

IMF

INTERNATIONAL MONETARY FUND

ANNUAL REPORT 2011

PURSUING EQUITABLE
AND BALANCED GROWTH



THE INTERNATIONAL MONETARY FUND

The IMF is the world's central organization for international monetary cooperation. With 187 member countries, it is an organization in which almost all of the countries in the world work together to promote the common good. The IMF's primary purpose is to safeguard the stability of the international monetary system—the system of exchange rates and international payments that enables countries (and their citizens) to buy goods and services from one another. This is essential for achieving sustainable economic growth and raising living standards.

All of the IMF's member countries are represented on its Executive Board, which discusses the national, regional, and global consequences of each member's economic policies. This Annual Report covers the activities of the Executive Board and Fund management and staff during the financial year May 1, 2010, through April 30, 2011.

The main activities of the IMF include

- providing advice to members on adopting policies that can help them prevent or resolve a financial crisis, achieve macroeconomic stability, accelerate economic growth, and alleviate poverty;
- making financing temporarily available to member countries to help them address balance of payments problems, that is, when they find themselves short of foreign exchange because their payments to other countries exceed their foreign exchange earnings; and
- offering technical assistance and training to countries at their request, to help them build the expertise and institutions they need to implement sound economic policies.

The IMF is headquartered in Washington, D.C., and, reflecting its global reach and close ties with its members, also has offices around the world.

Additional information on the IMF and its member countries can be found on the Fund's website, www.imf.org.

Ancillary materials for the Annual Report—Web Boxes, Web Tables, Appendixes (including the IMF's financial statements for the financial year ended April 30, 2011), and other pertinent documents—can be accessed via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2011/eng. Print copies of the financial statements are available from IMF Publication Services, P.O. Box 92780, Washington, DC 20090. A CD-ROM version of the Annual Report, including the ancillary materials posted on the web page, is also available from IMF Publication Services.

IMF

INTERNATIONAL MONETARY FUND

ANNUAL REPORT 2011
PURSUING EQUITABLE
AND BALANCED GROWTH

CONTENTS

MESSAGE FROM THE MANAGING DIRECTOR AND CHAIR OF THE EXECUTIVE BOARD	4	4 REFORMING AND STRENGTHENING THE IMF TO BETTER SUPPORT MEMBER COUNTRIES	35
LETTER OF TRANSMITTAL TO THE BOARD OF GOVERNORS	6	Quota, Governance, and Mandate Reforms	37
1 OVERVIEW	7	Quota, voice, and governance	37
A Multispeed Global Recovery	2	Modernizing the Fund's mandate	38
Policies to Secure Sustained and Balanced Global Growth	2	Membership, Board, and Institutional Activities	38
Reforming and Strengthening the IMF to Better Support Member Countries	2	Membership	38
Finances, Organization, and Accountability	10	Executive Board	39
2 DEVELOPMENTS IN THE GLOBAL ECONOMY AND FINANCIAL MARKETS	11	IMFC Chairmanship	39
An Unbalanced Recovery	13	Passing of Alternate Governor Moeketsi Senaoana	40
Old and New Challenges	14	Annual and Spring Meetings revamp	40
3 POLICIES TO SECURE SUSTAINED AND BALANCED GLOBAL GROWTH	15	Building Capacity in Member Countries	40
Securing Balanced Growth and a Stronger, More Sustainable Global Economy	17	Technical assistance	40
Modernizing the Fund's surveillance	17	Training	44
Financial support for IMF member countries	18	Data and Data Standards Initiatives	45
Collaboration with other organizations	25	The IMF's standards for data dissemination	45
Promoting the Functioning and Stability of the International Monetary System	26	Interim report for the Eighth Review of the Fund's Data Standards Initiatives	46
Capital flows	26	5 FINANCES, ORGANIZATION, AND ACCOUNTABILITY	47
International reserves	27	Budget and Income	49
Special Drawing Rights	27	Quota increases	49
Building a More Robust Global Financial System	29	Expansion and activation of New Arrangements to Borrow	49
Integrating financial stability assessments into Article IV surveillance	29	Bilateral borrowing agreements	49
Macprudential policy: An organizing framework	30	Adequacy of the Fund's precautionary balances	50
Central banking lessons from the crisis	30	Income, charges, remuneration, and burden sharing	50
Cross-border bank resolution	30	Administrative and capital budgets	52
Financial interconnectedness	31	Arrears to the IMF	52
Financial sector contribution to crisis costs	31	Audit mechanisms	52
Review of the Standards and Codes Initiative	31	Risk management	55
Supporting Growth and Stability in Low-Income Countries	32	Human Resources Policies and Organization	56
Macroeconomic challenges facing low-income countries	33	Human resources in FY2011	56
Vulnerability Exercise for low-income countries	33	Management changes	57
Revenue mobilization in developing countries	34	Passing of Tommaso Padoa-Schioppa	57
		Accountability	58
		Transparency policy	58
		Independent Evaluation Office	58
		Engagement with external stakeholders	60
		EXECUTIVE DIRECTORS AND ALTERNATES	62
		SENIOR OFFICERS	63
		IMF ORGANIZATION CHART	64
		NOTES	65

BOXES

3.1. Post-Catastrophe Debt Relief Trust	25
3.2. Mandatory financial stability assessments	29
3.3. Liberia achieves long-term debt sustainability	33
4.1. A half-century of Fund service: A. Shakour Shaalan	40
4.2. Evaluating the effectiveness of IMF Institute training	45
4.3. Data and statistics activities in FY2011	46
5.1. Major building repairs at IMF headquarters	54
5.2. Tommaso Padoa-Schioppa	59
5.3. The IEO report's recommendations and the staff's response	60

FIGURES

3.1. Arrangements approved during financial years ended April 30, 2002–11	22
3.2. Regular loans outstanding, FY2002–11	22
3.3. Concessional loans outstanding, FY2002–11	24
4.1. TA delivery by subjects and topics	41
4.2. TA delivery during FY2011 by subjects and regions	42
4.3. TA delivery by income group	42
4.4. TA by country status	42
4.5. TA delivery by the IMF	44

TABLES

3.1. IMF financing facilities	20
3.2. Arrangements under main facilities approved in FY2011	23
3.3. Arrangements approved and augmented under the Poverty Reduction and Growth Trust in FY2011	24
5.1. Administrative budget by major expenditure category, FY2009–14	53
5.2. Medium-term capital expenditure, FY2009–14	53
5.3. Administrative expenses reported in the financial statements	53
5.4. Budgeted expenditures shares by responsibility area, FY2010–14	54
5.5. Arrears to the IMF of countries with obligations overdue by six months or more and by type	54

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

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. On April 30, 2011, the SDR/U.S. dollar exchange rate was US\$1 = SDR 0.616919, and the U.S. dollar/SDR exchange rate was SDR 1 = US\$1.62096. The year-earlier rates (April 30, 2010) were US\$1 = SDR 0.661762 and SDR 1 = US\$1.51112.

"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 *Annual 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.

MESSAGE FROM THE MANAGING DIRECTOR AND CHAIR OF THE EXECUTIVE BOARD



Christine Lagarde,
IMF Managing Director and
Chair of the Executive Board.

