Rwanda	80,100	80,113	100.0	—	—	—	—	62,454	62,454
St. Kitts and Nevis	8,900	9,429	105.9	82	609	—	—	—	609
St. Lucia	15,300	15,295	100.0	7	—	—	—	—	—
St. Vincent and the Grenadines	8,300	7,800	94.0	500	—	—	—	—	—
Samoa	11,600	10,918	94.1	693	—	—	—	—	—
San Marino, Republic of	17,000	12,900	75.9	4,101	—	—	—	—	—
São Tomé and Príncipe	7,400	7,403	100.0	—[6]	—	—	—	1,902	1,902
Saudi Arabia	6,985,500	4,230,520	60.6	2,754,983	—	—	—	—	—
Senegal	161,800	160,345	99.1	1,457	—	—	—	178,158	178,158
Serbia and Montenegro	467,700	984,639	210.5	—	516,925	0.78	—	—	516,925
Seychelles	8,800	8,799	100.0	1	—	—	—	—	—
Sierra Leone	103,700	103,685	100.0	24	—	—	5,404	109,069	114,473
Singapore	862,500	496,791	57.6	365,867	—	—	—	—	—
Slovak Republic	357,500	357,505	100.0	—	—	—	—	—	—
Slovenia, Republic of	231,700	136,124	58.8	95,587	—	—	—	—	—
Solomon Islands	10,400	9,852	94.7	550	—	—	—	—	—
Somalia	44,200	140,907	318.8	—	96,701	0.15	8,840	—	112,004
South Africa	1,868,500	1,868,077	100.0	425	—	—	—	—	—
Spain	3,048,900	1,840,214	60.4	1,208,691	—	—	—	—	—
Sri Lanka	413,400	586,277	141.8	47,818	220,670	0.34	—	55,190	275,860
Sudan	169,700	526,647	310.3	11	356,927	0.54	—	—	416,155
Suriname	92,100	85,976	93.4	6,125	—	—	—	—	—
Swaziland	50,700	44,154	87.1	6,552	—	—	—	—	—
Sweden	2,395,500	1,362,919	56.9	1,032,588	—	—	—	—	—
Switzerland	3,458,500	1,983,225	57.3	1,475,292	—	—	—	—	—

Schedule 1 *(concluded)*

Member	General Resources Account: Quota	IMF's holdings of currencies[1]: Total	IMF's holdings of currencies[1]: Percent of quota	Reserve tranche position	Credit Outstanding: GRA Amount (A)	GRA Percent[2]	+ SDA[3] (B)	+ PRGF Trust[4] (C)	= Total[5] (D)
Syrian Arab Republic	293,600	293,603	100.0	5	—	—	—	—	—
Tajikistan, Republic of	87,000	87,000	100.0	2	—	—	—	60,960	60,960
Tanzania	198,900	188,903	95.0	9,999	—	—	—	293,878	293,878
Thailand	1,081,900	1,219,383	112.7	20	137,500	0.21	—	—	137,500
Timor-Leste, The Democratic Republic of	8,200	8,200	100.0	1	—	—	—	—	—
Togo	73,400	73,095	99.6	305	—	—	—	35,838	35,838
Tonga	6,900	5,195	75.3	1,712	—	—	—	—	—
Trinidad and Tobago	335,600	249,238	74.3	86,366	—	—	—	—	—
Tunisia	286,500	266,335	93.0	20,167	—	—	—	—	—
Turkey	964,000	17,433,968	1,808.5	112,775	16,582,740	25.13	—	—	16,582,740
Turkmenistan, Republic of	75,200	75,200	100.0	5	—	—	—	—	—
Uganda	180,500	180,506	100.0	—[6]	—	—	—	183,571	183,571
Ukraine	1,372,000	2,689,977	196.1	3	1,317,977	2.00	—	—	1,317,977
United Arab Emirates	611,700	359,134	58.7	252,567	—	—	—	—	—
United Kingdom	10,738,500	6,218,175	57.9	4,520,352	—	—	—	—	—
United States	37,149,300	20,713,655	55.8	16,430,162	—	—	—	—	—
Uruguay	306,500	1,829,532	596.9	—	1,523,025	2.31	—	—	1,523,025
Uzbekistan, Republic of	275,600	317,163	115.1	5	41,563	0.06	—	—	41,563
Vanuatu	17,000	14,506	85.3	2,496	—	—	—	—	—
Venezuela, República Bolivariana de	2,659,100	2,337,199	87.9	321,902	—	—	—	—	—
Vietnam	329,100	333,127	101.2	5	4,027	0.01	—	263,120	267,147
Yemen, Republic of	243,500	287,739	118.2	13	44,250	0.07	—	238,750	283,000
Zambia	489,100	489,101	100.0	18	—	—	109,050	636,529	745,579
Zimbabwe	353,400	470,579	133.2	328	117,505	0.18	—	88,623	206,128
Total	212,731,300	210,699,065		68,008,951	65,977,977	100.00	136,599	6,667,296	72,870,452

[1] Includes nonnegotiable, non-interest-bearing notes that members are entitled to issue in substitution for currencies, and outstanding currency valuation adjustments.

[2] Represents the percentage used by each member of total use of GRA resources (column A).

[3] The Special Disbursement Account (SDA) of the General Department had financed loans under Structural Adjustment Facility (SAF) and Poverty Reduction Growth Facility (PRGF) arrangements.

[4] For information purposes only. The PRGF Trust provides financing under PRGF arrangements and is not a part of the General Department.

[5] Includes outstanding Trust Fund loans to Liberia (SDR 23 million), Somalia (SDR 6 million), and Sudan (SDR 59 million).

[6] Less than SDR 500.

Schedule 2

General Department

Financial Resources and Liquidity Position in the General Resources Account as at April 30, 2003 and 2002

(In thousands of SDRs)

	2003	2002
Total Resources		
Currencies	210,699,065	209,165,946
SDR holdings	962,641	1,484,927
Gold holdings	5,851,771	5,851,771
Other assets[1]	905,771	860,720
Total resources	218,419,248	217,363,364
Less: **Non-Usable Resources**[2]	120,427,867	113,418,434
of which: Credit outstanding	65,977,977	52,080,697
Equals: **Usable Resources**[3]	97,991,381	103,944,930
Less: **Undrawn balances under GRA arrangements**[4]	23,620,403	26,695,937
Equals: **Uncommitted usable resources**	74,370,978	77,248,993
Plus: **Repurchases one year forward**[5]	19,066,175	12,511,585
Less: **Prudential balance**[6]	32,612,340	30,932,860
Equals: **One year forward commitment capacity (FCC)**[7]	60,824,813	58,827,718
Memorandum items:		
Resources available under borrowing arrangements	34,000,000	34,000,000
Quotas of members that finance IMF transactions	163,061,700	154,664,300
Net uncommitted usable resources[8]	60,589,269	64,748,491
Liquid liabilities[9]	68,008,951	55,327,139
Liquidity ratio[10]	89.1%	117.0%

[1]Other assets reflect current assets (charges, interest, and other receivables) and other assets (which include capital assets such as land, buildings, and equipment), net of other liabilities including remuneration payable.

[2]Resources regarded as non-usable in the financing of the IMF's ongoing operations and transactions are (1) gold holdings, (2) currencies of members that are using IMF credit, (3) currencies of other members with relatively weak external positions, and (4) other assets.

[3]Usable resources consist of (1) holdings of currencies of members considered by the IMF as having balance of payments and reserve positions sufficiently strong for their currencies to be used in transfers, (2) SDR holdings, and (3) any unused amounts under credit lines that have been activated.

[4]Amounts committed under arrangements but not yet disbursed. This includes arrangements considered precautionary and Contingent Credit Lines.

[5]Repurchases by member countries during the coming one-year period. It is assumed that repurchases would be made on an expectation basis for SRF and CCL, and on an obligation basis under all other facilities.

[6]Prudential balance is set at 20 percent of quotas of members that issue the currencies that are used in the financing of IMF transactions and any amounts activated under borrowing arrangements.

[7]FCC is a measure of the resources available for new financial commitments in the coming year. It is equal to uncommitted usable resources plus repurchases one-year forward minus the prudential balance.

[8]Net uncommitted usable resources are defined as usable resources less resources committed under arrangements (adjusted to exclude inoperative arrangements, one-half of the amounts committed under precautionary arrangements) and minimum working balances (set at 10 percent of the quotas of members deemed sufficiently strong for their currencies to be used in operations and transactions).

[9]Liquid liabilities consist of (1) members' reserve tranche positions, and (2) the amount of any outstanding borrowing by the IMF under the GAB or NAB. Both reserve tranche positions and outstanding lending under the GAB and NAB (together called members' reserve positions in the IMF) are part of members' international reserves. A member may draw on its reserve position when it represents that it has a need, and the IMF must therefore at all times be in a position to meet such requests.

[10]The liquidity ratio is a measure of the IMF's liquidity position, represented by the ratio of its net uncommitted usable resources to its liquid liabilities.

Schedule 3

General Department

Status of Arrangements as at April 30, 2003

(In thousands of SDRs)

Member	Date of Arrangement	Expiration	Total Amount Agreed	Undrawn Balance
General Resources Account				
Stand-By Arrangements				
Argentina	January 24, 2003	August 31, 2003	2,174,500	1,201,300
Bolivia	April 2, 2003	April 1, 2004	85,750	42,870
Bosnia and Herzegovina	August 2, 2002	November 1, 2003	67,600	36,000
Brazil	September 6, 2002	December 31, 2003	22,821,120[1]	15,215,070
Bulgaria	February 27, 2002	February 26, 2004	240,000	104,000
Colombia	January 15, 2003	January 14, 2005	1,548,000	1,548,000
Croatia, Republic of	February 3, 2003	April 2, 2004	105,880	105,880
Dominica	August 28, 2002	August 27, 2003	3,280	1,230
Ecuador	March 21, 2003	April 20, 2004	151,000	120,800
Jordan	July 3, 2002	July 2, 2004	85,280	74,620
Macedonia, former Yugoslav Republic of	April 30, 2003	June 15, 2004	20,000	20,000
Peru	February 1, 2002	February 29, 2004	255,000	255,000
Romania	October 31, 2001	October 15, 2003	300,000	110,223
Turkey	February 4, 2002	December 31, 2004	12,821,200	2,381,400
Uruguay	April 1, 2002	March 31, 2005	2,128,300[2]	798,100
Total Stand-By Arrangements			42,806,910	22,014,493
Extended Arrangements				
Indonesia	February 4, 2000	December 31, 2003	3,638,000	1,032,180
Serbia and Montenegro	May 14, 2002	May 13, 2005	650,000	450,000
Sri Lanka	April 18, 2003	April 17, 2006	144,400	123,730
Total Extended Arrangements			4,432,400	1,605,910
Total General Resources Account			47,239,310	23,620,403

[1] Includes SDR 7.61 billion available until September 5, 2003 under the Supplemental Reserve Facility, of which SDR 3.8 billion was drawn.
[2] Includes SDR 128 million available under the Supplemental Reserve Facility which has been fully drawn.

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Report of the Independent Accountants

**To the Board of Governors
of the International Monetary Fund:**

In our opinion, the accompanying balance sheets and the related statements of income and cash flows give a true and fair view of the financial condition of the SDR Department of the International Monetary Fund (the "IMF") as at April 30, 2003 and 2002, and its results of operations and cash flows for the years then ended in conformity with International Accounting Standards. These financial statements are the responsibility of the IMF's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with International Standards on Auditing, which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 173 to 178 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

June 16, 2003

SDR Department

Balance Sheets
as at April 30, 2003 and 2002

(In thousands of SDRs)

	2003	2002		2003	2002
Assets			**Liabilities**		
Charges receivable	93,221	119,954	Interest payable	93,562	120,458
Overdue assessments and charges (Note 3)	85,849	108,863			
Participants with holdings below allocations (Note 2)			Participants with holdings above allocations (Note 2)		
Allocations	11,967,946	12,484,980	SDR holdings	15,971,257	15,778,796
Less: SDR holdings	3,953,068	3,847,668	*Less:* allocations	9,465,384	8,948,350
Allocations in excess of holdings	8,014,878	8,637,312	Holdings in excess of allocations	6,505,873	6,830,446
			Holdings by the General Resources Account	962,641	1,484,927
			Holdings of SDRs by prescribed holders	631,872	430,298
Total Assets	8,193,948	8,866,129	Total Liabilities	8,193,948	8,866,129

The accompanying notes are an integral part of these financial statements.

/s/ Eduard Brau
Director, Finance Department

/s/ Horst Köhler
Managing Director

SDR Department

Income Statements
for the Years Ended April 30, 2003 and 2002

(In thousands of SDRs)

	2003	2002
Revenue		
Net charges from participants with holdings below allocations	173,884	240,177
Assessments on SDR allocations	1,600	2,409
	175,484	242,586
Expenses		
Interest on SDR holdings		
Net interest to participants with holdings above allocations	134,405	186,618
General Resources Account	28,038	41,283
Prescribed holders	11,441	12,276
	173,884	240,177
Administrative expenses	1,600	2,409
	175,484	242,586
Net Income	—	—

The accompanying notes are an integral part of these financial statements.

SDR Department

Statements of Cash Flows
for the Years Ended April 30, 2003 and 2002

(In thousands of SDRs)

	2003	2002
Cash flows from operating activities		
Receipts of SDRs		
Transfers among participants and prescribed holders	6,000,803	5,053,550
Transfers from participants to the General Resources Account	4,554,703	3,992,991
Transfers from the General Resources Account to participants and prescribed holders	5,076,989	4,944,808
Total Receipts of SDRs	15,632,495	13,991,349
Uses of SDRs		
Transfers among participants and prescribed holders	5,838,527	4,825,971
Transfers from participants to the General Resources Account	4,524,125	3,937,218
Transfers from the General Resources Account to participants and prescribed holders	5,076,989	4,944,808
Charges paid in the SDR Department	215,704	272,764
Other	(22,850)	10,588
Total Uses of SDRs	15,632,495	13,991,349

The accompanying notes are an integral part of these financial statements.

SDR Department

Notes to the Financial Statements as at April 30, 2003 and 2002

1. Nature of Operations

The SDR is an international interest-bearing reserve asset created by the IMF following the First Amendment of the Articles of Agreement in 1969. All transactions and operations involving SDRs are conducted through the SDR Department. The SDR was created as a supplement to existing reserve assets and is allocated by the IMF to members participating in the SDR Department. Its value as a reserve asset derives, essentially, from the commitments of participants to hold and accept SDRs and to honor various obligations connected with its proper functioning as a reserve asset.

At April 30, 2003, all members of the IMF were participants in the SDR Department. SDRs have been allocated by the IMF to members that are participants in the SDR Department at the time of the allocation in proportion to their quotas in the IMF. Six allocations have been made (in 1970, 1971, 1972, 1979, 1980, and 1981) for a total of SDR 21.4 billion. A proposed amendment of the IMF's Articles of Agreement was approved by the Executive Board in January 1998 to allow for a special one-time allocation of SDRs equal to 21.4 billion. The amendment will enter into force after three-fifths of the members, having 85 percent of the total voting power, have accepted it. Upon termination of participation or liquidation of the SDR Department, the IMF will provide to holders the currencies received from the participants in settlement of their obligations. The IMF is empowered to prescribe certain official entities as holders of SDRs; at April 30, 2003 and 2002, 16 institutions were prescribed as holders. Prescribed holders do not receive allocations.