Having recently joined the IMF as its new Managing Director, I am struck by how the institution has continued to enhance its relevance over the past year—building on the important changes that had already taken place in the wake of the crisis. The Fund moved ahead on a wide range of fronts, reflecting the evolving demands of the global economy and the changing needs of its members.

We continue to live in testing times. While the global recovery continued in FY2011, it remained multispeed. This has been the source of some tensions. In advanced economies, a slow recovery has left unemployment painfully high. In many emerging economies, a rapid recovery has raised the risks of overheating. And in many developing countries, although growth has been relatively strong, the sharp rise in commodity prices has inflicted significant social hardship. This comes on top of the challenge of creating jobs—especially for the young—and addressing rising social demands for a better quality of life.

At the same time, many of the IMF's members continued to grapple with legacy issues from the crisis. Fiscal sustainability is a major challenge for many of the Fund's largest members, including Japan and the United States. Financial sector repair and reform moved ahead, but progress is still needed in a number of areas, such as developing coherent resolution mechanisms, establishing a comprehensive macroprudential framework, and ensuring that regulation and supervision capture the entire financial system. And critically, many of our members need to enhance competitiveness, to achieve the growth needed to create jobs and raise living standards.

Over the last few years, the IMF has been adapting to meet the evolving needs of its members. This continued in FY2011, with important developments in the core areas of governance, financing, and surveillance. As in previous years, the continued strengthening of the Fund reflected the excellent cooperation between the Fund's management, staff, and the Executive Board.

For the Fund to be effective, its governance must be considered legitimate. There were two important developments in FY2011. First, a major agreement on governance reform—affecting quotas and the composition of the institution's Executive Board—was reached in December 2010. And second, the 2008 quota reform, which strengthens the representation of dynamic economies in the IMF and enhances the voice and participation of low-income countries, entered into effect in March 2011.

A hallmark of the IMF is that it has continued to adapt its financing toolkit to serve its members more effectively. In 2010, the Flexible Credit Line (FCL) was enhanced to be more useful and effective in crisis prevention. In addition, a new financing tool—the Precautionary Credit Line—was introduced, and made available to a wider group of countries than the FCL. The Fund also joined forces with its European partners to provide financial support to Greece and Ireland—and Portugal as well, in May 2011. Since the crisis began, IMF financial commitments to help members weather the crisis have reached record levels, with General Resources Account credit outstanding at SDR 75.6 billion as of end-July 2011, compared with the previous peak of SDR 70 billion reached in September 2003. This shows the importance of the Fund's lending role to the membership. To better support its low-income members hit by the most catastrophic of natural disasters, the Fund established a Post-Catastrophe Debt Relief Trust, which will enable us to join rapidly international debt relief efforts in these circumstances.

Of course, while it is essential for the IMF to have an adequate financing toolkit, it is even better for it to help prevent crises in the first place. And last year, the effectiveness of IMF surveillance was enhanced in several ways. The Fund sharpened its focus on the policy implications of the growing interconnectedness between its members. It also stepped up its efforts to understand the connectedness within economies better, in particular, of macro-financial linkages. How the international monetary system might be strengthened—a task that is central to the Fund's mandate—was also a core area of work, focusing on issues including capital flows and the adequacy of international reserves.

Turning to the financial year that is already under way, our work is being guided by our members' call—at the 2010 Annual

Meetings—to continue improving the Fund's legitimacy, credibility, and effectiveness, through quota and governance reforms and by modernizing the Fund's surveillance and financing mandates.

We are working with the membership to make the 2010 governance reform package operational as soon as possible. The ongoing Triennial Surveillance Review is a critical opportunity to improve the focus and traction of IMF surveillance. Our experience with the pilot spillover reports on systemically important countries will also provide valuable input for our surveillance of interconnectedness. And on crisis intervention, we will continue exploring options to improve the global financial safety net, based on sound incentives. More broadly, we will press ahead with efforts to strengthen the international monetary system.

As I reflect on the next financial year—my first as Managing Director of the IMF—I expect the Fund to continue along its journey of enhancing its effectiveness and credibility. This institution has a critical role to play in preventing crises, and in achieving strong, stable and balanced global growth. In this regard, I would like to recognize the important contribution made by my predecessor, Dominique Strauss-Kahn. Under his leadership, the Fund moved rapidly and forcefully to support its members in the aftermath of the global financial crisis. In doing so, he set the Fund on the path of increased relevance for the future as well.

I am honored and proud to have been elected to lead the Fund, and I look forward to working closely with all our members—and with the Executive Board—to address the new and evolving challenges facing them and the global economy as a whole.

The *Annual Report* of the IMF's Executive Board to the Fund's Board of Governors is an essential instrument in the IMF's accountability. The Executive Board is responsible for conducting the Fund's business and consists of 24 Executive Directors appointed by the IMF's 187 member countries, while the Board of Governors, on which every member country is represented by a senior official, is the highest authority governing the IMF. The publication of the *Annual Report* represents the accountability of the Executive Board to the Fund's Board of Governors.

LETTER OF TRANSMITTAL TO THE BOARD OF GOVERNORS



July 29, 2011

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, 2011, 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, 2012, are presented in Chapter 5. The audited financial statements for the year ended April 30, 2011, 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 VI, which appears on the CD-ROM version of the Report, as well as at www.imf.org/external/pubs/ft/ar/2011/eng/index.htm. The external audit and financial reporting processes were overseen by the External Audit Committee, comprising Mr. Arfan Ayass, Ms. Amelia Cabal, and Mr. Ulrich Graf (Chair), as required under Section 20(c) of the Fund's By-Laws.

Christine Lagarde

Managing Director and Chair of the Executive Board

1 | OVERVIEW



BME X BOLSAS Y MERCADOS ESPAÑOLES
BOLSA de MADRID

→ IBEX 35 ↓ 9.892,40

Dif.	Dif.%
-89,10	-0,89
Volumen	
Títulos	Efectivo
57.451	539.520
Situación	
Contratando	
0	13:50



Máximo	Mínimo	Cierre Ant.	Máx.Año	Mín.Año
10.70	9.861,80	9.981,50	12.240,50	8.563

TELECINCO 8,232 ↓ -1,71% • C

1 OVERVIEW

The IMF remains central to efforts to restore the global economy to a robust and sustained growth path. The institution's work during FY2011¹ focused on providing policy advice and technical support to member countries to help achieve this goal, meeting the financing needs of countries to support their adjustment efforts, including through programs in Greece, Ireland, and Portugal (the latter in early FY2012), putting in place systems that will strengthen the institution's ability to identify and respond to global economic risks as they emerge, and working on reforms that will strengthen the international monetary system.

During the year, agreement was reached on a fundamental overhaul of the IMF's governance structure. The reforms will bring about a substantial shift in voting power toward dynamic emerging market and developing countries, while protecting the voice of the poorest member countries, and enhance the IMF's legitimacy and effectiveness.



Left Fund governance was among the issues discussed at the 2010 Annual Meetings. **Right** A woman packages flowers for export at a farm in Cota, Colombia.



A MULTISPEED GLOBAL RECOVERY

The global economy has continued to recover over the past year, although growth remains uneven across countries. In many advanced countries, growth continues to be relatively weak, held back by high unemployment rates, weak financial conditions, and concerns about the fiscal and financial sector outlook. Difficulties in a number of European countries have been particularly acute. In contrast, growth in emerging markets is strong, and with inflation rising, there are growing concerns about overheating in a number of these economies.

Given the uneven nature of global growth, policy challenges differ considerably across countries. In most advanced countries, the main policy challenge is to sustain the recovery and reduce unemployment while moving forward with the required fiscal adjustment and financial sector repair and reform. For most emerging market and developing countries, there is a need to accelerate the unwinding of accommodative macroeconomic policies to avoid overheating in the face of strong economic activity, credit growth, capital inflows, and broader inflation pressures, while ensuring that the poor are protected from the effects of higher food and fuel prices. Progress also needs to be made in reducing risks to financial stability from still-large global imbalances by increasing the contribution of net exports to growth in economies with large current account deficits and, conversely, by increasing the role of domestic-demand-driven growth in economies with large current account surpluses. Continued policy cooperation between countries will be needed to secure robust and sustainable global growth. Careful policy design at the national level and coordination at the global level, important at the peak of the crisis two years ago, remain equally so today.

POLICIES TO SECURE SUSTAINED AND BALANCED GLOBAL GROWTH

During FY2011, IMF activities focused on providing the financial and other support that member countries needed to deal with the lingering effects of the global crisis and identifying and promoting the implementation of policies that will secure sustained and balanced growth in the world economy going forward.

Demand for Fund resources remained high during the year, with 30 financing arrangements or augmentations of existing arrangements approved by the Executive Board. High-profile programs with Greece and Ireland, in conjunction with partners in Europe, supported economic reforms to secure sustainable public sector finances so that growth and jobs can be restored. The Greek program aims to boost competitiveness, while Ireland's program focuses on restoring financial sector stability. Both programs are designed so that the adjustment burden is shared and the most vulnerable groups are protected. During the year, Flexible Credit Lines (FCLs) were approved for Colombia, Mexico, and Poland, as was a Precautionary Credit Line (PCL) for Macedonia, while 17 low-income countries had programs approved or augmented with support from the Poverty Reduction and Growth Trust.

The IMF also intensified its policy dialogue with countries in the Middle East/North Africa region—notably Egypt and Tunisia—to assist governments in managing the economic challenges arising from the political developments of the Arab Spring. Additionally, a review of safeguards assessments of central banks affirmed the continued effectiveness of these assessments in maintaining the Fund's reputation as a prudent lender.

Further steps were also taken to strengthen the IMF's surveillance activities. For example, agreement was reached to strengthen work on "spillovers"—the situation in which economic developments or policy actions in one country affect other countries—by producing pilot "spillover reports" for the five most systemically important economies or economic regions (China, the euro area, Japan, the United Kingdom, and the United States). The aim of this exercise is to improve the IMF's understanding of the interconnected nature of the world economy, in order to support better policy collaboration at the global level. Greater focus was also placed on financial sector surveillance and macrofinancial linkages. Agreement was reached to make financial stability assessments under the Financial Sector Assessment Program (FSAP) mandatory for countries with systemically important financial sectors and to integrate financial stability assessments more fully into the Fund's surveillance of member countries. The IMF continued its semiannual Early Warning Exercises, which are undertaken in cooperation with the Financial Stability Board, to examine unlikely but plausible risks that could have an impact on the global economy. It also continued its support of the Group of Twenty's (G-20's) Mutual Assessment Process (MAP) and is coordinating work at the international level to address data gaps highlighted by the global crisis. Additionally, an analytical framework was introduced for assessing the vulnerabilities of low-income countries to global shocks.

A considerable amount of work was undertaken during the year to strengthen the functioning and stability of the international monetary system. Although the system proved resilient to the crisis, tensions—seen through large global imbalances, volatile capital flows and exchange rate movements, and large reserve accumulation—remain a concern. During the year, the IMF looked at policies to manage capital flows, how to assess the adequacy of international reserves held by countries, and the potential contribution that the IMF's Special Drawing Rights (SDRs) could make to improving the long-term functioning of the international monetary system.

REFORMING AND STRENGTHENING THE IMF TO BETTER SUPPORT MEMBER COUNTRIES

A fundamental overhaul of the IMF's governance structure was agreed upon in December 2010. Quota reforms and changes to the composition of the institution's Executive Board will enhance the Fund's credibility and effectiveness by making its governance structures more reflective of today's global reality. The quota reforms, built on those initiated in 2008, will double quotas to

approximately SDR 476.8 billion (about US\$773 billion), shift quota shares by over 6 percentage points toward dynamic emerging market and developing countries, and protect the quota shares and voting power of the poorest members. With this shift, Brazil, the Russian Federation, India, and China (the so-called BRIC countries) will be among the Fund's 10 largest shareholders. Proposed reforms to alter the structure and composition of the IMF's Executive Board, whose strength is vital to the institution's effective functioning, include moving to an all-elected Board and reducing the combined Board representation of advanced European members by two chairs. The proposed quota increases and the amendment to the Fund's Articles of Agreement required to enact the reform of the Executive Board must now be accepted by the membership, which in many cases involves parliamentary approval. Members have been asked to complete ratification by the 2012 Annual Meetings.

In March 2011, members of the International Monetary and Financial Committee (IMFC) selected Tharman Shanmugaratnam, Minister for Finance and Deputy Prime Minister of Singapore, as Chairman of the Committee for a term of up to three years. Minister Tharman succeeded Youssef Boutros-Ghali, Egypt's former Minister of Finance, who resigned the previous month.

The IMF continued to reform its financing toolkit during FY2011. The Flexible Credit Line, created in March 2009, was refined to be more useful and effective in crisis prevention. A new Precautionary Credit Line was introduced and made available to a wider group of countries than the FCL, and a Post-Catastrophe Debt Relief (PCDR) Trust was established to allow the Fund to join international debt relief efforts when poor countries are hit by the most catastrophic of natural disasters.

Technical assistance delivery remained at a high level in FY2011 and continued to focus on helping countries recover from the aftermath of the global financial crisis and strengthening policy frameworks to support sustained growth. New partnerships with donors were formed during the year to ensure sufficient resources to meet the continued heavy demand for technical assistance. To ensure that they respond to the priorities and meet the needs of member countries, IMF training courses continued to be evaluated and adapted. During FY2011 additional training was offered on macroeconomic diagnostics and financial sector issues.

FINANCES, ORGANIZATION, AND ACCOUNTABILITY

Substantial steps were taken in FY2011 to strengthen the resources available to the IMF and meet the potential financing needs of its member countries. In addition to the quota agreement mentioned in the previous section, the 2008 quota reform, which provides for

ad hoc quota increases for 54 members totaling SDR 20.8 billion, entered into effect in March 2011. The IMF also negotiated a significant expansion of its standing arrangements to borrow from member countries through the New Arrangements to Borrow (NAB), which became effective in March 2011. The expansion will initially increase the NAB more than tenfold to SDR 367.5 billion (about US\$596 billion), although the NAB will be correspondingly scaled back once the new quota resources become available.