The SDR is also used by a number of international and regional organizations as a unit of account or as the basis for their units of account. Several international conventions also use the SDR as a unit of account, notably those expressing liability limits for the international transport of goods and services.

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 and transactions involving the General Resources Account, such as the payment of charges and repurchases. The IMF ensures, by designating participants to provide freely usable currency in exchange for SDRs, that a participant can use its SDRs to obtain an equivalent amount of currency if it has a need because of its balance of payments, its reserve position, or developments in its reserves.

General Allocations and Cancellations of SDRs

The IMF has the authority to provide unconditional liquidity through general allocations of SDRs to participants in the SDR Department in proportion to their quotas in the IMF. The IMF cannot allocate SDRs to itself or to other holders it prescribes. The Articles also provide for the cancellation of SDRs, although to date there have been no cancellations. In its decisions on general allocations of SDRs, the IMF, as prescribed under its Articles, has sought to meet the long-term global need to supplement existing reserve assets in such a manner as will promote the attainment of the IMF's purposes and avoid economic stagnation and deflation, as well as excess demand and inflation.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the IMF are prepared in accordance with International Accounting Standards (IAS). Specific accounting principles and disclosure practices are explained further below. The preparation of financial statements in conformity with IAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Unit of Account

The financial statements are expressed in terms of SDRs. The value of the SDR is determined by the IMF each day by summing the values in U.S. dollars, based on market exchange rates, of the currencies in the SDR valuation basket. The IMF reviews the SDR valuation basket every five years. The latest review was completed in October 2000 and the new composition of the SDR valuation basket became effective on January 1, 2001. The currencies in the basket as of April 30, 2003 and 2002 and their amounts were as follows:

Currency	Amount
Euro	0.426
Japanese yen	21.0
Pound sterling	0.0984
U.S. dollar	0.577

As of April 30, 2003, one SDR was equal to 1.38391 U.S. dollars (one SDR was equal to 1.26771 U.S. dollars as of April 30, 2002).

Allocations and Holdings

At April 30, 2003 and 2002, IMF net cumulative allocations to participants totaled SDR 21.4 billion. Participants with holdings in excess of their allocations have established a net claim on the SDR Department, which is represented on the balance sheet as a liability. Participants with holdings below their allocations have used part of their allocations, which results in a net obligation to the SDR Department and is presented as an asset of the SDR Department. Participants' net SDR positions as of April 30, 2003 and 2002 were as follows:

	2003			2002		
	Total	Below Allocations	Above Allocations	Total	Below Allocations	Above Allocations
	In millions of SDRs					
Cumulative allocations	21,433.3	11,967.9	9,465.4	21,433.3	12,485.0	8,948.3
Holdings of SDRs by participants	19,924.4	3,953.1	15,971.3	19,626.4	3,847.7	15,778.7
Net SDR positions	1,508.9	8,014.8	(6,505.9)	1,806.9	8,637.3	(6,830.4)

A summary of SDR holdings is provided below:

	2003	2002
	In millions of SDRs	
Participants	19,924.4	19,626.5
General Resources Account	962.6	1,484.9
Prescribed holders	631.8	430.3
	21,518.8	21,541.7
Less: Overdue charges receivable	85.5	108.4
Total holdings	21,433.3	21,433.3

Administrative Expenses

The expenses of conducting the business of the SDR Department are paid by the IMF from the General Resources Account, which is reimbursed in SDRs by the SDR Department at the end of each financial year. For this purpose, the SDR Department levies an assessment on all participants in proportion to their net cumulative allocations.

Interest and Charges

Interest is paid on holdings of SDRs. Charges are levied on each participant's cumulative allocations plus any allocations in excess of holdings of the participant and unpaid charges. Interest on SDR holdings is paid quarterly. Charges on net cumulative allocations are also collected quarterly. Interest and charges are levied at the same rate and are settled by crediting and debiting individual holdings accounts on the first day of the subsequent quarter. The SDR Department is required to pay interest to each holder, whether or not sufficient SDRs are received to meet the payment of interest. If sufficient SDRs are not received because charges are overdue, additional SDRs are temporarily created.

The rate of interest on the SDR is determined by reference to a combined market interest rate, which is a weighted average of yields or rates on short-term instruments in the capital markets of the euro area, Japan, the United Kingdom, and the United States. The combined market interest rate used to determine the SDR interest rate is calculated each Friday, using the yields or rates of that day. The SDR interest rate, which is set equal to the combined market interest rate, enters into effect on the following Monday and applies through the following Sunday. The average SDR interest rate was 2.07 percent for the year ended April 30, 2003 (2.79 percent for the year ended April 30, 2002).

Overdue Obligations

An allowance for losses resulting from overdue SDR obligations would be created if and when the IMF were to expect a loss to be incurred; no losses have been incurred in the past, and it is the current expectation that no losses will be incurred in the future, and consequently no allowance account has been established.

3. Overdue Assessments and Charges

At April 30, 2003, assessments and charges amounting to SDR 85.8 million were overdue to the SDR Department (SDR 108.9 million at April 30, 2002). At April 30, 2003, four members were six months or more overdue in meeting their financial obligations to the SDR Department (six members at April 30, 2002).

Assessments and charges due from members that are six months or more overdue to the SDR Department were as follows as of April 30:

	2003	2002
	In millions of SDRs	
Total	85.8	108.9
Overdue for six months or more	83.9	104.2
Overdue for three years or more	68.1	74.2

The amount and duration of arrears as of April 30, 2003 were as follows:

	Total	Longest Overdue Obligation
	In millions of SDRs	
Iraq	52.3	November 1990
Liberia	23.5	April 1986
Somalia	9.9	February 1991
Sudan	0.1	April 1991
Total	85.8	

Schedule 1

SDR Department

Statements of Changes in SDR Holdings for the Years Ended April 30, 2003 and 2002

(In thousands of SDRs)

	Participants	General Resources Account	Prescribed Holders	Total 2003	Total 2002
Total holdings, beginning of the year	19,626,464	1,484,927	430,298	21,541,689	21,531,101
Receipts of SDRs					
Transfers among participants and prescribed holders					
Transactions by agreement	2,759,085	—	99,331	2,858,416	3,669,075
Operations					
Loans	464,746	—	—	464,746	250
Settlement of financial obligations	546,849	—	174,770	721,619	290,246
IMF-related operations					
SAF and PRGF loans	771,606	—	—	771,606	267,991
SAF repayments and interest	—	—	159,282	159,282	17,136
Special charges on SAF, PRGF, Trust Fund	—	—	95	95	2
PRGF contributions and payments	84,359	—	414,479	498,838	180,839
PRGF repayments and interest	—	—	334,263	334,263	330,349
HIPC payments	2,830	—	—	2,830	6,726
PRGF-HIPC contributions	1,037	—	25,137	26,174	61,402
SCA-2 refunds	—	—	—	—	1,182
Post-conflict subsidy payments	658	—	—	658	773
Net interest on SDRs	151,111	—	11,165	162,276	227,579
Transfers from participants to the General Resources Account					
Repurchases	—	1,954,711	—	1,954,711	1,630,640
Charges	—	2,505,183	—	2,505,183	2,303,949
Quota payments	—	62,468	—	62,468	250
Interest on SDRs	—	30,578	—	30,578	55,773
Assessment on SDR allocation (Note 2)	—	1,763	—	1,763	2,379
Transfers from the General Resources Account to participants and prescribed holders					
Purchases	2,215,089	—	—	2,215,089	2,360,765
In exchange for currencies of other members					
Acquisitions to pay charges	1,597,594	—	—	1,597,594	1,129,701
Remuneration	1,175,248	—	—	1,175,248	1,360,694
Other					
Refunds and adjustments	89,058	—	—	89,058	93,648
Total receipts	9,859,270	4,554,703	1,218,522	15,632,495	13,991,349

Schedule 1 *(concluded)*

	Participants	General Resources Account	Prescribed Holders	Total 2003	Total 2002
Uses of SDRs					
Transfers among participants and prescribed holders					
Transactions by agreement	2,795,095	—	63,321	2,858,416	3,669,075
Operations					
Loans	464,746	—	—	464,746	250
Settlement of financial obligations	639,516	—	82,103	721,619	290,246
IMF-related operations					
SAF and PRGF loans	—	—	771,606	771,606	267,991
SAF repayments and interest	159,282	—	—	159,282	17,136
Special charges on SAF, PRGF, Trust Fund	95	—	—	95	2
PRGF contributions and payments	414,479	—	84,359	498,838	180,839
PRGF repayments and interest	334,263	—	—	334,263	330,349
HIPC payments	—	—	2,830	2,830	6,726
PRGF-HIPC contributions	14,103	—	12,071	26,174	61,402
SCA-2 refunds	—	—	—	—	1,182
Post-conflict subsidy payments	—	—	658	658	773
Transfers from participants to the General Resources Account					
Repurchases	1,954,711	—	—	1,954,711	1,630,640
Charges	2,505,183	—	—	2,505,183	2,303,949
Quota payments	62,468	—	—	62,468	250
Assessment on SDR allocation (Note 2)	1,763	—	—	1,763	2,379
Transfers from the General Resources Account to participants and prescribed holders					
Purchases	—	2,215,089	—	2,215,089	2,360,765
In exchange for currencies of other members					
Acquisitions to pay charges	—	1,597,594	—	1,597,594	1,129,701
Remuneration	—	1,175,248	—	1,175,248	1,360,694
Other					
Refunds and adjustments	—	89,058	—	89,058	93,648
Charges paid in the SDR department					
Net charges due	192,854	—	—	192,854	283,352
Total uses	9,538,558	5,076,989	1,016,948	15,632,495	13,991,349
Charges not paid when due	5,873	—	—	5,873	12,177
Settlement of unpaid charges	(28,723)	—	—	(28,723)	(1,589)
Total holdings, end of the year	19,924,326	962,641	631,872	21,518,839	21,541,689

Schedule 2

SDR Department
Allocations and Holdings of Participants as at April 30, 2003

(In thousands of SDRs)

Participant	Net Cumulative Allocations	Holdings: Total	Holdings: Percent of Cumulative Allocations	Holdings: Above (Below) Allocations
Afghanistan, Islamic State of	26,703	—	—	(26,703)
Albania	—	60,922	—	60,922
Algeria	128,640	94,006	73.1	(34,634)
Angola	—	142	—	142
Antigua and Barbuda	—	6	—	6
Argentina	318,370	736,309	231.3	417,939
Armenia, Republic of	—	17,385	—	17,385
Australia	470,545	104,049	22.1	(366,496)
Austria	179,045	127,824	71.4	(51,221)
Azerbaijan	—	3,177	—	3,177
Bahamas, The	10,230	121	1.2	(10,109)
Bahrain, Kingdom of	6,200	747	12.0	(5,453)
Bangladesh	47,120	2,701	5.7	(44,419)
Barbados	8,039	36	0.4	(8,003)
Belarus, Republic of	—	203	—	203
Belgium	485,246	415,100	85.5	(70,146)
Belize	—	1,500	—	1,500
Benin	9,409	241	2.6	(9,168)
Bhutan	—	240	—	240
Bolivia	26,703	27,027	101.2	324
Bosnia and Herzegovina	20,481	1,258	6.1	(19,223)
Botswana	4,359	32,874	754.2	28,515
Brazil	358,670	206,204	57.5	(152,466)
Brunei Darussalam	—	7,205	—	7,205
Bulgaria	—	52,503	—	52,503
Burkina Faso	9,409	274	2.9	(9,135)
Burundi	13,697	133	1.0	(13,564)
Cambodia	15,417	2,001	13.0	(13,416)
Cameroon	24,463	748	3.1	(23,715)
Canada	779,290	538,136	69.1	(241,154)
Cape Verde	620	4	0.6	(616)
Central African Republic	9,325	54	0.6	(9,271)
Chad	9,409	56	0.6	(9,353)
Chile	121,924	27,859	22.8	(94,065)
China	236,800	706,890	298.5	470,090
Colombia	114,271	112,353	98.3	(1,918)
Comoros	716	18	2.5	(698)
Congo, Democratic Republic of	86,309	5,720	6.6	(80,589)
Congo, Republic of	9,719	165	1.7	(9,554)
Costa Rica	23,726	77	0.3	(23,649)
Côte d'Ivoire	37,828	679	1.8	(37,149)
Croatia, Republic of	44,205	516	1.2	(43,689)
Cyprus	19,438	1,636	8.4	(17,802)
Czech Republic	—	4,026	—	4,026
Denmark	178,864	87,356	48.8	(91,508)
Djibouti	1,178	457	38.8	(721)
Dominica	592	17	2.9	(575)
Dominican Republic	31,585	326	1.0	(31,259)
Ecuador	32,929	1,833	5.6	(31,096)
Egypt	135,924	38,483	28.3	(97,441)

Schedule 2 *(continued)*

SDR Department
Allocations and Holdings of Participants as at April 30, 2003

(In thousands of SDRs)

Participant	Net Cumulative Allocations	Holdings: Total	Holdings: Percent of Cumulative Allocations	Holdings: Above (Below) Allocations
El Salvador	24,985	24,983	100.0	(2)
Equatorial Guinea	5,812	266	4.6	(5,546)
Eritrea	—	—	—	—
Estonia, Republic of	—	50	—	50
Ethiopia	11,160	54	0.5	(11,106)
Fiji	6,958	5,070	72.9	(1,888)
Finland	142,690	147,733	103.5	5,043
France	1,079,870	472,597	43.8	(607,273)
Gabon	14,091	369	2.6	(13,722)
Gambia, The	5,121	33	0.6	(5,088)
Georgia	—	376	—	376
Germany	1,210,760	1,283,682	106.0	72,922
Ghana	62,983	2,207	3.5	(60,776)
Greece	103,544	12,041	11.6	(91,503)
Grenada	930	25	2.7	(905)
Guatemala	27,678	5,951	21.5	(21,727)
Guinea	17,604	170	1.0	(17,434)
Guinea-Bissau	1,212	684	56.4	(528)
Guyana	14,530	1,405	9.7	(13,125)
Haiti	13,697	1,838	13.4	(11,859)
Honduras	19,057	293	1.5	(18,764)
Hungary	—	25,970	—	25,970
Iceland	16,409	84	0.5	(16,325)
India	681,170	2,835	0.4	(678,335)
Indonesia	238,956	40,392	16.9	(198,564)
Iran, Islamic Republic of	244,056	268,062	109.8	24,006
Iraq	68,464	—	—	(68,464)
Ireland	87,263	49,861	57.1	(37,402)
Israel	106,360	4,115	3.9	(102,245)
Italy	702,400	82,695	11.8	(619,705)
Jamaica	40,613	330	0.8	(40,283)
Japan	891,690	1,800,779	202.0	909,089
Jordan	16,887	5,202	30.8	(11,685)
Kazakhstan, Republic of	—	766	—	766
Kenya	36,990	7,634	20.6	(29,356)
Kiribati	—	10	—	10
Korea	72,911	10,064	13.8	(62,847)
Kuwait	26,744	100,482	375.7	73,738
Kyrgyz Republic	—	5,046	—	5,046
Lao People's Democratic Republic	9,409	7,187	76.4	(2,222)
Latvia, Republic of	—	125	—	125
Lebanon	4,393	20,251	461.0	15,858
Lesotho	3,739	435	11.6	(3,304)
Liberia	21,007	—	—	(21,007)
Libya	58,771	452,609	770.1	393,838
Lithuania, Republic of	—	286	—	286
Luxembourg	16,955	7,140	42.1	(9,815)
Macedonia, former Yugoslav Republic of	8,379	4,132	49.3	(4,247)
Madagascar	19,270	107	0.6	(19,163)
Malawi	10,975	314	2.9	(10,661)

Schedule 2 *(continued)*

SDR Department

Allocations and Holdings of Participants as at April 30, 2003

(In thousands of SDRs)

Participant	Net Cumulative Allocations	Holdings: Total	Holdings: Percent of Cumulative Allocations	Holdings: Above (Below) Allocations
Malaysia	139,048	113,704	81.8	(25,344)
Maldives	282	285	101.1	3
Mali	15,912	262	1.6	(15,650)
Malta	11,288	29,191	258.6	17,903
Marshall Islands	—	—	—	—
Mauritania	9,719	105	1.1	(9,614)
Mauritius	15,744	17,083	108.5	1,339
Mexico	290,020	288,483	99.5	(1,537)
Micronesia, Federated States of	—	1,182	—	1,182
Moldova, Republic of	—	615	—	615
Mongolia	—	26	—	26
Morocco	85,689	82,325	96.1	(3,364)
Mozambique	—	53	—	53
Myanmar	43,474	345	0.8	(43,129)
Namibia	—	17	—	17
Nepal	8,105	44	0.5	(8,061)
Netherlands	530,340	536,233	101.1	5,893
New Zealand	141,322	16,613	11.8	(124,709)
Nicaragua	19,483	118	0.6	(19,365)
Niger	9,409	1,567	16.7	(7,842)
Nigeria	157,155	771	0.5	(156,384)
Norway	167,770	231,168	137.8	63,398
Oman	6,262	6,863	109.6	601
Pakistan	169,989	91,954	54.1	(78,035)
Palau	—	—	—	—
Panama	26,322	587	2.2	(25,735)
Papua New Guinea	9,300	3,878	41.7	(5,422)
Paraguay	13,697	83,675	610.9	69,978
Peru	91,319	1,293	1.4	(90,026)
Philippines	116,595	11,519	9.9	(105,076)
Poland, Republic of	—	31,155	—	31,155
Portugal	53,320	57,255	107.4	3,935
Qatar	12,822	20,463	159.6	7,641
Romania	75,950	3,940	5.2	(72,010)
Russian Federation	—	27,079	—	27,079
Rwanda	13,697	21,452	156.6	7,755
St. Kitts and Nevis	—	6	—	6
St. Lucia	742	1,481	199.7	739
St. Vincent and the Grenadines	354	17	4.9	(337)
Samoa	1,142	2,383	208.7	1,241
San Marino, Republic of	—	444	—	444
São Tomé and Príncipe	620	19	3.0	(601)
Saudi Arabia	195,527	256,216	131.0	60,689
Senegal	24,462	1,497	6.1	(22,965)
Serbia and Montenegro	56,665	4,403	7.8	(52,262)
Seychelles	406	8	1.9	(398)
Sierra Leone	17,455	17,357	99.4	(98)
Singapore	16,475	132,341	803.3	115,866
Slovak Republic	—	853	—	853
Slovenia, Republic of	25,431	5,413	21.3	(20,018)

Schedule 2 *(concluded)*

SDR Department

Allocations and Holdings of Participants as at April 30, 2003

(In thousands of SDRs)

Participant	Net Cumulative Allocations	Holdings: Total	Holdings: Percent of Cumulative Allocations	Holdings: Above (Below) Allocations
Solomon Islands	654	3	0.5	(651)
Somalia	13,697	—	—	(13,697)
South Africa	220,360	222,766	101.1	2,406
Spain	298,805	264,997	88.7	(33,808)
Sri Lanka	70,868	2,776	3.9	(68,092)
Sudan	52,192	265	0.5	(51,927)
Suriname	7,750	1,393	18.0	(6,357)
Swaziland	6,432	2,463	38.3	(3,969)
Sweden	246,525	135,278	54.9	(111,247)
Switzerland	—	12,573	—	12,573
Syrian Arab Republic	36,564	172	0.5	(36,392)
Tajikistan, Republic of	—	187	—	187
Tanzania	31,372	321	1.0	(31,051)
Thailand	84,652	2,349	2.8	(82,303)
Timor-Leste, The Democratic Republic of	—	—	—	—
Togo	10,975	134	1.2	(10,841)
Tonga	—	197	—	197
Trinidad and Tobago	46,231	345	0.7	(45,886)
Tunisia	34,243	5,657	16.5	(28,586)
Turkey	112,307	185,391	165.1	73,084
Turkmenistan, Republic of	—	—	—	—
Uganda	29,396	7,176	24.4	(22,220)
Ukraine	—	11,899	—	11,899
United Arab Emirates	38,737	946	2.4	(37,791)
United Kingdom	1,913,070	275,903	14.4	(1,637,167)
United States	4,899,530	8,292,339	169.2	3,392,809
Uruguay	49,977	19,681	39.4	(30,296)
Uzbekistan, Republic of	—	480	—	480
Vanuatu	—	857	—	857
Venezuela, República Bolivariana de	316,890	7,988	2.5	(308,902)
Vietnam	47,658	5,541	11.6	(42,117)
Yemen, Republic of	28,743	30,416	105.8	1,673
Zambia	68,298	51,707	75.7	(16,591)
Zimbabwe	10,200	49	0.5	(10,151)
Above allocations	9,465,384	15,971,257	168.7	6,505,873
Below allocations	11,967,946	3,953,068	33.0	(8,014,878)
Total Participants	21,433,330	19,924,326		
General Resources Account		962,641		
Prescribed holders		631,872		
Overdue charges	85,509			
	21,518,839	21,518,839		

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Report of the Independent Accountants

To the Board of Governors
of the International Monetary Fund:

We have audited the accompanying combined balance sheets as at April 30, 2003 and 2002, and the related combined statements of income and changes in resources for the years then ended of the following entities:

Poverty Reduction and Growth Facility Trust

Poverty Reduction and Growth Facility—Heavily Indebted Poor Countries Trust and Related Accounts

We have also audited the accompanying balance sheets at April 30, 2003 and 2002, and the related statements of income and changes in resources for the years then ended of the following entities:

Poverty Reduction and Growth Facility Administered Accounts
- — Austria
- — Belgium
- — Botswana
- — Greece
- — Indonesia
- — Islamic Republic of Iran
- — Portugal

Other Administered Accounts
- — Administered Account Japan
- — Administered Account for Selected Fund Activities—Japan
- — Framework Administered Account for Technical Assistance Activities
- — Administered Account—Spain
- — Supplementary Financing Facility Subsidy Account
- — Post-Conflict Emergency Assistance Subsidy Account

These financial statements are the responsibility of the management of the International Monetary Fund, as trustee or administrator of the trusts and accounts listed above. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the trusts and accounts listed above as at April 30, 2003 and 2002, and the results of their operations for the years then ended in conformity with International Accounting Standards.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 185 to 188 and 199 to 204 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the respective financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

June 16, 2003

Poverty Reduction and Growth Facility Trust

Combined Balance Sheets
as at April 30, 2003 and 2002

(In thousands of SDRs)

	2003	2002
Assets		
Cash and cash equivalents	2,481,040	2,684,641
Investments (Note 3)	3,205,052	2,629,285
Loans receivable (Note 4)	6,667,296	6,172,848
Interest receivable	18,979	15,993
Total Assets	12,372,367	11,502,767
Liabilities and Resources		
Borrowings (Note 5)	7,431,854	6,764,434
Interest payable	39,333	42,412
Other liabilities	2,930	76
Total Liabilities	7,474,117	6,806,922
Resources	4,898,250	4,695,845
Total Liabilities and Resources	12,372,367	11,502,767

The accompanying notes are an integral part of these financial statements.

/s/ Eduard Brau
Director, Finance Department

/s/ Horst Köhler
Managing Director

Poverty Reduction and Growth Facility Trust

Combined Statements of Income and Changes in Resources
for the Years Ended April 30, 2003 and 2002

(In thousands of SDRs)

	2003	2002
Balance, beginning of the year	4,695,845	4,518,775
Investment income (Note 3)	118,480	232,344
Interest on loans	31,058	30,292
Interest expense	(138,104)	(174,670)
Other expenses	(1,575)	(1,650)
Operational income	9,859	86,316
Contributions (Note 6)	43,287	60,096
	53,146	146,412
Transfers from the Special Disbursement Account (Note 8)	213,259	92,258
Transfers through the Special Disbursement Account to the PRGF-HIPC Trust (Note 8)	(64,000)	(61,600)
Net changes in resources	202,405	177,070
Balance, end of the year	4,898,250	4,695,845

The accompanying notes are an integral part of these financial statements.

Poverty Reduction and Growth Facility Trust
Notes to the Combined Financial Statements
as at April 30, 2003 and 2002

1. Nature of Operations

The Poverty Reduction and Growth Facility Trust (PRGF Trust), for which the IMF is Trustee, was established in December 1987 and was extended and enlarged in February 1994 to provide loans on concessional terms to qualifying low-income developing country members. The resources of the Trust are held separately from the assets of all other accounts of, or administered by, the IMF and may not be used to discharge liabilities or to meet losses incurred in the administration of other accounts.

The operations of the Trust are conducted through a Loan Account, a Reserve Account, and a Subsidy Account. Combining balance sheets and statements of income and changes in resources for each of these accounts are provided in Note 9 to these financial statements.

Loan Account

The resources of the Loan Account consist of the proceeds from borrowings, repayments of principal, and interest payments on loans extended by the Trust. At April 30, 2003, loans totaling SDR 6,667.3 million were outstanding (SDR 6,172.8 million at April 30, 2002). At April 30, 2003, the resources of the Loan Account included an advance from the Reserve Account of SDR 65.5 million resulting from the non-payment of principal by Zimbabwe (SDR 41.5 million at April 30, 2002).

Reserve Account

The resources of the Reserve Account consist of amounts transferred by the IMF from the Special Disbursement Account and net earnings from investment of resources held in the Reserve Account and in the Loan Account.

The resources held in the Reserve Account are to be used by the Trustee, in the event that borrowers' principal repayments and interest payments, together with the authorized interest subsidy, are insufficient to repay loan principal and interest on borrowings of the Loan Account.

Subsidy Account

The resources held in the Subsidy Account consist of contributions to the Trust, including transfers of net earnings from PRGF Administered Accounts, SDR 400 million transferred by the IMF from the Special Disbursement Account, net earnings on loans made to the Trust for the Subsidy Account, and the net earnings from investment of Subsidy Account resources.

The resources available in the Subsidy Account are drawn by the Trustee to pay the difference, with respect to each interest period, between the interest due from the borrowers under the Trust and the interest due on Loan Account borrowings.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the PRGF Trust are prepared in accordance with International Accounting Standards (IAS). Specific accounting principles and disclosure practices are explained further below. The preparation of financial statements in conformity with IAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The financial statements do not include a cash flow statement because the statement of income and changes in resources includes the PRGF Trust's main cash flows.

Revenue and Expense Recognition

The financial statements of the Trust are maintained on the accrual basis; accordingly, income is recognized as it is earned, and expenses are recorded as they are incurred.

Unit of Account

The financial statements are expressed in terms of SDRs. The value of the SDR is determined by the IMF each day by summing the values in U.S. dollars, based on market exchange rates, of the currencies in the SDR valuation basket. The IMF reviews the SDR valuation basket every five years. The latest review was completed in October 2000 and the new composition of the SDR valuation basket became effective on January 1, 2001. The currencies in the basket as of April 30, 2003 and 2002 and their amounts were as follows:

Currency	Amount
Euro	0.426
Japanese yen	21.0
Pound sterling	0.0984
U.S. dollar	0.577

As of April 30, 2003, one SDR was equal to 1.38391 U.S. dollars (one SDR was equal to 1.26771 dollars as of April 30, 2002).

Cash and Cash Equivalents

Cash and cash equivalents include short-term deposits with a maturity of less than ninety days. These deposits are denominated in SDRs or other currencies and are carried at cost, not exceeding market value. Interest on these instruments varies and is based on prevailing market rates.

Investments

The resources of the Trust are invested pending their use. The Trust invests in debt securities and fixed-term deposits, either directly or by participation in an investment pool. Investments are marked to market on the last business day of the accounting period. The carrying amounts of investments approximate their fair value. Purchases are valued and reflected on the trade date basis and sales are based on the actual settlement date valuations. Investment income comprises interest income, realized and unrealized gains and losses on investments, and currency valuation differences arising from exchange rate movements against the SDR.

Interest rate risk is managed by limiting the investment portfolio to a weighted-average effective duration that does not exceed three years. Currency risk is minimized by investing in securities denominated in SDRs or in the constituent currencies of the SDR basket. Risk is further minimized by ensuring that the currency composition of the investment portfolio matches, as closely as possible, the currency composition of the SDR basket.

Loans

Loans in the Trust are valued at historical cost. Allowances for loan losses would be established if and when the Trust expects to incur a loss; no losses have been incurred in the past, and it is the current expectation that no losses will be incurred in the future.

Overdue Obligations

Interest on loans that are six months or more overdue is excluded from income.

Contributions

Bilateral contributions are reflected as increases in resources after the achievement of specified conditions and are subject to bilateral agreements stipulating how the resources are to be used.

Transfers

Internal transfers of resources within the IMF are accounted for under the accrual method of accounting.

Foreign Currency Translation

Foreign currency transactions are recorded at the rate of exchange on the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are reported using the closing exchange rates. Exchange differences arising on the settlement of transactions at rates different from those at the originating date of the transaction and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities are included in the determination of net income.

Comparatives

When necessary, comparative figures have been reclassified to conform with changes in the presentation of the current year.

3. Investments

The maturities of the investments are as follows:

Maturity as at April 30	2003	2002
	In thousands of SDRs	
Less than 1 year	2,612,829	1,794,460
1–3 years	566,905	724,909
3–5 years	4,982	91,997
Over 5 years	20,336	17,919
Total	3,205,052	2,629,285

At April 30, investments consisted of the following:

	2003	2002
	In thousands of SDRs	
Debt securities	2,923,255	2,271,428
Fixed-term deposits	281,797	357,857
Total	3,205,052	2,629,285

At April 30, investment income comprised:

	2003	2002
	In thousands of SDRs	
Interest income	143,367	207,462
Realized losses, net	(52,803)	(26,318)
Unrealized gains, net	29,686	52,705
Exchange rate losses, net	(1,770)	(1,505)
Total	118,480	232,344

4. Loans Receivable

Resources of the Loan Account are committed to qualifying members for a three-year period, upon approval by the Trustee of three-year arrangements in support of the members' macroeconomic and structural adjustment programs. Interest on the outstanding loan balances is currently set at the rate of ½ of 1 percent per annum. Scheduled repayments of loans by borrowers are summarized below:

Period of Repayment, Financial Year Ending April 30	
	In thousands of SDRs
2004	835,429
2005	876,190
2006	854,789
2007	726,485
2008	817,790
2009 and beyond	2,491,070
Overdue	65,543
Total	6,667,296

The above includes one member that is overdue at the end of financial year 2003 for more than six months in the amount of SDR 65.5 million (SDR 41.5 million as at April 30, 2002).