As part of the revised income model for the IMF approved in 2008, it was agreed that a limited portion of the IMF's gold holdings would be sold and used to fund an endowment to generate returns to provide support for the Fund's ongoing budget. In July 2009, the Executive Board decided that in addition to funding this endowment, part of the gold sale proceeds would be used to increase resources available for concessional lending. The gold sales were completed—through both on- and off-market transactions—in December 2010.

Several key changes in the Fund's management took place during the year or early in FY2012. Dominique Strauss-Kahn resigned as Managing Director in May 2011, and the Executive Board initiated the selection process for the next Managing Director, which was completed in June 2011, with the naming of Christine Lagarde as the Fund's new Managing Director. Also, Deputy Managing Director Murilo Portugal left the Fund in March 2011 and was replaced by Nemat Shafik.

In the area of human resources management, efforts continued during the year to recruit and retain the high-caliber, diverse staff that is essential to the institution's success. A strong recruitment drive and the implementation of a number of important human resources policy reforms—including the introduction of a new system for salary adjustments, changes to the Medical Benefits Plan, and a new compensation and benefits program for locally hired staff in overseas offices—helped move toward these objectives during the year.

IMF efforts to explain its work to external audiences and strengthen engagement with the membership were stepped up during FY2011. A major conference that discussed Asia's role in the global economy ("Asia 21: Leading the Way Forward") was held in Daejeon, Korea, with more than 500 high-level participants. Meetings continued with the existing Regional Advisory Groups for Asia and the Pacific, Europe, the Middle East, Sub-Saharan Africa, and the Western Hemisphere (and a new group was formed during the year for the Caucasus and Central Asia), and a joint meeting of these advisory groups was held at the October 2010 Annual Meetings. The IMF also broadened its interactions with trade unions, including through a conference in Oslo, "The Challenges of Growth, Employment, and Social Cohesion," sponsored jointly with the International Labor Organization.

2 | DEVELOPMENTS IN THE GLOBAL ECONOMY AND FINANCIAL MARKETS



2

DEVELOPMENTS IN THE GLOBAL ECONOMY AND FINANCIAL MARKETS

After suffering the first contraction since World War II in 2009, the global economy staged a strong recovery in 2010, with world GDP growing by 5 percent. However, the pace of activity remained geographically uneven, with employment lagging. Economic performance during 2010 was a tale of two halves. During the first half of the year, the recovery was driven by the rebuilding of depleted inventories, which fostered a sharp rebound in industrial production and trade. Supportive macro-economic policies also played an important role. During the second half, as the inventory cycle leveled off and fiscal consolidation loomed in many advanced economies, fears of a double-dip recession increased. In the end, reduced excess capacity, accommodative policies, and further improvements in confidence and financial conditions bolstered private demand, making the recovery more self-sustaining. Investment was in the lead, though consumption also regained strength.



Left Workers assemble an automobile at a factory in Puebla, Mexico. **Right** New construction in downtown Warsaw, Poland, against the backdrop of the Communism-era Palace of Culture.



AN UNBALANCED RECOVERY

Even as global growth strengthened, the recovery remained unbalanced across the world. In the advanced economies, growth was modest, with average growth of just 3 percent in 2010. Because growth has been slow considering the depth of the recession, output remains far below potential, and unemployment is still very high. Low growth in these countries can be traced to both precrisis excesses and crisis fallout. In many of them—especially the United States—a depressed housing market continues to weigh on investment. The crisis itself has also led to a dramatic increase in public debt, raising worries about fiscal sustainability. In some of the advanced economies, not enough has been done to strengthen banks' capital positions and reduce leverage. This has contributed to sluggish credit growth.

The problems of the European Union (EU) periphery have been particularly acute. These stem from the combined interactions of low growth, fiscal difficulties, and financial pressures. Reestablishing fiscal and financial sustainability in the face of low or negative growth and high sovereign bond and bank credit default swap (CDS) spreads is a daunting challenge. The problems of the EU periphery point to a more general problem faced by many advanced economies: low potential growth and sizable economic slack. This makes the challenge of fiscal adjustment that much greater.

In the emerging and developing economies, economic performance has been much stronger. Overall, these economies enjoyed average growth of over 7¼ percent in 2010. Growth in Asia and Latin America was very buoyant, with most economies in the region operating at or above capacity. Developing economies, particularly in sub-Saharan Africa, have also resumed fast and sustainable

growth. In the emerging economies in eastern Europe and the Commonwealth of Independent States that were hit much harder by the crisis, growth has only just begun to turn the corner.

Stronger initial fiscal and financial positions helped many emerging and developing economies recover more quickly from the crisis. These economies are also benefiting from a healthy recovery in exports and strong domestic demand buoyed by accommodative monetary and fiscal policies. Capital outflows during the crisis have turned into capital inflows in the recovery, owing to both better growth prospects and higher interest rates than in the advanced economies. At the same time, a number of emerging economies are experiencing a buildup in inflationary pressures, rapidly expanding credit, and signs of overheating.

Despite the robust global recovery, growth has not been strong enough to make a major dent in aggregate unemployment. As of April 2011, the International Labor Organization estimated that some 205 million people worldwide were still looking for jobs—up by about 30 million since 2007. The increase in unemployment has been especially severe in advanced economies. In many emerging and developing economies, particularly in the Middle East and North Africa, high youth unemployment is a special concern.

Turning to financial conditions, 2010 was a year of improvement—although conditions remain unusually fragile. Global financial stability was bolstered by better macroeconomic performance and continued accommodative macroeconomic policies. However, despite the transfer of risks from the private to the public sector during the crisis, confidence in the banking systems of many advanced economies has not been restored. In some countries, particularly in the euro area, this continues to interact adversely with sovereign risks.

Looking ahead, the global recovery is expected to continue at a moderate pace. The April 2011 *World Economic Outlook* forecast global growth of about 4½ percent in 2011 and 2012, a little slower than in 2010. The multispeed recovery is likely to continue, with growth averaging about 2½ percent in advanced economies and about 6½ percent in emerging and developing economies.

Risks to the outlook remain on the downside. In advanced economies, weak sovereign and financial sector balance sheets and still-moribund real estate markets continue to present major concerns. Financial risks are also on the downside as a result of the high funding requirements of banks and sovereigns, especially in certain euro area economies.

New downside risks have also been building. These include commodity prices—notably for oil—and related geopolitical uncertainty. Overheating and booming asset markets in emerging market economies are another source of downside risks. However, there is also the potential for upside surprises in regard to growth in the short term, owing to strong corporate balance sheets in advanced economies and buoyant demand in emerging and developing economies.

A combination of strong demand growth and supply shocks has driven commodity prices up faster than anticipated, raising downside risks to the recovery. However, in advanced economies, the falling share of oil in energy consumption, the disappearance of wage indexation, and the anchoring of inflation expectations suggest that the effects on growth and core inflation will be minor. In emerging and developing economies, however, sharply higher food and commodity prices pose a threat to poor households. They also present a greater risk in regard to inflation, given that spending on food and fuel accounts for a much larger share of the consumer basket in these countries. And because the credibility of monetary policy is less well established, it may be more difficult to keep inflation expectations in check. However, growth prospects are good in most low-income countries despite these downside risks.