As of April 30, use of credit in the Trust by the largest users was as follows:

	2003		2002	
	In millions of SDRs and percent of total PRGF credit			
Largest user of credit	737.6	11.1%	636.2	10.3%
Three largest users of credit	1,820.8	27.3%	1,571.6	25.5%
Five largest users of credit	2,469.8	37.0%	2,138.3	34.6%

5. Borrowings

The following summarizes the borrowing agreements concluded as of April 30:

	Amount Undrawn	
	2003	2002
	In thousands of SDRs	
Loan Account	5,718,318	6,613,837
Subsidy Account	3,330	3,997

The Trustee has agreed to hold and invest, on behalf of a lender, principal repayments of Trust borrowing in a suspense account within the Loan Account. Principal repayments will be accumulated until the final maturity of the borrowing, when the full proceeds are to be transferred to the lender. Amounts deposited in this account are

invested by the Trustee, and payments of interest to the lender are to be made exclusively from the earnings on the amounts invested.

The Trust borrows on such terms and conditions as agreed between the Trustee and the lenders. Interest rates on borrowings at April 30, 2003 and April 30, 2002 varied between 0.5 percent and 6.9 percent a year. The principal amounts of the borrowings are repayable in one installment at maturity dates.

Scheduled repayments of borrowings are summarized below:

Period of Repayment, Financial Year Ending April 30	
	In thousands of SDRs
2004	704,176
2005	953,566
2006	1,504,589
2007	982,706
2008	822,951
2009 and beyond	2,463,866
Total	7,431,854

Borrowings and repayments during the financial year ended April 30, 2003 amounted to SDR 1,194 million and SDR 714 million, respectively (SDR 925 million and SDR 685 million, respectively, for the financial year ended April 30, 2002).

6. Contributions

The Trustee accepts contributions for the Subsidy Account on such terms and conditions as agreed between the Trustee and the contributors. At April 30, 2003, cumulative contributions received, including transfers from the Special Disbursement Account, amounted to SDR 2,395.8 million (SDR 2,352.5 million at April 30, 2002).

7. Commitments Under Loan Arrangements

An arrangement is a decision of the IMF that gives a member the assurance that the institution stands ready to provide foreign exchange or SDRs during a specified period and up to a specified amount in accordance with the terms of the decision. At April 30, 2003, undrawn balances under 36 loan arrangements amounted to SDR 2,473.8 million (SDR 2,700.6 million under 35 arrangements at April 30, 2002).

8. Transfers Through the Special Disbursement Account

The expenses of conducting the business of the Trust are paid by the General Resources Account of the IMF and reimbursed by the Reserve Account of the Trust through the Special Disbursement Account; corresponding transfers are made from the Reserve Account to the Special Disbursement Account when and to the extent needed. For financial years 2003 and 2002, the Executive Board of the IMF decided to forgo such reimbursement to the General Resources Account and to transfer an equivalent amount from the Reserve Account, through the Special Disbursement Account, to the PRGF-HIPC Trust. The amounts transferred for financial years 2003 and 2002 were SDR 64.0 million and SDR 61.6 million respectively.

Resources of up to SDR 250 million may be transferred, as needed, from the Reserve Account through the Special Disbursement Account to the PRGF-HIPC Trust to be used to provide grants or loans to eligible members under the HIPC initiative. At April 30, 2003 and 2002, SDR 43.5 million had been transferred for this purpose.

9. Combining Balance Sheets, Statements of Income and Changes in Resources

The balance sheets, statements of income and changes in resources for each of the accounts in the PRGF Trust are presented below:

Note 9

Combining Balance Sheets as at April 30, 2003 and 2002

(In thousands of SDRs)

	Loan Account		Reserve Account		Subsidy Account		Combined	
	2003	2002	2003	2002	2003	2002	2003	2002
Assets								
Cash and cash equivalents	453,718	341,378	1,102,840	1,263,561	924,482	1,079,702	2,481,040	2,684,641
Investments (Note 3)	281,797	204,657	1,959,143	1,591,760	964,112	832,868	3,205,052	2,629,285
Loans receivable (Note 4)	6,667,296	6,172,848	—	—	—	—	6,667,296	6,172,848
Accrued account transfers	19,270	14,221	3,208	13,068	(22,478)	(27,289)	—	—
Interest receivable	17,338	14,363	1,329	1,402	312	228	18,979	15,993
Total Assets	7,439,419	6,747,467	3,066,520	2,869,791	1,866,428	1,885,509	12,372,367	11,502,767
Liabilities and Resources								
Borrowings (Note 5)	7,333,068	6,664,950	—	—	98,786	99,484	7,431,854	6,764,434
Interest payable	37,878	40,947	—	—	1,455	1,465	39,333	42,412
Other liabilities	2,930	76	—	—	—	—	2,930	76
Total Liabilities	7,373,876	6,705,973	—	—	100,241	100,949	7,474,117	6,806,922
Resources	65,543	41,494	3,066,520	2,869,791	1,766,187	1,784,560	4,898,250	4,695,845
Total Liabilities and Resources	7,439,419	6,747,467	3,066,520	2,869,791	1,866,428	1,885,509	12,372,367	11,502,767

Note 9 *(concluded)*

Combining Statements of Income and Changes in Resources for the Years Ended April 30, 2003 and 2002

(In thousands of SDRs)

	Loan Account		Reserve Account		Subsidy Account		Combined	
	2003	2002	2003	2002	2003	2002	2003	2002
Balance, beginning of the year	41,494	—	2,869,791	2,743,494	1,784,560	1,775,281	4,695,845	4,518,775
Investment income (Note 3)	486	191	74,918	138,942	43,076	93,211	118,480	232,344
Interest on loans	31,058	30,292	—	—	—	—	31,058	30,292
Interest expense	(136,437)	(172,875)	—	—	(1,667)	(1,795)	(138,104)	(174,670)
Other expenses	—	(76)	(1,575)	(1,574)	—	—	(1,575)	(1,650)
Operational (loss) income	(104,893)	(142,468)	73,343	137,368	41,409	91,416	9,859	86,316
Contributions (Note 6)	—	—	—	—	43,287	60,096	43,287	60,096
	(104,893)	(142,468)	73,343	137,368	84,696	151,512	53,146	146,412
Transfers from the Special Disbursement Account (Note 8)	—	—	213,259	92,258	—	—	213,259	92,258
Transfers through the Special Disbursement Account to the PRGF-HIPC Trust (Note 8)	—	—	(64,000)	(61,600)	—	—	(64,000)	(61,600)
Transfers between:								
Reserve and Subsidy Accounts	—	—	—	(52)	—	52	—	—
Loan and Reserve Accounts	25,873	41,677	(25,873)	(41,677)	—	—	—	—
Loan and Subsidy Accounts	103,069	142,285	—	—	(103,069)	(142,285)	—	—
Net changes in resources	24,049	41,494	196,729	126,297	(18,373)	9,279	202,405	177,070
Balance, end of the year	65,543	41,494	3,066,520	2,869,791	1,766,187	1,784,560	4,898,250	4,695,845

Schedule 1

Poverty Reduction and Growth Facility Trust

Schedule of Outstanding Loans as at April 30, 2003

(In thousands of SDRs)

Member	PRGF Loan Account Balance	PRGF Loan Account Percent	Structural Adjustment Facility[1] Balance	Structural Adjustment Facility[1] Percent
Albania	61,229	0.92	—	—
Armenia, Republic of	135,850	2.04	—	—
Azerbaijan	91,856	1.38	—	—
Benin	53,290	0.80	350	0.26
Bolivia	140,300	2.10	—	—
Burkina Faso	85,590	1.28	3,476	2.54
Cambodia	75,300	1.13	—	—
Cameroon	223,098	3.35	—	—
Cape Verde	2,460	0.04	—	—
Central African Republic	24,480	0.37	—	—
Chad	77,281	1.16	—	—
Comoros	—	—	270	0.20
Congo, Democratic Republic of	446,667	6.70	—	—
Congo, Republic of	9,727	0.15	—	—
Côte d'Ivoire	355,099	5.33	—	—
Djibouti	13,630	0.20	—	—
Equatorial Guinea	109	—	443	0.32
Ethiopia	94,056	1.41	7,766	5.69
Gambia, The	23,500	0.35	—	—
Georgia	193,800	2.91	—	—
Ghana	264,545	3.95	—	—
Guinea	99,000	1.48	—	—
Guinea-Bissau	13,349	0.20	—	—
Guyana	65,768	0.99	492	0.36
Haiti	12,140	0.18	—	—
Honduras	119,148	1.79	—	—
Kenya	64,616	0.97	—	—
Kyrgyz Republic	138,351	2.08	—	—
Lao People's Democratic Republic	30,011	0.45	—	—
Lesotho	15,133	0.23	—	—
Macedonia, former Yugoslav Republic of	27,185	0.41	—	—
Madagascar	108,653	1.63	—	—
Malawi	50,117	0.72	—	—
Mali	121,069	1.82	508	0.37
Mauritania	77,500	1.16	—	—
Moldova, Republic of	27,720	0.42	—	—
Mongolia	29,298	0.44	—	—
Mozambique	144,375	2.17	—	—
Nepal	1,679	0.03	—	—
Nicaragua	128,291	1.92	—	—
Niger	76,344	1.15	—	—
Pakistan	737,640	11.06	—	—
Rwanda	62,454	0.94	—	—
São Tomé and Príncipe	1,902	0.03	—	—
Senegal	178,158	2.67	—	—
Sierra Leone	109,069	1.64	5,404	3.96
Somalia	—	—	8,840	6.47
Sri Lanka	55,190	0.83	—	—
Tajikistan, Republic of	60,960	0.91	—	—
Tanzania	293,878	4.41	—	—
Togo	35,838	0.54	—	—
Uganda	183,571	2.75	—	—
Vietnam	263,120	3.95	—	—
Yemen, Republic of	238,750	3.58	—	—
Zambia	636,529	9.55	109,050	79.83
Zimbabwe	88,623	1.33	—	—
Total loans outstanding	6,667,296	100.00	136,599	100.00

[1]Since Structural Adjustment Facility (SAF) loans have been disbursed in connection with PRGF arrangements, the above list includes these loans, as well as loans disbursed to members under SAF arrangements. These loans are held by the Special Disbursement Account and reflected in the financial statements of the General Department. Repayments of all SAF loans are transferred to the PRGF Reserve Account when received.

Schedule 2

Poverty Reduction and Growth Facility Trust

Contributions to and Resources of the Subsidy Account as at April 30, 2003

(In thousands of SDRs)

Contributor[1]	Amount
Direct contributions to the Subsidy Account	
Argentina	18,133
Australia	5,592
Bangladesh	437
Canada	182,198
China	7,800
Czech Republic	9,000
Denmark	38,299
Egypt	9,000
Finland	22,684
Germany	132,832
Iceland	3,200
India	6,486
Ireland	4,223
Italy	146,059
Japan	506,997
Korea	31,663
Luxembourg	8,256
Morocco	6,580
Netherlands	89,753
Norway	28,074
Sweden	110,887
Switzerland	32,960
Turkey	5,000
United Kingdom	307,281
United States	126,079
Total direct contributions to the Subsidy Account	1,839,473
Net income transferred from PRGF Administered Accounts	
Austria	40,156
Belgium	76,902
Botswana	1,482
Chile	2,910
Greece	25,886
Indonesia	4,482
Iran, Islamic Republic of	1,312
Portugal	3,154
Total net income transferred from Administered Accounts	156,284
Total contributions received	1,995,757
Transfers from Special Disbursement Account	400,000
Total contributions received and transfers from Special Disbursement Account	2,395,757
Cumulative net income of the Subsidy Account	837,881
Resources disbursed to subsidize Trust lending	(1,467,451)
Total resources of the Subsidy Account	1,766,187

[1] In addition to direct contributions, a number of members also make loans available to the Loan Account on concessional terms. See Schedule 3.

Schedule 3

Poverty Reduction and Growth Facility Trust

Schedule of Borrowing Agreements as at April 30, 2003

(In thousands of SDRs)

Member	Interest Rate (in percent)	Amount of Agreement	Amount Drawn	Outstanding Balance
Loan Account				
Prior to enlargement of PRGF				
Canada	Fixed[1]	300,000	300,000	115,161
France	0.50[2]	800,000	800,000	196,986
Germany	Variable[3]	700,000	700,000	234,705
Italy	Variable[3]	370,000	370,000	130,637
Japan	Variable[3]	2,200,000	2,200,000	855,791
Korea	Variable[3]	65,000	65,000	13,210
Norway	Variable[3]	90,000	90,000	24,762
Spain	Variable[3]	220,000	216,429[4]	5,062
Total prior to enlargement of PRGF		4,745,000	4,741,429	1,576,314
For enlargement of PRGF				
Belgium	Variable[3]	350,000	198,041	198,041
Canada	Variable[3]	400,000	316,913	312,403
China	Variable[3]	200,000	143,522	141,730
Denmark	Variable[3]	100,000	71,995	71,995
Egypt	Variable[3]	155,600	100,000	97,231
France	Variable[2]	2,100,000	741,819	736,167
Germany	Variable[3]	2,050,000	757,784	756,308
Italy	Variable[3]	1,010,000	529,916	529,916
Japan	Variable[3]	2,934,800	1,689,533	1,685,665
Korea	Variable[3]	27,700	27,700	27,700
Netherlands	Variable[3]	450,000	105,179	105,179
Norway	Variable[3]	60,000	60,000	58,680
OPEC Fund for International Development	Variable[3]	36,129[5]	36,990	36,990
Spain—Government of Spain (ICO)	Fixed	67,000	67,000	67,000
Spain—Bank of Spain	Variable	425,000	41,410	41,410
Switzerland	Variable[3]	401,700	161,810	154,824
Total for enlargement of PRGF		10,767,929	5,049,612	5,021,239
Resources held pending repayment	6	—	—	735,515[6]
Total—Loan Account		15,512,929	9,791,041	7,333,068
Subsidy Account				
Malaysia (1994 loans)	2.00	40,000	40,000	40,000
Malta	0.50	2,730	2,730	1,365
Pakistan	0.50	10,000	6,670	6,670
Singapore	2.00	80,000	80,000	40,000
Tunisia	0.50	3,551	3,551	3,551
Uruguay	Variable[7]	7,200	7,200	7,200
Total—Subsidy Account		143,481	140,151	98,786

[1] The loans under this agreement are made at market-related rates of interest fixed at the time the loan was disbursed.

[2] The agreement with France made before the enlargement of PRGF (SDR 800 million) provides that the interest rate shall be 0.5 percent on the first SDR 700 million drawn, and for variable, market-related rates of interest thereafter. The agreement with France made for the enlargement of the PRGF (SDR 2.1 billion) provides that the interest rate shall be 0.5 percent until the cumulative implicit interest subsidy reaches SDR 250 million, and at variable, market-related rates of interest thereafter.

[3] The loans under these agreements are made at variable, market-related rates of interest.

[4] The agreement expired with an undrawn balance of SDR 3.6 million.

[5] The agreement with the OPEC Fund for International Development is for an amount of $50 million.

[6] This amount represents principal repayments held and invested on behalf of a lender.

[7] The interest rate payable on the borrowing from Uruguay is equal to the rate on SDR-denominated deposits less 2.6 percent a year.

Schedule 4

Poverty Reduction and Growth Facility Trust

Status of Loan Arrangements as at April 30, 2003

(In thousands of SDRs)

Member	Date of Arrangement	Expiration Date	Amount Agreed	Undrawn Balance
Albania	Jun. 21, 2002	Jun. 20, 2005	28,000	20,000
Armenia, Republic of	May 23, 2001	May 22, 2004	69,000	29,000
Azerbaijan	Jul. 6, 2001	Jul. 5, 2004	80,450	64,350
Benin	Jul. 17, 2000	Mar. 31, 2004	27,000	4,040
Cameroon	Dec. 21, 2000	Dec. 20, 2003	111,420	47,740
Cape Verde	Apr. 10, 2002	Apr. 9, 2005	8,640	6,180
Chad	Jan. 7, 2000	Dec. 6, 2003	47,600	10,400
Congo, Democratic Republic of	Jun. 12, 2002	Jun. 11, 2005	580,000	133,333
Côte d'Ivoire	Mar. 29, 2002	Mar. 28, 2005	292,680	234,140
Ethiopia	Mar. 22, 2001	Mar. 21, 2004	100,277	31,287
Gambia, The	Jul. 18, 2002	Jul. 17, 2005	20,220	17,330
Georgia	Jan. 12, 2001	Jan. 11, 2004	108,000	58,500
Guinea	May 2, 2001	May 1, 2004	64,260	38,556
Guinea-Bissau	Dec. 15, 2000	Dec. 14, 2003	14,200	9,120
Guyana	Sep. 20, 2002	Sep. 19, 2005	54,550	49,000
Kenya	Aug. 4, 2000	Aug. 3, 2003	190,000	156,400
Kyrgyz Republic	Dec. 6, 2001	Dec. 5, 2004	73,400	38,240
Lao People's Democratic Republic	Apr. 25, 2001	Apr. 24, 2004	31,700	18,110
Lesotho	Mar. 9, 2001	Mar. 8, 2004	24,500	10,500
Madagascar	Mar. 1, 2001	Nov. 30, 2004	79,430	45,389
Malawi	Dec. 21, 2000	Dec. 20, 2003	45,110	38,670
Mali	Aug. 6, 1999	Aug. 5, 2003	51,315	6,150
Moldova, Republic of	Dec. 21, 2000	Dec. 20, 2003	110,880	83,160
Mongolia	Sep. 28, 2001	Sep. 27, 2004	28,490	24,420
Mozambique	Jun. 28, 1999	Jun. 27, 2003	87,200	16,800
Nicaragua	Dec. 13, 2002	Dec. 12, 2005	97,500	90,535
Niger	Dec. 22, 2000	Dec. 21, 2003	59,200	25,360
Pakistan	Dec. 6, 2001	Dec. 5, 2004	1,033,700	602,980
Rwanda	Aug. 12, 2002	Aug. 11, 2005	4,000	3,426
Senegal	Apr. 28, 2003	Apr. 27, 2006	24,270	24,270
Sierra Leone	Sep. 26, 2001	Sep. 25, 2004	130,840	56,003
Sri Lanka	Apr. 18, 2003	Apr. 17, 2006	269,000	230,610
Tajikistan, Republic of	Dec. 11, 2002	Dec. 10, 2005	65,000	57,000
Tanzania	Apr. 4, 2000	Jun. 30, 2003	135,000	15,000
Uganda	Sep. 13, 2002	Sep. 12, 2005	13,500	12,000
Vietnam	Apr. 13, 2001	Apr. 12, 2004	290,000	165,800
			4,450,332	2,473,799

[1] The Saudi Fund for Development may also provide resources to support arrangements under the PRGF through loans to qualifying members in association with loans under the PRGF. As at April 30, 2003, SDR 49.5 million of such associated loans had been disbursed.

Poverty Reduction and Growth Facility Administered Accounts

Balance Sheets as at April 30, 2003 and 2002

(In thousands of SDRs)

	Austria		Belgium		Botswana	
	2003	2002	2003	2002	2003	2002
Assets						
Cash and cash equivalents	—	—	80,000	—	—	—
Investments (Note 3)	25,000	35,000	—	80,000	6,894	6,894
Advance payments to the PRGF Trust Subsidy Account	102	160	—	—	116	116
Interest receivable	—	—	225	20	—	—
Total Assets	25,102	35,160	80,225	80,020	7,010	7,010
Liabilities and Resources						
Deposits (Note 4)	25,000	35,000	80,000	80,000	6,894	6,894
Interest payable	102	160	2	2	116	116
Total liabilities	25,102	35,160	80,002	80,002	7,010	7,010
Resources	—	—	223	18	—	—
Total Liabilities and Resources	25,102	35,160	80,225	80,020	7,010	7,010

	Greece		Indonesia		Iran, I. R. of		Portugal	
	2003	2002	2003	2002	2003	2002	2003	2002
Assets								
Cash and cash equivalents	—	—	25,000	—	—	—	—	—
Investments (Note 3)	7,000	14,000	—	25,000	5,000	5,000	10,517	11,831
Advance payments to the PRGF Trust Subsidy Account	15	15	—	—	23	23	50	57
Interest receivable	—	—	70	214	—	—	—	—
Total Assets	7,015	14,015	25,070	25,214	5,023	5,023	10,567	11,888
Liabilities and Resources								
Deposits (Note 4)	7,000	14,000	25,000	25,000	5,000	5,000	10,517	11,831
Interest payable	15	15	17	118	23	23	50	57
Total liabilities	7,015	14,015	25,017	25,118	5,023	5,023	10,567	11,888
Resources	—	—	53	96	—	—	—	—
Total Liabilities and Resources	7,015	14,015	25,070	25,214	5,023	5,023	10,567	11,888

The accompanying notes are an integral part of these financial statements.

/s/ Eduard Brau
Director, Finance Department

/s/ Horst Köhler
Managing Director

Poverty Reduction and Growth Facility Administered Accounts

Statements of Income and Changes in Resources for the Years Ended April 30, 2003 and 2002

(In thousands of SDRs)

	Austria		Belgium		Botswana	
	2003	2002	2003	2002	2003	2002
Balance, beginning of the year	—	—	18	10	—	—
Investment income	801	2,134	1,630	2,420	178	358
Other expenses	(20)	(27)	—	—	(4)	(5)
Interest expense on deposits	(130)	(201)	(400)	(400)	(138)	(138)
Net income	651	1,906	1,230	2,020	36	215
Transfers to the:						
PRGF Trust Subsidy Account	(651)	(1,906)	(1,025)	(2,012)	(36)	(215)
Net changes in resources	—	—	205	8	—	—
Balance, end of the year	—	—	223	18	—	—

	Greece		Indonesia		Iran, I. R. of		Portugal	
	2003	2002	2003	2002	2003	2002	2003	2002
Balance, beginning of the year	—	—	96	—	—	—	—	—
Investment income	325	1,052	508	635	130	259	274	616
Other expenses	(8)	(12)	—	—	(3)	(3)	(7)	(8)
Interest expense on deposits	(61)	(96)	(62)	(240)	(25)	(25)	(53)	(59)
Net income	256	944	446	395	102	231	214	549
Transfers to the:								
PRGF Trust Subsidy Account	(256)	(944)	(489)	(299)	(102)	(231)	(214)	(549)
Net changes in resources	—	—	(43)	96	—	—	—	—
Balance, end of the year	—	—	53	96	—	—	—	—

The accompanying notes are an integral part of these financial statements.

Poverty Reduction and Growth Facility Administered Accounts

Notes to the Financial Statements as at April 30, 2003 and 2002

1. Nature of Operations

At the request of certain member countries, the IMF established the Poverty Reduction and Growth Facility Administered Accounts ("PRGF Administered Accounts" or "Administered Accounts") for the benefit of the Subsidy Account of the PRGF Trust. The Administered Accounts comprise deposits made by contributors. The difference between interest earned by the Administered Accounts and the interest payable on deposits is transferred to the Subsidy Account of the PRGF Trust.

The Saudi Fund for Development (SFD) Special Account was established at the request of the SFD to provide supplementary financing in association with loans under the Poverty Reduction and Growth Facility (PRGF). IMF acts as the agent of the SFD. Disbursements from the SFD Special Account are made simultaneously with PRGF disbursements. Payments of interest and principal due to the SFD under associated loans are to be transferred to the SFD.

The resources of each administered account are held separately from the assets of all other accounts of, or administered by, the IMF and may not be used to discharge liabilities or to meet losses incurred in the administration of other accounts.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the PRGF Administered Accounts are prepared in accordance with International Accounting Standards (IAS). Specific accounting principles and disclosure practices are explained further below. The preparation of financial statements in conformity with IAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The financial statements do not include a cash flow statement because the statement of income and changes in resources includes the PRGF Administered Accounts' main cash flows.

Revenue and Expense Recognition

The financial statements are maintained on the accrual basis; accordingly, income is recognized as it is earned and expenses are recorded as they are incurred.

Unit of Account

The financial statements are expressed in terms of SDRs. The value of the SDR is determined by the IMF each day by summing the values in U.S. dollars, based on market exchange rates, of the currencies in the SDR valuation basket. The IMF reviews the SDR valuation basket every five years. The latest review was completed in October 2000 and the new composition of the SDR valuation basket became effective on January 1, 2001. The currencies in the basket as of April 30, 2003 and 2002 and their amounts were as follows:

Currency	Amount
Euro	0.426
Japanese yen	21.0
Pound sterling	0.0984
U.S. dollar	0.577

As of April 30, 2003, one SDR was equal to 1.38391 U.S. dollars (one SDR was equal to 1.26771 U.S. dollars as of April 30, 2002).

Cash and Cash Equivalents

Cash and cash equivalents include short-term deposits with a maturity of less than ninety days. These deposits are denominated in SDRs or other currencies and are carried at cost, not exceeding market value. Interest received on these instruments varies and is based on prevailing market rates.

Investments

The resources of the Administered Accounts are invested pending their use. Investments are made in debt securities and fixed-term deposits, either directly or by participation in an investment pool. Investments are marked to market value on the last business day of the accounting period. The carrying amounts of investments approximate their fair value. Purchases are valued and reflected on the trade date basis and sales are based on the actual settlement date valuations. Investment income comprises interest income, realized and unrealized gains and losses and currency valuation differences arising from exchange rate movements against the SDR.

Interest rate risk is managed by limiting the investment portfolio to a weighted-average effective duration that does not exceed three years. Currency risk is minimized by investing in securities denominated in SDRs or in the constituent currencies of the SDR basket. Risk is further minimized by ensuring that the currency composition of the investment portfolio matches, as closely as possible, the currency composition of the SDR basket.

Transfers

Internal transfers of resources within the IMF are accounted for under the accrual method of accounting.

Foreign Currency Translation

Foreign currency transactions are recorded at the rate of exchange on the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are reported using the closing exchange rates. Exchange differences arising from the settlement of transactions at rates different from those at the originating date of the transaction, and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities are included in the determination of net income.

Transfers to PRGF Trust Subsidy Account

The difference between the income earned by the PRGF Administered Accounts on the amount invested and the interest payable on the deposits of the Administered Accounts, net of any cost, is to be transferred to the Subsidy Account of the PRGF Trust.

Administrative Costs

The expenses of conducting the activities of the Administered Accounts are incurred and borne by the General Department of the IMF.

3. Investments

The maturities of the investments are as follows:

Maturity as at April 30	2003	2002
	In thousands of SDRs	
Less than 1 year	50,374	165,674
1–3 years	3,950	12,051
3–5 years	87	—
Total	54,411	177,725

At April 30, investments consisted of the following:

	2003	2002
	In thousands of SDRs	
Debt securities	54,411	72,725
Fixed-term deposits	—	105,000
Total	54,411	177,725

At April 30, investment income comprised:

	2003	2002
	In thousands of SDRs	
Interest income	4,313	6,990
Realized (losses)/gains, net	(560)	1,802
Unrealized gains/(losses), net	93	(1,318)
Total	3,846	7,474

4. Deposits

Austria

The Administered Account Austria was established on December 27, 1988 for the administration of resources deposited in the account by the Austrian National Bank. Two deposits (one of SDR 60.0 million made on December 30, 1988 and one of SDR 50.0 million made on August 10, 1995) are to be repaid in ten equal semiannual installments beginning five and a half years after the date of each deposit and ending at the end of the tenth year after the date of each deposit. The deposits bear interest at a rate of ½ of 1 percent a year. The first deposit from Austria had been repaid in full.

Belgium

The Administered Account Belgium was established on July 27, 1988 for the administration of resources deposited in the account by the National Bank of Belgium. Four deposits (SDR 30.0 million made on July 29, 1988; SDR 35.0 million made on December 30, 1988; SDR 35.0 million made on June 30, 1989; and SDR 80.0 million made on April 29, 1994) have an initial maturity of six months and are renewable by the IMF on the same basis. The final maturity of each deposit, including renewals, will be ten years from the initial dates of the individual deposits. The deposits bear interest at a rate of ½ of 1 percent a year. In accordance with an addendum to the account, effective on July 24, 1998, the maturities of the first three deposits will be extended by the National Bank of Belgium, for further periods of six months, provided that the total maturity period of each deposit does not exceed five years. The deposits are invested by the IMF as administrator, and the IMF as administrator pays the National Bank of Belgium interest on each deposit at an annual rate of ½ of 1 percent. The difference between the interest paid to the National Bank of Belgium and the interest earned on the deposits (net of any cost to the IMF) was retained in the account and invested. As of January 31, 2001, the Ministry of Finance of Belgium authorized a transfer of SDR 8.2 million in net earnings to the PRGF-HIPC Trust. The first three deposits, totaling SDR 100 million, were paid in full in January 2001.

Botswana

The Administered Account Botswana was established on July 1, 1994 for the administration of resources deposited in the account by the Bank of Botswana. The deposit, totaling SDR 6.9 million, is to be repaid in one installment ten years after the date of deposit. The deposit bears interest at a rate of 2 percent a year.

Greece

The Administered Account Greece was established on November 30, 1988 for the administration of resources deposited in the account by the Bank of Greece. Two deposits of SDR 35.0 million each (December 15, 1988 and April 29, 1994) are to be repaid in ten equal semiannual installments beginning five and a half years after the date of deposit and will be completed at the end of the tenth year after the date of the deposits. The deposits bear interest at a rate of ½ of 1 percent a year. The first deposit from Greece has been repaid in full.

Indonesia

The Administered Account Indonesia was established on June 30, 1994 for the administration of resources deposited in the account by the Bank Indonesia. The deposit, totaling SDR 25.0 million, is to be repaid in one installment ten years after the date the deposit was made. The interest payable on the deposit is equivalent to that obtained for the investment of the deposit less 2 percent a year.

Islamic Republic of Iran

The Administered Account Islamic Republic of Iran was established on June 6, 1994 for the administration of resources deposited in the account by the Central Bank of the Islamic Republic of Iran (CBIRI). The CBIRI has made five annual deposits, each of SDR 1.0 million. All of the deposits will be repaid at the end of ten years after the date of the first deposit. Each deposit bears interest at a rate of ½ of 1 percent a year.

Portugal

The Administered Account Portugal was established on May 16, 1994 for the administration of resources deposited in the account by the Banco de Portugal (BdP). The BdP has made six annual deposits, each of SDR 2.2 million. Each deposit is to be repaid in five equal annual installments beginning six years after the date of the deposit and will be completed at the end of the tenth year after the date of the deposit. Each deposit bears interest at a rate of ½ of 1 percent a year.

5. Associated Loans under the SFD Special Account

The SFD has provided additional resources to support arrangements under the PRGF. Funds become available under an associated loan after a bilateral agreement between the SFD and the recipient country has been effected. Amounts denominated in SDRs, for disbursement to a recipient country under an associated loan, are placed by the SFD in the Saudi Fund for Development Special Account for disbursement by the IMF simultaneously with disbursements under a PRGF arrangement. These loans are repayable in ten equal semiannual installments commencing not later than the end of the first six months of the sixth year, and are to be completed at the end of the tenth year after the date of disbursement. Interest on the outstanding balance is currently set at a rate of ½ of 1 percent a year.