OLD AND NEW CHALLENGES

In the year ahead, policymakers will still be dealing with challenges stemming from the crisis, even as new ones come to the fore. In advanced economies, the challenge is how best to sustain the recovery while pressing ahead with critical fiscal adjustment and financial sector repair and reform. Monetary policy should remain accommodative as long as output remains below potential and inflation expectations are well anchored. Countries also should adopt “smart” or growth-friendly fiscal consolidation: neither too fast, which could stop growth, nor too slow, which would undermine credibility. The focus should be on reforms to promote growth that place public debt on a sustainable track over the medium term. In the financial sphere, the redesign of financial regulation and supervision remains a pressing issue, as does increasing clarity on banks’ balance sheet exposures and prepar-

ing recapitalization plans, if needed. Finally, an increased focus on reforms to boost potential growth is required in many advanced economies, but especially in Europe.

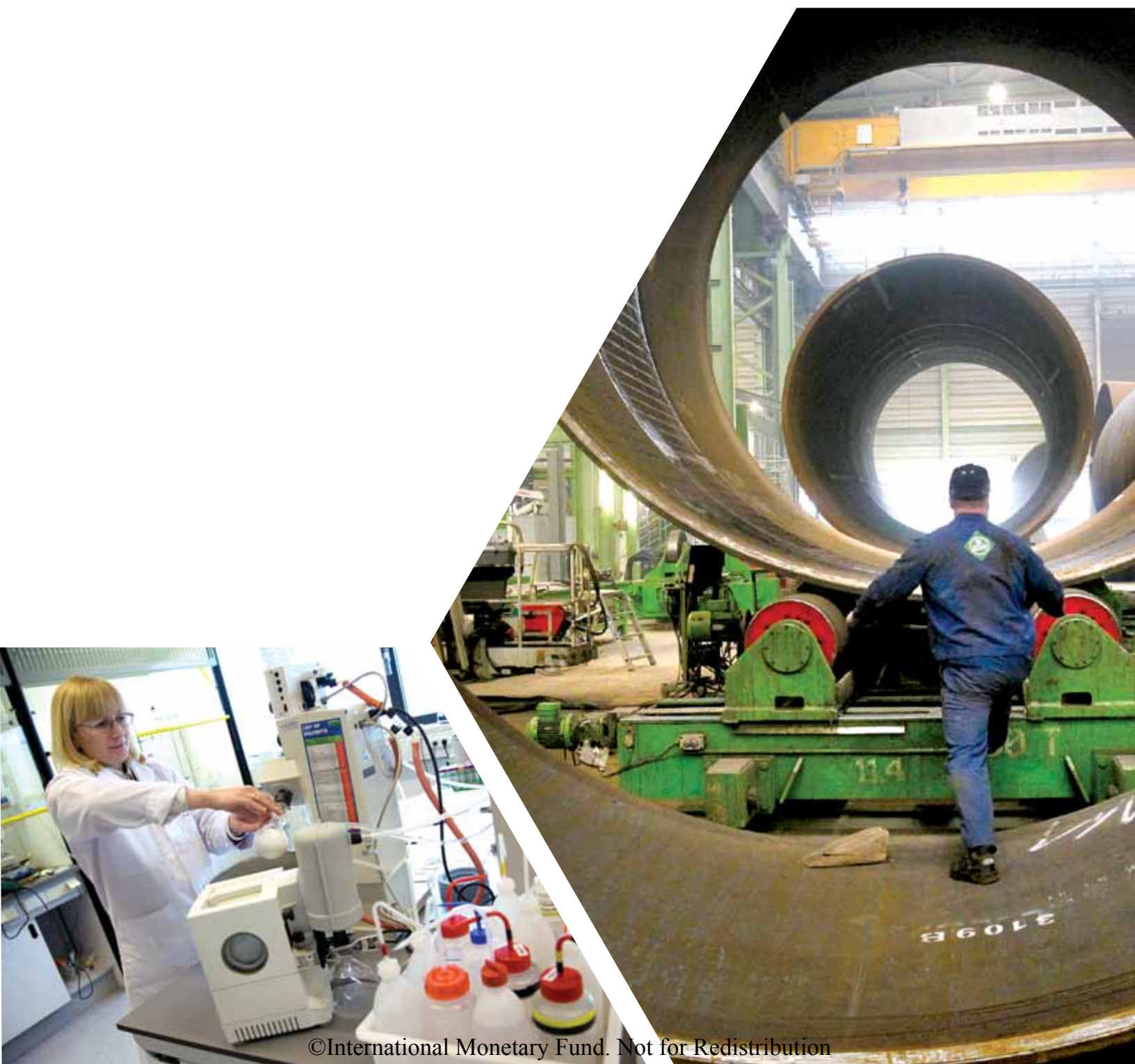
Action is also needed to bring down high unemployment, which poses risks to social cohesion. Accelerating bank restructuring and recapitalization to relaunch credit to small and medium-sized firms, which account for the bulk of employment, would help. Temporary employment subsidies targeted at these firms might also be useful to support job creation. Where unemployment has increased for structural reasons or was high even before the crisis, broader labor and product market reforms are essential to create more jobs.

For most emerging market economies, the challenge is how to avoid overheating in the face of closing output gaps and higher capital flows. Macroeconomic policies are appropriate tools to deal with surging capital inflows—namely, allowing the currency to appreciate, accumulating more reserves, and adjusting monetary and fiscal policy to maintain output at potential. Capital flow management measures—which encompass a range of taxes, certain prudential measures, and capital controls—are also part of the toolkit. But such measures should not be a substitute for necessary macroeconomic policy adjustment. Countries are often tempted to resist the exchange rate appreciation that is likely to come with higher interest rates and higher inflows. But appreciation increases real income and is part of the desirable adjustment in countries with large current account surpluses, and should not be resisted.

Securing robust and sustainable global growth will require continued policy cooperation across the world. In the advanced economies, fiscal consolidation must be achieved. To do this *and* to maintain growth, these economies need to rely more on external demand. Symmetrically, emerging market economies must rely less on external demand and more on domestic demand. Appreciation of emerging market economies’ currencies relative to those of advanced economies is an important key to this global adjustment, as is increasing the pace of structural reforms to boost the role of domestic consumption and investment. The need for careful design at the national level and coordination at the global level may be as important today as at the peak of the crisis two years ago.

Advancing the financial sector reform agenda remains crucial to sustaining the recovery. Countries in which banking systems are still struggling will need to enhance transparency (including through more consistent, rigorous, and realistic stress tests) and recapitalize, restructure, and (if necessary) close weak institutions. Addressing risks posed by systemically important financial institutions will remain an ongoing concern. And as countries transition to a new and more-demanding regulatory regime, banks will need larger capital buffers and strengthened balance sheets. Without these longer-term financial sector reforms, short-term funding difficulties will continue to present serious risks of another systemic liquidity event.