The receipts and uses of resources for the Saudi Fund for Development Special Account as of April 30 were as follows:

	2003	2002
	In thousands of SDRs	
Receipts of Resources		
Cumulative transfers from the Saudi Fund for Development	49,500	49,500
Cumulative repayments of associated loans	40,500	34,300
Cumulative receipts of interest on associated loans	1,858	1,783
Accrued interest on associated loans	18	28
	91,876	85,611
Uses of Resources		
Associated loans	49,500	49,500
Cumulative repayments to the Saudi Fund for Development	40,500	34,300
Cumulative payments of interest on transfers	1,858	1,783
Accrued interest on transfers	18	28
	91,876	85,611

PRGF-HIPC Trust and Related Accounts

Combined Balance Sheets as at April 30, 2003 and 2002

(In thousands of SDRs)

	2003	2002
Assets		
Cash and cash equivalents	999,948	965,867
Investments (Note 3)	316,929	438,524
Interest receivable	4,180	2,236
Total Assets	1,321,057	1,406,627
Liabilities and Resources		
Borrowings (Note 5)	601,125	541,787
Interest payable	1,298	1,085
Total Liabilities	602,423	542,872
Resources	718,634	863,755
Total Liabilities and Resources	1,321,057	1,406,627

The accompanying notes are an integral part of these combined financial statements.

/s/ Eduard Brau
Director, Finance Department

/s/ Horst Köhler
Managing Director

PRGF-HIPC Trust and Related Accounts

Combined Statements of Income and Changes in Resources for the Years Ended April 30, 2003 and 2002

(In thousands of SDRs)

	2003	2002
Balance, beginning of the year	863,755	975,533
Investment income (Note 3)	31,821	51,266
Interest expense	(1,938)	(1,925)
Other expenses	(265)	(173)
Operational income	29,618	49,168
Contributions received	35,425	73,697
Disbursements	(263,130)	(251,532)
	(198,087)	(128,667)
Transfers	52,966	16,889
Net changes in resources	(145,121)	(111,778)
Balance, end of the year	718,634	863,755

The accompanying notes are an integral part of these combined financial statements.

PRGF-HIPC Trust and Related Accounts

Notes to the Combined Financial Statements as at April 30, 2003 and 2002

1. Nature of Operations

The Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and for Interim PRGF Subsidy Operations (the PRGF-HIPC Trust) and Related Accounts comprise the PRGF-HIPC Trust Account, the Umbrella Account for HIPC Operations, and the Post-SCA-2 Administered Account. The PRGF-HIPC Trust Account comprises three subaccounts: the PRGF-HIPC, PRGF, and HIPC subaccounts. Combining balance sheets and income statements and changes in resources for each of these accounts are provided in Note 6. Transactions between the above accounts are eliminated on combination in the combined balance sheets and combined income statements and changes in resources.

PRGF-HIPC Trust

The PRGF-HIPC Trust, for which the IMF is trustee, was established on February 4, 1997 to provide balance of payments assistance to low-income developing members by making grants or loans to eligible members for the purpose of reducing their external debt burden and for interim PRGF subsidy purposes. The resources of the PRGF-HIPC Trust are held separately from the assets of all other accounts of, or administered by, the IMF and may not be used to discharge liabilities or to meet losses incurred in the administration of other accounts.

The operations of the PRGF-HIPC Trust are conducted through the PRGF-HIPC Trust Account and the Umbrella Account for HIPC Operations.

PRGF-HIPC Trust Account

The resources of the PRGF-HIPC Trust Account consist of grant contributions, borrowings, and other types of investments made by contributors; amounts transferred by the IMF from the Special Disbursement Account and the General Resources Account; and net earnings from investment of resources held in the PRGF-HIPC Trust Account.

The PRGF-HIPC subaccount holds resources that can finance either HIPC operations or interim PRGF subsidy operations; the PRGF subaccount holds resources earmarked for interim PRGF subsidy operations, while the HIPC subaccount holds resources earmarked for HIPC operations. PRGF-HIPC subaccount resources used to finance HIPC operations through the HIPC subaccount are repayable to the PRGF-HIPC subaccount and bear interest at a rate equal to the average return on investments in the Special Disbursement Account.

The resources held in the PRGF-HIPC Trust Account are to be used by the trustee to make grants or loans to eligible members that qualify for assistance under the HIPC Initiative and for subsidizing the interest rate on interim PRGF operations to PRGF-eligible members.

Umbrella Account for HIPC Operations

The Umbrella Account for HIPC Operations (the Umbrella Account) receives and administers the proceeds of grants or loans made to eligible members that qualify for assistance under the terms of the PRGF-HIPC Trust. Within the Umbrella Account, resources received are administered through the establishment of subaccounts for each eligible member upon the approval of disbursements under the PRGF-HIPC Trust.

The resources of a subaccount of the Umbrella Account consist of (1) amounts disbursed from the PRGF-HIPC Trust Account as grants or loans for the benefit of a member, and (2) net earnings from investment of the resources held in the subaccount.

The resources held in a subaccount of the Umbrella Account are to be used to meet the member's debt obligations to the IMF, or accounts administered by it, in accordance with the schedule agreed upon by the trustee and the member for the use of the proceeds of the PRGF-HIPC Trust disbursements.

Post-SCA-2 Administered Account

The Post-SCA-2 Administered Account, which is administered by the IMF on behalf of members, was established on December 8, 1999 for the temporary administration of resources transferred by members following the termination of the second Special Contingent Account (SCA-2), prior to the final disposition of those resources.

Resources received from a member's cumulative SCA-2 contributions, together with the member's pro rata share of investment returns, shall be transferred to the PRGF-HIPC Trust or to the member, in accordance with the member's instructions. The assets held in the Post-SCA-2 Administered Account are held separately from the assets and property of all other accounts of, or administered by, the IMF and may not be used to discharge liabilities or to meet losses incurred in the administration of other accounts.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the IMF are prepared in accordance with International Accounting Standards (IAS). Specific accounting principles and disclosure practices are explained further below. The preparation of financial statements in conformity with IAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The financial statements do not include a cash flow statement because the statement of income and changes in resources includes the PRGF-HIPC Trust and Related Accounts' main cash flows.

Revenue and Expense Recognition

The financial statements are prepared on the accrual basis; accordingly, income is recognized as it is earned, and expenses are recorded as they are incurred.

Unit of Account

The financial statements are expressed in terms of SDRs. The value of the SDR is determined by the IMF each day by summing the values in U.S. dollars, based on market exchange rates, of the currencies in the SDR valuation basket. The IMF reviews the SDR valuation basket every five years. The latest review was completed in October 2000 and the new composi-

tion of the SDR valuation basket became effective from January 1, 2001. The currencies in the basket as of April 30, 2003 and 2002 and their amounts were as follows:

Currency	Amount
Euro	0.426
Japanese yen	21.0
Pound sterling	0.0984
U.S. dollar	0.577

As of April 30, 2003, one SDR was equal to 1.38391 U.S. dollars (one SDR was equal to 1.26771 U.S. dollars as of April 30, 2002).

Cash and Cash Equivalents

Cash and cash equivalents include short-term deposits with a maturity of less than ninety days. These deposits are denominated in SDRs or other currencies and are carried at cost not exceeding market value. Interest received on these instruments varies and is based on prevailing market rates.

Investments

The resources of the Trust are invested pending their use. The Trust invests in debt securities and fixed-term deposits, either directly or by participation in an investment pool. Investments are marked to market on the last business day of the accounting period. The carrying amounts of investments approximate their fair value. Purchases are valued and reflected on the trade date basis and sales are based on the actual settlement date valuations.

Investment income comprises interest earned on investments, realized and unrealized gains and losses on investments, and currency valuation differences arising from exchange rate movements against the SDR.

Interest rate risk is managed by limiting the investment portfolio to a weighted-average effective duration that does not exceed three years. Currency risk is minimized by investing in securities denominated in SDRs or in the constituent currencies of the SDR basket. Regular portfolio rebalancing to ensure that the currency composition of the investment portfolio matches, as closely as possible, the currency composition of the SDR basket further minimizes risk.

Contributions

Bilateral contributions are reflected as increases in resources after the achievement of specified conditions and are subject to bilateral agreements stipulating how the resources are to be used.

Transfers

Internal transfers of resources within the IMF are accounted for under the accrual method of accounting.

Foreign Currency Translation

Foreign currency transactions are recorded at the rate of exchange on the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are reported using the closing exchange rates. Exchange differences arising from the settlement of transactions at rates different from those at the originating date of the transaction and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities are included in the determination of net income.

Administrative Costs

The expenses of conducting activities of the Trust and related accounts are incurred and borne by the General Department of the IMF.

3. Investments

The maturities of the investments are as follows:

Maturity as at April 30	2003	2002
	In thousands of SDRs	
Less than 1 year	287,084	376,817
1–3 years	29,205	61,707
3–5 years	640	—
Total	316,929	438,524

At April 30, investments consisted of the following:

	2003	2002
	In thousands of SDRs	
Debt securities	316,929	225,352
Fixed-term deposits	—	213,172
Total	316,929	438,524

At April 30, investment income is comprised of:

	2003	2002
	In thousands of SDRs	
Interest income	34,682	49,714
Realized (losses)/gains, net	(2,711)	4,677
Unrealized losses, net	(130)	(3,152)
Exchange rate (losses)/gains, net	(20)	27
Total	31,821	51,266

4. Transfers Receivable and Payable

At April 30, 2003, the HIPC subaccount had transfers payable to the PRGF-HIPC subaccount arising from past disbursements to the Umbrella Account under the HIPC Initiative in the amount of SDR 796.7 million, including interest (SDR 437.0 million at April 30, 2002). Interest payable between subaccounts is eliminated on combination.

5. Borrowings

The Trust borrows on such terms and conditions as agreed between the Trust and the lenders. Interest rates on borrowings at April 30, 2003 and 2002 varied between 0 percent and 2 percent a year. The principal amounts of the borrowings are repayable in one installment at their maturity dates. Scheduled repayments of borrowings are summarized below:

Financial Year Ending April 30	
	In thousands of SDRs
2004	—
2005	15,000
2006	—
2007	—
2008	19,066
2009 and beyond	567,059
Total	601,125

Borrowings during the financial year ended April 30, 2003 amounted to SDR 31 million (SDR 150 million for the financial year ended April 30, 2002). There were no repayments in the year ended April 30, 2003 (SDR 15 million for the year ended April 30, 2002). Borrowings include foreign currency amounts.

6. Combining Balance Sheets and Statements of Income and Changes in Resources

The balance sheets and statements of income and changes in resources for each of the accounts and subaccounts in the PRGF-HIPC Trust and Related Accounts are presented below:

Combining Balance Sheets
as at April 30, 2003 and 2002

(In thousands of SDRs)

	2003							2002			
	PRGF-HIPC Trust Account subaccount				Umbrella Account for HIPC Operations	Post-SCA-2 Administered Account	Combined Total	PRGF-HIPC Trust Account	Umbrella Account for HIPC Operations	Post-SCA-2 Administered Account	Combined Total
	PRGF-HIPC	PRGF	HIPC	Combined							
Assets											
Cash and cash equivalents	535,457	3,862	—	539,319	420,606	40,023	999,948	585,756	330,115	49,996	965,867
Investments	302,544	14,385	—	316,929	—	—	316,929	438,524	—	—	438,524
Transfers to and from subaccounts	797,010	—	(797,010)	—	—	—	—	—	—	—	—
Interest receivable	3,303	—	—	3,303	703	174	4,180	944	1,013	279	2,236
Total Assets	1,638,314	18,247	(797,010)	859,551	421,309	40,197	1,321,057	1,025,224	331,128	50,275	1,406,627
Liabilities and Resources											
Borrowings	601,125	—	—	601,125	—	—	601,125	541,787	—	—	541,787
Interest payable	1,298	—	—	1,298	—	—	1,298	1,085	—	—	1,085
Total Liabilities	602,423	—	—	602,423	—	—	602,423	542,872	—	—	542,872
Accumulated resources	1,035,891	18,247	(797,010)	257,128	421,309	40,197	718,634	482,352	331,128	50,275	863,755
Total Liabilities and Resources	1,638,314	18,247	(797,010)	859,551	421,309	40,197	1,321,057	1,025,224	331,128	50,275	1,406,627

Note 6 *(concluded)*

Combining Statements of Income and Changes in Resources for the Years Ended April 30, 2003 and 2002

(In thousands of SDRs)

	2003							2002			
	PRGF-HIPC Trust Account subaccount				Umbrella Account for HIPC Operations	Post-SCA-2 Administered Account	Combined Total	PRGF-HIPC Trust Account	Umbrella Account for HIPC Operations	Post-SCA-2 Administered Account	Combined Total
	PRGF-HIPC	PRGF	HIPC	Combined							
Balance, beginning of the year	904,762	14,591	(437,001)	482,352	331,128	50,275	863,755	538,805	343,410	93,318	975,533
Investment income	37,141	422	—	23,107[1]	7,758	956	31,821	39,910	9,688	1,668	51,266
Interest expense	(1,938)	—	(14,456)	(1,938)[1]	—	—	(1,938)	(1,925)	—	—	(1,925)
Other expenses	(255)	(10)	—	(265)	—	—	(265)	(173)	—	—	(173)
Operational income/(loss)	34,948	412	(14,456)	20,904	7,758	956	29,618	37,812	9,688	1,668	49,168
Contributions received	32,181	3,244	—	35,425	—	—	35,425	73,697	—	—	73,697
Grants	—	—	(345,553)	(345,553)	345,553	—	—	(229,562)	229,562	—	—
Disbursements	—	—	—	—	(263,130)	—	(263,130)	—	(251,532)	—	(251,532)
	67,129	3,656	(360,009)	(289,224)	90,181	956	(198,087)	(118,053)	(12,282)	1,668	(128,667)
Transfers	64,000	—	—	64,000	—	(11,034)	52,966	61,600	—	(44,711)	16,889
Net changes in resources	131,129	3,656	(360,009)	(225,224)	90,181	(10,078)	(145,121)	(56,453)	(12,282)	(43,043)	(111,778)
Balance, end of the year	1,035,891	18,247	(797,010)	257,128	421,309	40,197	718,634	482,352	331,128	50,275	863,755

[1]Interest payable between subaccounts amounting to SDR 14.5 million (SDR 17.5 million at April 30, 2002) has been eliminated in the combined totals.