3 | POLICIES TO SECURE SUSTAINED AND BALANCED GLOBAL GROWTH



3

POLICIES TO SECURE SUSTAINED AND BALANCED GLOBAL GROWTH

As the recovery from the global economic crisis continued at varying speeds and in varying modes across the globe in FY2011, the IMF's efforts were directed toward identifying and promoting the implementation of policies that would secure sustained and balanced growth in the world economy and continuing to offer financial and other support to member countries suffering from the crisis's lingering effects.

Demand for Fund resources remained high, with 30 arrangements (13 nonconcessional, 17 concessional) approved during the year; of the total nonconcessional financing of SDR 142.2 billion, more than half (SDR 82.5 billion) was under FCLs for Colombia, Mexico, and Poland, and another SDR 45.9 billion went to support Greece and Ireland. Support for low-income countries also continued at a high level, with concessional financing during the year totaling SDR 1.1 billion. While attending to countries' immediate financing needs, the IMF

- continued to expand its financing toolkit in forward-looking ways, instituting the PCL, which, like the successful FCL, relies on prequalification but also on ex post conditionality and may be available to a wider group of countries, and by establishing a Post-Catastrophe Debt Relief Trust to enable it to offer additional support to member countries afflicted by the worst disasters.
- enhanced work in its core area of surveillance, focusing on a review of the institution's surveillance mandate, as well as the modalities under which surveillance is conducted, and assigning priority to promoting the functioning and stability of the international monetary system, with Executive Board and staff work regarding capital flows, reserves, and the role of the SDR in enhancing international monetary stability.
- considered a broad spectrum of issues involved in strengthening the global financial architecture, brought to the fore by the crucial role played by the financial sector in the recent crisis.
- focused on issues facing the Fund's low-income members, with Board discussions on macroeconomic challenges and enhancing domestic revenues, along with the introduction of the analytical framework for a Vulnerability Exercise aimed at assessing risks posed to these countries by changes in the global economy.

SECURING BALANCED GROWTH AND A STRONGER, MORE SUSTAINABLE GLOBAL ECONOMY

The multispeed nature of the recovery from the global crisis, along with residual issues in a number of countries (slow employment growth, high indebtedness, financial sector fragilities), presented persistent challenges for the global economy in FY2011. During the year, the IMF supported efforts to build a strong and sustainable recovery, based on a more-balanced pattern of global growth, continued its financial support for member countries, and made additions to the IMF's toolkit for providing such support.

Modernizing the Fund's surveillance

Under its Articles of Agreement (the institution's charter), the IMF is responsible for overseeing the international monetary system and monitoring the economic and financial policies of its 187 member countries, an activity known as surveillance. As part of the process, which takes place at the global level, at the regional level, and in individual countries, the IMF highlights possible risks to domestic and external stability and advises on the necessary policy adjustments.² In this way, it helps the international monetary system serve its essential purpose of facilitating the exchange of goods, services, and capital among countries, thereby sustaining sound economic growth.

In September 2010, as a follow-up to several previous discussions, the Executive Board met for a discussion on how best to modernize the mandate and modalities of IMF economic surveillance in the aftermath of the global crisis.³ Executive Directors agreed that there was scope for strengthening the Fund's multilateral surveillance by increasing the synergies among various products.

Most Executive Directors supported staff proposals to enhance integration of the Fund's multilateral macrofinancial analysis in the *World Economic Outlook* (WEO) and *Global Financial Stability Report* (GFSR), and to prepare a short stand-alone document with the main policy messages from these and related surveillance products, including the *Fiscal Monitor* (FM). Noting that past surveillance reviews had called for better coverage of outward spillovers, Executive Directors agreed that the Fund should strengthen its spillover analysis. Many supported the proposed experimentation with "spillover reports" for systemic economies;⁴ in this context, staff were directed to provide further clarification on the expectations, process, and logistics for such reports.

Executive Directors emphasized the importance of enhancing the traction of IMF surveillance, while acknowledging that traction is complex to define and measure. They urged the continuation of efforts to improve traction in both policy action and policy debate. Most supported staff proposals to simplify and improve the flexibility of the rules applicable to Article IV consultation cycles.

In the near and medium terms, three priority areas for IMF surveillance have been identified: (1) pursuing growth consistent

with macrofinancial stability and job creation, (2) reforming the international monetary system and rebalancing external demand, and (3) continuing to adapt IMF support to low-income members. These priority areas reflect awareness more broadly of the need to enhance—indeed transform—surveillance of the global economy to help policymakers be ahead of the curve.

Bilateral surveillance

The centerpiece of the IMF's bilateral (or individual-country) surveillance is the Article IV consultation (see Web Box 3.1), normally held every year with each member of the Fund in accordance with Article IV of the Fund's Articles of Agreement. The IMF conducts a thorough assessment of relevant economic and financial developments, prospects, and policies for each of its members, and provides candid policy advice based on its analysis. A total of 127 Article IV consultations were completed during FY2011 (see Web Table 3.1). In the vast majority of cases, the staff report and other analysis accompanying the consultation are also published on the IMF's website.

The IMF's Executive Board reviews the implementation of the Fund's bilateral surveillance every three years. Since the last Triennial Surveillance Review in 2008, the Fund has assisted members in addressing the repercussions of the global financial crisis while also tackling gaps in its surveillance framework that the crisis revealed. In March 2011, the Executive Board held an informal discussion in preparation for the next Triennial Surveillance Review, which was expected to be completed in September 2011.

Multilateral surveillance

The IMF's Articles of Agreement require the Fund to "oversee the international monetary system in order to ensure its effective operation." To carry out this function, known as "multilateral surveillance," the IMF continuously reviews global economic trends. Its key instruments of multilateral surveillance are three semiannual publications, the WEO, the GFSR, and the FM. These publications, along with the five *Regional Economic Outlook* reports (see "Engagement with External Stakeholders" in Chapter 5), constitute the IMF's World Economic and Financial Surveys, and aid the Fund in its examination of economic and financial developments among the membership. Interim updates for the WEO, GFSR, and FM are issued twice a year.

The WEO provides detailed analysis of the state of the world economy and evaluates economic prospects and policy challenges at the global and regional levels. It also offers in-depth analysis of issues of pressing interest. The October 2010 WEO focused on recovery, risk, and rebalancing, and the April 2011 edition examined tensions from the two-speed recovery, particularly in regard to unemployment, commodity prices, and capital flows. The GFSR provides an up-to-date assessment of global financial markets and prospects and addresses emerging market financing issues in a global context. Its purpose is to highlight imbalances and vulnerabilities that could pose risks to financial market stability. The topics covered in FY2011 were sovereign debt,

legacy problems in banks, and systemic liquidity (October 2010) and high debt burdens and the path to durable financial stability (April 2011). The FM surveys and analyzes the latest public finance developments, updates reporting on fiscal implications of the global economic situation and medium-term fiscal projections, and assesses policies to put public finances on a sustainable footing. The November 2010 issue of the FM considered fiscal exit, from strategy to implementation, and the April 2011 edition examined ways to tackle challenges on the road to fiscal adjustment.

A survey of the issues covered in the WEO, GFSR, and FM in FY2011 is presented in Chapter 2.

Financial sector surveillance

The global financial crisis highlighted the need for deeper analysis of linkages between the real economy and the financial sector, resulting in greater emphasis on integrating financial sector issues into the IMF's surveillance activities. Financial sector issues are receiving greater coverage in the Fund's bilateral surveillance, building on the Financial Sector Assessment Program.⁵ Analytical tools for integrating financial sector and capital markets analysis into macroeconomic assessments are also being developed. In its advice to individual countries, the IMF staff tries to leverage cross-country experiences and policy lessons, drawing on the organization's unique experience as a global financial institution. The IMF's work in the area of financial sector surveillance is highlighted in "Building a More Robust Global Financial System" later in the chapter.

Spillover reports

As mentioned previously, in its follow-up discussion on modernizing the Fund's surveillance mandate and modalities in September 2010, the Executive Board decided that the Fund should strengthen its analysis of spillovers, starting with "spillover reports" for systemic economies. Work was started in FY2011 on such reports for five economies/areas (China, the euro area, Japan, the United Kingdom, and the United States).

Early Warning Exercise

As part of its efforts to strengthen surveillance, especially the analysis of economic, financial, and fiscal risks, as well as cross-sectoral and cross-border spillovers, the IMF conducts semi-annual Early Warning Exercises in cooperation with the Financial Stability Board (FSB). The exercises examine risks with a low probability but a high potential impact that would result in policy recommendations that could differ from those generated under the baseline scenario presented in the WEO, GFSR, and FM. Early Warning Exercises do not attempt to predict crises, but to identify the vulnerabilities and triggers that could precipitate systemic crises, along with risk-mitigating policies, including those that would require international cooperation. Executive Board members were briefed on the results of the fall 2010 exercise at an informal seminar in late September, and the results of the spring 2011 exercise were discussed at an informal Board session in early April.

Emerging market performance during the global crisis

Following an initial evaluation of IMF financing to emerging markets in response to the crisis, in which the Board requested a broader evaluation of how these countries had coped in the crisis, the Board took up that topic in a June 2010 seminar, drawing some preliminary conclusions from emerging markets' experience.⁶ Executive Directors emphasized that for both advanced and emerging market economies alike, sound policy frameworks and continued efforts to improve economic fundamentals are the first line of defense against future shocks. They highlighted the need to strengthen vulnerability analyses and the importance of IMF surveillance and policy advice more broadly. Executive Directors acknowledged that recovery across emerging market countries had been helped by, and in turn contributed to, growth in advanced economy trading partners. They saw the risk that fast recoveries might lead to rising capital inflows, closing of output gaps, and rising inflation. Raising interest rates when policy rates in major advanced economies remained near historic lows could prompt excessive capital inflows, which could, in turn, fuel asset price bubbles. Monetary policy decisions might thus be constrained in some emerging market countries.

Revenue and expenditure policies for fiscal consolidation

In a discussion in February 2010, the Board noted that general government debt was on the rise in advanced countries, along with age-related expenditures such as health care and pensions, as well as in emerging economies. The following May, the Board returned to the topic, discussing revenue and expenditure policies for fiscal consolidation in these economies.⁷ Most Executive Directors concurred that the strategy for consolidation, particularly in advanced economies, should aim to stabilize age-related spending in relation to GDP, reduce non-age-related expenditure ratios, and increase revenues efficiently. Executive Directors underscored that the appropriate mix of measures is different for each country, though spending cuts would likely need to dominate. They expressed concern about the compliance gaps in tax systems in many countries, and the evidence of pervasive tax abuse through informality, aggressive tax planning, offshore tax abuse, fraud, and increasing tax debt as a result of the crisis and recession. They observed that recent advances in international collaboration in tax information exchange and transparency were an important step forward.

Financial support for IMF member countries

IMF financing in FY2011

Nonconcessional financing

The demand for Fund resources remained high in FY2011, and commitments continued to increase at a rapid pace. The Executive Board approved 13 nonconcessional arrangements during the year, for a gross total of SDR 142.2 billion.⁸ The two largest nonprecautionary arrangements approved in FY2011 involved euro area member countries—Greece and Ireland.



Left A worker sorts tobacco leaves to be used for cigars in Danli, Honduras. **Right** A man boils willow in a cauldron as part of the wickerworking process in Iza, Ukraine.



In May 2010, the Executive Board approved an SDR 26.4 billion (about €30 billion) three-year Stand-By Arrangement for Greece in support of the authorities' multiyear economic adjustment and reform program, whose key objectives are to boost competitiveness, strengthen financial sector stability, and secure sustainable public finances, so that growth and jobs can in time be restored. The program is designed so that the burden will be shared across all levels of society and the most vulnerable groups will be protected. The arrangement was part of a cooperative package of financing with euro area member states amounting to €110 billion. The program made SDR 4.8 billion (about €5.5 billion) immediately available to the Greek authorities, and after the third review of Greece's economic performance in March 2011, Fund disbursements under the arrangement amounted to the equivalent of SDR 12.7 billion (about €14.6 billion).

Deteriorating public deficits and debt in the wake of extraordinary official support for the country's banking sector put intense economic and financial pressures on Ireland in 2010. In December 2010 the Board approved an SDR 19.5 billion (about €22.5 billion) three-year Extended Fund Facility arrangement for the country that involved exceptional access. As in the case of Greece, the arrangement was part of a larger financing package in cooperation with the European Union, in this case amounting to €85 billion, including Ireland's own contribution. The main goal of the authorities' economic and financial program, which builds on recent efforts in the country, is to restore confidence and financial stability by restructuring and recapitalizing the banking sector, making it smaller and more resilient, and by implementing fiscal consolidation and reforms aimed at enhancing competitiveness and growth. It steps up the pace and range of measures to address financial and fiscal stability concerns, with a financial system strategy resting on twin pillars: deleveraging and reorganization, and ample capitalization. A substantial share of the total financing package, SDR 5.0 billion (about €5.8 billion), was made available

immediately after the arrangement became effective. The combined first and second reviews under the program were completed by the Board in May 2011, and an additional SDR 1.4 billion (€1.6 billion) in Fund resources was made available to the authorities.

More than half of the Fund's gross nonconcessional financing commitments for FY2011 (SDR 82.5 billion) were under the FCL arrangements for Colombia, Mexico, and Poland. In the case of Poland, two FCL arrangements were approved during the period. The first became effective in July 2010 for a period of one year and, at the authorities' request and with Board approval, was replaced in January 2011 by a new two-year FCL arrangement with a higher level of access. The FCL arrangements for Colombia and Mexico were successor arrangements that became effective in May 2010 and January 2011 for periods of one and two years, respectively.

Of the nonconcessional arrangements approved in FY2011, two were on Extended Fund Facility terms (those for Armenia and Ireland),⁹ while six were Stand-By Arrangements, three involved exceptional access (those for Greece, Ireland, and Ukraine), and two were precautionary (those for Honduras and Romania).¹⁰ In January 2011, the Executive Board approved a PCL arrangement for the former Yugoslav Republic of Macedonia—the first such arrangement since the PCL was added to the Fund's crisis prevention toolkit. There were no augmentations of previously approved nonconcessional arrangements in FY2011. In total, by end-April 2011, purchases¹¹ from the General Resources Account (GRA) reached SDR 26.6 billion, with purchases by Greece and Ireland accounting for about two-thirds of the total. Repurchases for the period amounted to SDR 2.1 billion.