Schedule 1

Post-SCA-2 Administered Account

Holdings, Interest, and Transfers for the Year Ended April 30, 2003

(In thousands of SDRs)

Member	Balance Beginning of the Year	Interest Earned	Transfers to PRGF-HIPC Trust	Balance End of the Year
Argentina	5,316	111		5,427
Brazil	10,898	135	(11,033)	—
Dominican Republic	984	20	—	1,004
Estonia, Republic of	1	—	(1)	—
Fiji	212	4	—	216
Jordan	1,117	24	—	1,141
Tonga	28	1	—	29
Trinidad and Tobago	2,400	50	—	2,450
Vanuatu	48	1	—	49
Venezuela, República Bolivariana de	29,271	610	—	29,881
Total	50,275	956	(11,034)	40,197

Schedule 2

PRGF-HIPC Trust Account

Contributions and Transfers for the Years Ended April 30, 2003 and 2002

(In thousands of SDRs)

	Subaccount			
	PRGF-HIPC	PRGF	HIPC	Combined
Year ended April 30, 2002				
Algeria	412	—	—	412
Australia	—	—	3,920	3,920
Belgium	2,621	—	—	2,621
Belize	20	—	—	20
Brunei Darussalam	4	—	—	4
Colombia	13	—	—	13
Croatia, Republic of	31	—	—	31
Denmark	2,386	—	—	2,386
Estonia, Republic of	372	—	—	372
Finland	322	—	—	322
Gabon	458	—	—	458
Iceland	184	—	—	184
Japan	15,441	—	—	15,441
Latvia, Republic of	157	—	—	157
Malaysia	478	—	—	478
Mexico	7,982	—	—	7,982
Netherlands	—	—	16,347[1]	16,347
Nigeria	4,314	—	—	4,314
Norway	2,302	—	—	2,302
Oman	73	—	—	73
Poland, Republic of	1,234	—	—	1,234
St. Vincent and the Grenadines	22	—	—	22
Saudi Arabia	978	—	—	978
Singapore	249	—	—	249
South Africa	4,000	—	—	4,000
Sweden	5,322	—	—	5,322
Switzerland	3,216	—	—	3,216
Thailand	350	—	—	350
Tunisia	136	—	—	136
United Arab Emirates	353	—	—	353
	53,430	—	20,267	73,697
Transfers from SDA	61,600	—	—	61,600
	115,030	—	20,267	135,297
Year ended April 30, 2003				
Belgium	3,625	—	—	3,625
Belize	20	—	—	20
Brazil	11,033	—	—	11,033
Denmark	2,188	—	—	2,188
Estonia, Republic of	1	—	—	1
Latvia, Republic of	142	—	—	142
Mexico	7,961	—	—	7,961
Netherlands	—	3,244	—	3,244
St. Vincent and the Grenadines	11	—	—	11
South Africa	4,000	—	—	4,000
Switzerland	3,200	—	—	3,200
	32,181	3,244	—	35,425
Transfers from SDA	64,000	—	—	64,000
	96,181	3,244	—	99,425

[1]Includes an additional grant contribution by the Netherlands to Zambia in the context of the HIPC Initiative.

Schedule 3

Umbrella Account for HIPC Operations

Grants, Interest, and Disbursements for the Years Ended April 30, 2003 and 2002

(In thousands of SDRs)

	Balance Beginning of the Year	Grants from PRGF-HIPC Trust Account	Interest Earned	Disbursements	Balance End of the Year
Year ended April 30, 2002					
Benin	802	3,680	50	3,839	693
Bolivia	2,584	44,234	1,090	8,851	39,057
Burkina Faso	14,696	15,240	456	4,644	25,748
Cameroon	431	290	15	—	736
Chad	—	2,850	57	2,067	840
Ethiopia	—	4,036	33	2,212	1,857
Gambia, The	72	—	2	9	65
Ghana	—	9,913	36	—	9,949
Guinea	2,235	—	30	2,238	27
Guinea-Bissau	391	—	7	393	5
Guyana	18,640	—	465	6,857	12,248
Honduras	—	4,500	46	2,250	2,296
Madagascar	6	1,446	13	—	1,465
Malawi	1,144	—	22	1,143	23
Mali	10,238	5,746	358	6,999	9,343
Mauritania	5,009	6,960	117	7,640	4,446
Mozambique	63,732	12,519	1,864	17,339	60,776
Niger	437	1,079	15	430	1,101
Rwanda	3,708	2,367	79	5,845	309
Senegal	3,115	3,387	44	3,132	3,414
Sierra Leone	—	23,640	37	9,818	13,859
Tanzania	13,420	69,715	809	13,332	70,612
Uganda	83,374	1,585	2,287	18,607	68,639
Zambia	119,376	16,375[1]	1,756	133,887	3,620
	343,410	229,562	9,688	251,532	331,128

Schedule 3 *(concluded)*

Umbrella Account for HIPC Operations

Grants, Interest, and Disbursements for the Years Ended April 30, 2003 and 2002

(In thousands of SDRs)

	Balance Beginning of the Year	Grants from PRGF-HIPC Trust Account	Interest Earned	Disbursements	Balance End of the Year
Year ended April 30, 2003					
Benin	693	12,680	49	3,735	9,687
Bolivia	39,057	—	735	7,746	32,046
Burkina Faso	25,748	1,342	513	6,967	20,636
Cameroon	736	—	11	325	422
Chad	840	1,475	29	2,327	17
Ethiopia	1,857	4,129	34	3,904	2,116
Gambia, The	65	—	1	26	40
Ghana	9,949	—	95	9,874	170
Guinea	27	2,746	31	1,888	916
Guinea-Bissau	5	—	—	—	5
Guyana	12,248	4,133	253	6,728	9,906
Honduras	2,296	—	13	2,278	31
Madagascar	1,465	2,887	28	2,182	2,198
Malawi	23	—	1	—	24
Mali	9,343	32,038	239	7,645	33,975
Mauritania	4,446	21,545	366	9,474	16,883
Mozambique	60,776	—	1,087	14,352	47,511
Nicaragua	—	1,888	9	665	1,232
Niger	1,101	1,812	9	1,098	1,824
Rwanda	309	838	8	1,068	87
Senegal	3,414	—	26	3,413	27
Sierra Leone	13,859	23,640	156	23,560	14,095
Tanzania	70,612	—	1,235	16,159	55,688
Uganda	68,639	—	1,224	16,917	52,946
Zambia	3,620	234,400[1]	1,606	120,799	118,827
	331,128	345,553	7,758	263,130	421,309

[1]Includes an additional grant contribution by the Netherlands to Zambia in the context of the HIPC Initiative.

Schedule 4

PRGF-HIPC Trust Account

Cumulative Contributions and Transfers as at April 30, 2003

(In thousands of SDRs)

	Subaccount			
	PRGF-HIPC	PRGF	HIPC	Combined
Algeria	412	—	—	412
Australia	—	—	17,019	17,019
Austria	—	—	9,981	9,981
Bangladesh	1,163	—	—	1,163
Barbados	250	—	—	250
Belgium	18,454	—	—	18,454
Belize	100	—	—	100
Brazil	11,033	—	—	11,033
Brunei Darussalam	4	—	—	4
Cambodia	27	—	—	27
Canada	32,929	—	—	32,929
China	13,132	—	—	13,132
Colombia	13	—	—	13
Croatia, Republic of	31	—	—	31
Cyprus	544	—	—	544
Denmark	13,068	—	—	13,068
Egypt	37	—	—	37
Estonia, Republic of	372	—	—	372
Finland	2,583	—	—	2,583
France	55,892	—	—	55,892
Gabon	458	—	—	458
Greece	2,200	—	—	2,200
Iceland	643	—	—	643
India	390	—	—	390
Indonesia	124	—	—	124
Ireland	3,937	—	—	3,937
Israel	1,189	—	—	1,189
Italy	43,309	—	—	43,309
Jamaica	1,800	—	—	1,800
Japan	98,355	—	—	98,355
Korea	10,625	—	—	10,625
Kuwait	108	—	—	108
Latvia, Republic of	568	—	—	568
Luxembourg	488	—	—	488
Malaysia	478	—	—	478
Malta	706	—	—	706
Mauritius	40	—	—	40
Mexico	23,943	—	—	23,943
Morocco	49	—	—	49
Netherlands	—	16,336	16,347[1]	32,683
New Zealand	1,158	—	—	1,158
Nigeria	5,416	—	—	5,416
Norway	10,698	—	—	10,698
Oman	73	—	—	73
Pakistan	105	—	—	105

Schedule 4 *(concluded)*

PRGF-HIPC Trust Account

Cumulative Contributions and Transfers as at April 30, 2003

(In thousands of SDRs)

	Subaccount			
	PRGF-HIPC	PRGF	HIPC	Combined
Philippines	4,500	—	—	4,500
Poland, Republic of	2,112	—	—	2,112
Portugal	4,430	—	—	4,430
Russian Federation	10,200	—	—	10,200
St. Vincent and the Grenadines	33	—	—	33
Samoa	3	—	—	3
San Marino, Republic of	32	—	—	32
Saudi Arabia	978	—	—	978
Singapore	249	—	—	249
Slovak Republic	2,669	—	—	2,669
Slovenia, Republic of	311	—	—	311
South Africa	12,895	—	—	12,895
Spain	16,550	—	—	16,550
Sri Lanka	12	—	—	12
Swaziland	20	—	—	20
Sweden	5,322	—	—	5,322
Switzerland	9,600	—	—	9,600
Thailand	350	—	—	350
Tunisia	136	—	—	136
United Arab Emirates	353	—	—	353
United Kingdom	23,551	—	33,837	57,388
United States	—	—	221,932	221,932
Vietnam	10	—	—	10
	451,220	16,336	299,116	766,672
Transfers from SDA	351,997	—	—	351,997
Transfers from GRA	72,456	—	—	72,456
	424,453	—	—	424,453
	875,673	16,336	299,116	1,191,125

[1]Includes an additional grant contribution by the Netherlands to Zambia in the context of the HIPC Initiative.

Other Administered Accounts

Balance Sheets
as at April 30, 2003 and 2002

	Administered Account Japan		Administered Account for Selected Fund Activities—Japan		Framework Administered Account for Technical Assistance Activities		Administered Account—Spain		Supplementary Financing Facility Subsidy Account		The Post-Conflict Emergency Assistance Subsidy Account[1]	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	(In thousands of U.S. dollars)								*(In thousands of SDRs)*			
Assets												
Cash and cash equivalents	119,037	117,277	25,031	20,459	14,659	8,484	—	—	2,341	2,290	5,441	587
Interest receivable	—	—	—	—	—	—	—	—	10	13	—	—
Total Assets	119,037	117,277	25,031	20,459	14,659	8,484	—	—	2,351	2,303	5,441	587
Resources												
Total Resources	119,037	117,277	25,031	20,459	14,659	8,484	—	—	2,351	2,303	5,441	587

The accompanying notes are an integral part of these financial statements.

[1]The Post-Conflict Emergency Assistance Account for PRGF-eligible members was established on May 4, 2001.

/s/ Eduard Brau
Director, Finance Department

/s/ Horst Köhler
Managing Director

Other Administered Accounts

Statements of Income and Changes in Resources for the Years Ended April 30, 2003 and 2002

	Administered Account Japan		Administered Account for Selected Fund Activities—Japan		Framework Administered Account for Technical Assistance Activities		Administered Account—Spain		Supplementary Financing Facility Subsidy Account		The Post-Conflict Emergency Assistance Subsidy Account[1]	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	(In thousands of U.S. dollars)								*(In thousands of SDRs)*			
Balance, beginning of the year	117,277	114,184	20,459	14,580	8,484	4,539	—	—	2,303	2,343	587	—
Income earned on investments	1,760	3,093	227	298	142	129	—	33	48	63	103	—
Contributions received	—	—	25,508	24,965	14,834	8,411	40	329,154	—	—	5,409	1,360
Payments to and on behalf of beneficiaries	—	—	(21,163)	(19,384)	(8,801)	(4,595)	(40)	(329,187)	—	—	(658)	(773)
Net income	1,760	3,093	4,572	5,879	6,175	3,945	—	—	48	63	4,854	587
Transfers to the Special Disbursement Account (Note 4)	—	—	—	—	—	—	—	—	—	(103)	—	—
Net changes in resources	1,760	3,093	4,572	5,879	6,175	3,945	—	—	48	(40)	4,854	587
Balance, end of the year	119,037	117,277	25,031	20,459	14,659	8,484	—	—	2,351	2,303	5,441	587

The accompanying notes are an integral part of these financial statements.

[1]The Post-Conflict Emergency Assistance Account for PRGF-eligible members was established on May 4, 2001.

Other Administered Accounts

Notes to the Financial Statements as at April 30, 2003 and 2002

1. Nature of Operations

At the request of members, the IMF has established special purpose accounts to administer contributed resources and to perform financial and technical services consistent with the purposes of the IMF. The assets of each account and each subaccount are separate from the assets of all other accounts of, or administered by, the IMF and are not to be used to discharge liabilities or to meet losses incurred in the administration of other accounts.

Administered Account Japan

At the request of Japan, the IMF established an account on March 3, 1989 to administer resources, made available by Japan or other countries with Japan's concurrence, that are to be used to assist certain members with overdue obligations to the IMF. The resources of the account are to be disbursed in amounts specified by Japan and to members designated by Japan.

Administered Account for Selected Fund Activities—Japan

At the request of Japan, the IMF established the Administered Technical Assistance Account—Japan on March 19, 1990 to administer resources contributed by Japan to finance technical assistance to member countries. On July 21, 1997, the account was renamed the Administered Account for Selected Fund Activities—Japan and amended to include the administration of resources contributed by Japan in support of the IMF's Regional Office for Asia and the Pacific (OAP). The resources of the account designated for technical assistance activities are used with the approval of Japan and include the provision of scholarships. The resources designated for the OAP are used as agreed between Japan and the IMF for certain activities of the IMF with respect to Asia and the Pacific through the OAP. Disbursements can also be made from the account to the General Resources Account to reimburse the IMF for qualifying technical assistance projects and OAP expenses.

Framework Administered Account for Technical Assistance Activities

The Framework Administered Account for Technical Assistance Activities ("the Framework Account") was established by the IMF on April 3, 1995 to receive and administer contributed resources that are to be used to finance technical assistance consistent with the purposes of the IMF. The financing of technical assistance activities is implemented through the establishment and operation of subaccounts within the Framework Account.

Resources are to be used in accordance with the written understandings between the contributor and the Managing Director. Disbursements can also be made from the Framework Account to the General Resources Account to reimburse the IMF for its costs incurred on behalf of technical assistance activities financed by resources from the Framework Account.

Subaccount for Japan Advanced Scholarship Program

At the request of Japan, this subaccount was established on June 6, 1995 to finance the cost of studies and training of nationals of member countries in macroeconomics and related subjects at selected universities and institutions. The scholarship program focuses primarily on the training of nationals of Asian member countries, including Japan.

Rwanda—Macroeconomic Management Capacity Subaccount

At the request of Rwanda, this subaccount was established on December 20, 1995 to finance technical assistance to rehabilitate and strengthen Rwanda's macroeconomic management capacity.

Australia—IMF Scholarship Program for Asia Subaccount

At the request of Australia, this subaccount was established on June 5, 1996 to finance the cost of studies and training of government and central bank officials in macroeconomic management so as to enable them to contribute to their countries' achievement of sustainable economic growth and development. The program focuses primarily on the training of nationals of Asian countries.

Switzerland Technical Assistance Subaccount

At the request of Switzerland, this subaccount was established on August 27, 1996 to finance the costs of technical assistance activities of the IMF that consist of policy advice and training in macroeconomic management.

French Technical Assistance Subaccount

At the request of France, this subaccount was established on September 30, 1996 to cofinance the costs of training in economic fields for nationals of certain member countries.

Denmark Technical Assistance Subaccount

At the request of Denmark, this subaccount was established on August 25, 1998 to finance the costs of technical assistance activities of the IMF that consist of advising on policy and administrative reforms in the fiscal, monetary, and related statistical fields.

Australia Technical Assistance Subaccount

At the request of Australia, this subaccount was established on March 7, 2000 to finance the costs of technical assistance activities of the IMF that consist of advising on the design of policy and administrative reforms in the fiscal, monetary and related statistical fields, as well as to provide training in the formulation and implementation of macroeconomic and financial policies.

The Netherlands Technical Assistance Subaccount

At the request of the Netherlands, this subaccount was established on July 27, 2000 to finance projects that seek to enhance the capacity of the members to formulate and implement policies in the macroeconomic, fiscal, monetary, financial, and related statistical fields, including training programs and projects that strengthen the legal and administrative framework in these core areas.

The United Kingdom Department for International Development (DFID) Technical Assistance Subaccount

At the request of the United Kingdom, this subaccount was established on June 22, 2001 to finance projects that seek to enhance the capacity of the members to formulate and implement policies in the macroeconomic, fiscal, monetary, financial, and related statistical fields, including training programs and projects that strengthen the legal and administrative framework in these core areas.

Italy Technical Assistance Subaccount

At the request of Italy, this subaccount was established on November 16, 2001 to finance projects that seek to enhance the capacity of certain members to formulate and implement policies related to fiscal, financial, and statistical standards and codes, including training programs and projects that strengthen the legal and administrative framework in these core areas.

Pacific Financial Technical Assistance Centre Subaccount

At the request of Australia and New Zealand, this subaccount was established on May 22, 2002 to finance activities of the Pacific Financial Technical Assistance Centre that seek to enhance the capacity of Pacific island countries and territories to formulate and implement policies related to macroeconomic, fiscal, monetary, financial, and statistical fields, including training and activities that strengthen the legal and administrative framework in these core areas.

Africa Regional Technical Assistance Centers Subaccount

At the request of France, the Federal Republic of Germany, Italy, the Netherlands, Norway, Sweden, and the United Kingdom, this subaccount was established on August 9, 2002 to finance activities of the Africa Regional Technical Assistance Centers that seek to support the Poverty Reduction Strategy Paper process in sub-Saharan African countries through fostering the capacity for sound macroeconomic management, strong fiscal institutions and financial systems, and timely and accurate collection and dissemination of economic data, including training and activities that strengthen the legal and administrative framework in these core areas.

The resources of this subaccount are contributed by the above governments and other governments or official agencies, including the Russian Federation, Luxembourg, and China, that reached an understanding with the IMF subsequent to the establishment.

Sweden Technical Assistance Subaccount

At the request of Sweden, this subaccount was established on November 25, 2002 to finance projects that seek to enhance the capacity of members to formulate and implement policies in the macroeconomic, fiscal, monetary, financial, and related statistical fields, including training programs and projects that strengthen the legal and administrative framework in these core areas.

Administered Account—Spain

At the request of Spain, the IMF established an account on March 20, 2001 to receive and disburse resources up to $1 billion contributed by Spain for Argentina. The resources of this account are to be used to assist Argentina in the implementation of the adjustment program supported by the IMF under the Stand-By Arrangement for Argentina approved on March 10, 2000 and augmented on January 12, 2001.

Supplementary Financing Facility Subsidy Account

The Supplementary Financing Facility Subsidy Account administered by the IMF was established in December 1980 to assist low-income developing country members to meet the costs of using resources made available through the IMF's Supplementary Financing Facility and under the policy on exceptional use. All repurchases due under these policies were scheduled for completion by January 31, 1991, and the final subsidy payments were approved in July 1991. However, two members (Liberia and Sudan), overdue in the payment of charges, remain eligible to receive previously approved subsidy payments of SDR 2.2 million when their overdue charges are settled. Accordingly, the Account remains in operation and has retained amounts for payment to these members after the overdue charges are paid.

The Post-Conflict Emergency Assistance Subsidy Account

The Post-Conflict Emergency Assistance Subsidy Account for PRGF-Eligible Members was established in May 2001 to administer contributed resources for the purpose of providing assistance to PRGF-eligible members in support of their adjustment efforts. Contributions to the account will be used to provide grants to PRGF-eligible members that have made post-conflict emergency assistance purchases under the IMF General Resources Account, effectively subsidizing the basic rate of charge on these purchases to 0.5 percent per annum. The subsidy to each eligible member would be prorated if resources are insufficient to reduce the basic rate of charge to 0.5 percent.

Trust Fund

In addition to the aforementioned accounts, the IMF is also the trustee of the Trust Fund, which is in liquidation. The Trust Fund was established in 1976 to provide balance of payments assistance on concessional terms to eligible members that qualify for assistance.

In 1980, the IMF, as trustee, decided that, upon the completion of the final loan disbursements, the Trust Fund would be terminated as of April 30, 1981, and after that date, the activities of the Trust Fund have been confined to the conclusion of its affairs. As of April 30, 2003 and 2002, the Trust Fund had no assets other than loans receivable of SDR 88.6 million. Resources exist in the Trust Fund to the full amount of the loans and are available to absorb any losses should this occur. All interest is deferred. Cash receipts on these loans are to be transferred to the Special Disbursement Account.

Overdue loans, interest and charges at April 30, 2003 were as follows:

Member	Loans	Interest and Special Charges	Total	Longest Overdue Obligation
		In millions of SDRs		
Liberia	22.9	7.2	30.1	June 1985
Somalia	6.5	1.4	7.9	July 1987
Sudan	59.2	19.3	78.5	June 1985
Total	88.6	27.9	116.5	

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Other Administered Accounts are prepared in accordance with International Accounting Standards (IAS). Specific accounting principles and disclosure practices are explained further below.

The preparation of financial statements in conformity with IAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The financial statements do not include a cash flow statement because the statement of income and changes in resources includes the Other Administered Accounts' main cash flows.

Unit of Account

Administered Account Japan, Administered Account for Selected Fund Activities—Japan, and Framework Administered Account for Technical Assistance Activities, and Administered Account—Spain

These accounts are expressed in U.S. dollars. All transactions and operations of these accounts, including the transfers to and from the accounts, are denominated in U.S. dollars, except for transactions and operations in respect of the OAP, which are denominated in Japanese yen, or transactions in other currencies as agreed between Japan and the IMF. Contributions denominated in other currencies are converted into U.S. dollars upon receipt of the funds.

The Post-Conflict Emergency Assistance Subsidy Account, Trust Fund, and Supplementary Financing Facility Subsidy Account

These accounts are expressed in terms of SDRs. The value of the SDR is determined by the IMF each day by summing the values in U.S. dollars, based on market exchange rates, of the currencies in the basket. The IMF reviews the SDR valuation basket every five years. The latest review was completed in October 2000 and the composition of the SDR valuation basket became effective from January 1, 2001. The currencies in the basket as of April 30, 2003 and 2002 and their amounts were as follows:

Currency	Amount
Euro	0.426
Japanese yen	21.0
Pound sterling	0.0984
U.S. dollar	0.577

As of April 30, 2003, one SDR was equal to 1.38391 U.S. dollars (one SDR was equal to 1.26771 U.S. dollars as of April 30, 2002).

Transactions and operations of the accounts are denominated in SDRs. Contributions denominated in other currencies are converted into SDRs upon receipt of the funds.

Revenue and Expense Recognition

The accounts are maintained on the accrual basis; accordingly, income is recognized as it is earned and expenses are recorded as they are incurred.

Cash and Cash Equivalents

Cash and cash equivalents include short-term deposits with a maturity of less than ninety days. These deposits are denominated in SDRs or other currencies and are carried at cost not exceeding market value. Interest on these instruments varies and is based on prevailing market rates.

Contributions

Bilateral contributions are reflected as increases in resources after the achievement of specified conditions and are subject to bilateral agreements stipulating how the resources are to be used.

Payments to and on Behalf of Beneficiaries

Payments to and on behalf of beneficiaries are recognized when the specified conditions in the respective agreements are achieved.

Transfers

Internal transfers of resources within the IMF are accounted for under the accrual method of accounting.

Foreign Currency Translation

Foreign currency transactions are recorded at the rate of exchange on the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are reported using the closing exchange rates. Exchange differences arising from the settlement of transaction at rates different from those at the date of the transaction and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities are included in the determination of net income.

Administrative Expenses

The expenses of conducting the activities of the Other Administered Accounts and the Trust Fund are incurred and borne by the General Department of the IMF. To help defray the expenses incurred by the IMF in the administration of the Administered Account for Selected Fund Activities—Japan and the Framework Administered Account for Technical Assistance Activities, reimbursement equal to 13 percent of the expenses financed from the accounts is paid to the IMF from these accounts. The Administered Account—Spain pays the IMF an annual fee of $40,000 for administrative costs incurred. As at April 30, 2003 the administrative costs for the Administered Account for Selected Fund Activities—Japan amounted to $2.1 million ($2.1 million at April 30, 2002), and for the Framework Administered Account for Technical Assistance Activities $1.0 million ($0.5 million at April 30, 2002). These amounts are included in payments to and on behalf of beneficiaries on the income statements and changes in resources.

Comparatives

When necessary, comparative figures have been reclassified to conform with changes in the presentation of the current year.

3. Cumulative Contributions and Disbursements

The cumulative contributions to and disbursements from these administered accounts are as follows:

Account	April 30, 2003 Cumulative Contributions	April 30, 2003 Cumulative Disbursements[1]	April 30, 2002 Cumulative Contributions	April 30, 2002 Cumulative Disbursements[1]
	In millions of U.S. dollars			
Administered Account Japan	135.2	72.5	135.2	72.5
Administered Account for Selected Fund Activities—Japan	204.1	186.3	178.5	165.1
Technical Assistance	184.4	169.8	162.8	150.5
Scholarships	13.0	11.2	10.3	9.3
Office of Asia and Pacific	6.7	5.3	5.4	5.3
Framework Administered Account for Technical Assistance Activities	42.1	28.7	27.3	20.0
Subaccount for Japan Advanced Scholarship Program	10.2	8.8	8.7	7.2
Rwanda—Macroeconomic Management Capacity Subaccount	1.5	1.6	1.5	1.6
Australia—IMF Scholarship Program for Asia Subaccount	2.2	2.2	2.0	1.9
Switzerland Technical Assistance Subaccount	9.5	8.1	8.3	6.8
French Technical Assistance Subaccount	0.8	0.5	0.7	0.5
Denmark Technical Assistance Subaccount	2.7	1.1	0.5	0.5
Australia Technical Assistance Subaccount	0.3	—	0.3	—
The Netherlands Technical Assistance Subaccount	2.6	2.0	1.8	1.1
The United Kingdom DFID Technical Assistance Subaccount	3.4	2.9	1.7	0.6
Italy Technical Assistance Subaccount	1.8	0.1	1.8	—
Pacific Financial Technical Assistance Centre Subaccount	1.1	0.8	—	—
Africa Regional Technical Assistance Centers Subaccount	4.9	0.6	—	—
Sweden Technical Assistance Subaccount	1.1	—	—	—
Administered Account—Spain	835.5	835.6	835.5	835.6
	In millions of SDRs			
The Post-Conflict Emergency Assistance Subsidy Account	6.8	1.4	1.4	0.8

[1]Disbursements had been made from resources contributed to these accounts as well as from interest earned on these resources.

4. Transfer of Resources

Resources of the Supplementary Financing Facility Subsidy Account in excess of the remaining subsidy payments are to be transferred to the Special Disbursement Account. At April 30, 2003 and 2002, subsidy payments totaling SDR 2.2 million had not been made to Liberia and Sudan and were being held pending the payment of overdue charges by these members.

5. Accounts Termination

Administered Account Japan

The account can be terminated by the IMF or by Japan. Any remaining resources in the account at termination are to be returned to Japan.

Administered Account for Selected Fund Activities—Japan

The account can be terminated by the IMF or by Japan. Any resources that may remain in the account at termination, net of accrued liabilities under technical assistance projects or in respect of the OAP, are to be returned to Japan.

Framework Administered Account for Technical Assistance Activities

The Framework Account or any subaccount thereof may be terminated by the IMF at any time. The termination of the Framework Account shall terminate each subaccount thereof. A subaccount may also be terminated by the contributor of the resources to the subaccount. Termination shall be effective on the date that the IMF or the contributor, as the case may be, receives notice of termination. Any balances, net of the continuing liabilities and commitments under the activities financed, that may remain in a subaccount upon its termination are to be returned to the contributor.

Administered Account—Spain

The account will be terminated when Argentina repays all the resources that were distributed, or at an earlier time as agreed between Spain and the IMF. Any remaining resources in the account at termination are to be returned to Spain.

The Post-Conflict Emergency Assistance Subsidy Account

The account can be terminated by the IMF at any time. Any remaining balances after discharge of all obligations of the account upon the account's termination are to be returned to the contributors in proportion to their contributions.

Frequently Used Abbreviations

AfDB	African Development Bank
AFRITAC	Africa Regional Technical Assistance Center
AMF	Arab Monetary Fund
AML/CFT	Anti-money laundering/combating the financing of terrorism
APEC	Asia-Pacific Economic Cooperation
AsDB	Asian Development Bank
ASEAN	Association of South East Asian Nations
BCEAO	Central Bank of West African States
BIS	Bank for International Settlements
CAC	Collective action clause
CAEMC	Central African Economic and Monetary Committee
CAP	Common Agricultural Policy (of the EU)
CARTAC	Caribbean Regional Technical Assistance Center
CCL	Contingent Credit Line
CET	Common external tariff (of the WAEMU)
CFF	Compensatory Financing Facility
CIS	Commonwealth of Independent States
CIS-7	Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Tajikistan, and Uzbekistan
CMCG	Capital Markets Consultative Group
COBAC	Central African Banking Commission
DSBB	Data Standards Bulletin Board
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
ECCB	Eastern Caribbean Central Bank
ECOSOC	UN Economic and Social Council
ECOWAS	Economic Community of West African States
ECU	European currency unit
EFF	Extended Fund Facility
EMS	European Monetary System
EMU	European Economic and Monetary Union
ERM	Exchange rate mechanism (of the EMS)
ESAF	Enhanced Structural Adjustment Facility
EU	European Union
FATF	Financial Action Task Force
FCC	Forward commitment capacity
FDI	Foreign direct investment
FSAP	Financial Sector Assessment Program
FSF	Financial Stability Forum
FSLC	Financial Sector Liaison Committee
FSRB	FATF-style regional body
FSSA	Financial System Stability Assessment
FY	Financial year
GAB	General Arrangements to Borrow
GDDS	General Data Dissemination System
GDP	Gross domestic product
GFSR	*Global Financial Stability Report* (of the IMF)
GNP	Gross national product
GRA	General Resources Account
HIPC	Heavily Indebted Poor Countries
HIV/AIDS	Human immunodeficiency virus/acquired immunodeficiency syndrome
IDA	International Development Association
IDB	Inter-American Development Bank
IEO	Independent Evaluation Office (of the IMF)
IFC	International Finance Corporation
IFS	*International Financial Statistics* (of the IMF)
ILO	International Labor Organization
IMFC	International Monetary and Financial Committee
I-PRSP	Interim Poverty Reduction Strategy Paper
LOI	Letter of Intent
MDG	Millennium Development Goal
NAB	New Arrangements to Borrow
NEPAD	New Partnership for Africa's Development
NPV	Net present value
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
PFTAC	Pacific Financial Technical Assistance Center
PIN	Public Information Notice
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PSIA	Poverty and social impact analysis
ROSC	Report on the Observance of Standards and Codes
SAF	Structural Adjustment Facility
SARS	Severe acute respiratory syndrome
SCA-1	Special Contingent Account
SDDS	Special Data Dissemination Standard
SDR	Special drawing right
SDRM	Sovereign debt restructuring mechanism
SGP	Stability and Growth Pact (of the EU)
SMP	Staff-monitored program
S&P	Standard and Poor's
SRF	Supplemental Reserve Facility
STF	Systemic Transformation Facility
UN	United Nations
UNDP	United Nations Development Program
VAT	Value-added tax
WAEMU	West African Economic and Monetary Union
WTO	World Trade Organization