Table 3.1 provides general information about the IMF's financing facilities, and Table 3.2 and Figure 3.1 detail the nonconcessional arrangements approved during the year, with Figure 3.2 offering information on nonconcessional resources outstanding over the last 10 years.

Table 3.1**IMF financing facilities**

Credit facility (year adopted)	Purpose	Conditions	Phasing and monitoring ¹
CREDIT TRANCHES AND EXTENDED FUND FACILITY³			
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.
Flexible Credit Line (2009)	Flexible instrument in the credit tranches to address all balance of payments needs, potential or actual.	Very strong ex ante macroeconomic fundamentals, economic policy framework, and policy track record.	Approved access available up front throughout the arrangement period, subject to a midterm review after one year.
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.
Precautionary Credit Line (2010)	Instrument for countries with sound fundamentals and policies.	Strong policy frameworks, external position, and market access, including financial sector soundness.	Large front-loaded access, subject to semiannual reviews.
SPECIAL FACILITIES			
Emergency Assistance	Assistance for balance of payments difficulties related to the following:		None, although post-conflict assistance can be segmented into two or more purchases.
(1) Natural disasters (1962)	Natural disasters.	Reasonable efforts to overcome balance of payments difficulties.	
(2) Post-conflict (1995)	The aftermath of civil unrest, political turmoil, or international armed conflict.	Focus on institutional and administrative capacity building to pave the way toward the upper credit tranche or Poverty Reduction and Growth Trust arrangement.	
FACILITIES FOR LOW-INCOME MEMBERS UNDER THE POVERTY REDUCTION AND GROWTH TRUST			
Extended Credit Facility (ECF) (2010) ⁵	Longer-term assistance for deep-seated balance of payments difficulties of structural nature; aims at sustained poverty-reducing growth.	Adopt 3-year ECF arrangements. ECF-supported programs are based on a Poverty Reduction Strategy Paper 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.
Standby Credit Facility (SCF) (2010)	"Stand-By Arrangement-like" to address short-term balance of payments and precautionary needs.	Adopt 12–24-month SCF arrangements. Replaces a high-access component of the Exogenous Shocks Facility (ESF) and provides support under a wide range of circumstances.	Semiannual (or occasionally quarterly) disbursements contingent on observance of performance criteria and reviews (if drawn).
Rapid Credit Facility (RCF) (2010)	Rapid assistance for urgent balance of payments needs arising from an exogenous shock or natural disaster in cases where an upper credit tranche-quality program is not needed or feasible.	No review-based program necessary or ex post conditionality. Replaced the Rapid Access Component (RAC) of the ESF and a subsidized component of Emergency Natural Disaster Assistance/Emergency Post-Conflict Assistance.	Usually in a single disbursement.

¹ Except for that which is made available through the Poverty Reduction and Growth Trust, 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. ECF, RCF, and SCF concessional lending is financed by a separate Poverty Reduction and Growth Trust.

² The *rate of charge* on funds disbursed from the General Resources Account is set at a margin over the weekly interest rate on SDRs. The rate of charge is applied to the daily balance of all outstanding GRA drawings during each IMF financial quarter. In addition, a one-time service charge of 0.5 percent is levied on each drawing of IMF resources in the GRA, other than reserve tranche drawings. An up-front commitment fee (15 basis points on committed amounts of up to 200 percent of quota; 30 basis points for amounts in excess of 200 percent and up to 1,000 percent of quota; and 60 basis points for amounts in excess of 1,000 percent of quota) applies to the amount that may be drawn during each (annual) period under a Stand-By, Flexible Credit Line, Precautionary Credit Line, or Extended Arrangement; this fee is refunded on a proportionate basis as subsequent drawings are made under the arrangement. A precautionary arrangement under the SCF is subject to an availability fee of 15 basis points per annum on the undrawn portion of amounts available during each six-month period.

Access limits ¹	Charges ²	Schedule (years)	Installments
Annual: 200% of quota; cumulative: 600% of quota.	Rate of charge plus surcharge (200 basis points on amounts above 300% of quota; additional 100 basis points when outstanding credit remains above 300% of quota for more than 3 years). ⁴	3¼–5	Quarterly
No preset limit.	Rate of charge plus surcharge (200 basis points on amounts above 300% of quota; additional 100 basis points when outstanding credit remains above 300% of quota for more than 3 years). ⁴	3¼–5	Quarterly
Annual: 200% of quota; cumulative: 600% of quota.	Rate of charge plus surcharge (200 basis points on amounts above 300% of quota; additional 100 basis points when outstanding credit remains above 300 percent of quota for more than 3 years). ⁴	4½–10	Semiannual
500% of quota available upon approval of arrangements; total of 1,000% of quota after 12 months of satisfactory progress.	Rate of charge plus surcharge (200 basis points on amounts above 300% of quota; additional 100 basis points when outstanding credit remains above 300 percent of quota for more than 3 years). ⁴	3¼–5	Quarterly
Generally limited to 25% of quota, though larger amounts of up to 50% can be made available in exceptional cases.	Rate of charge; however, the rate of charge may be subsidized to 0.25% a year, subject to resource availability.	3¼–5	Quarterly
Annual: 100% of quota; cumulative: 300% of quota.	0% (1/7/2010–end-2011)	5½–10	Semiannual
Annual: 100% of quota; cumulative: 300% of quota.	0% (1/7/2010–end-2011)	4–8	Semiannual
Annual: 25% (up to 50% of quota); cumulative: 75% (up to 100% of quota).	0% (1/7/2010–end-2011)	5½–10	Semiannual

³ *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 an arrangement is rare and expected to remain so.

⁴ Surcharge introduced in November 2000. A new system of surcharges took effect on August 1, 2009, replacing the previous schedule: 100 basis points above the basic rate of charge on amounts above 200 percent of quota, and 200 basis points surcharge on amounts above 300 percent of quota. A member with credit outstanding in the credit tranches or under the Extended Fund Facility on, or with an effective arrangement approved before, August 1, 2009, had the option to elect between the new and the old system of surcharges.

⁵ The ECF was previously known as the Poverty Reduction and Growth Facility.



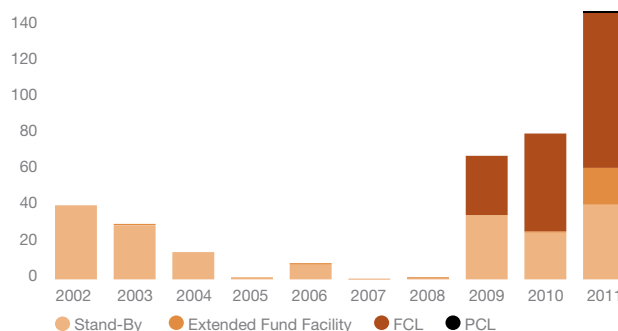
Left Workers make prostheses at a local hospital in Lomé, Togo. **Right** Laborers build a transitional shelter for flood victims at a village in Charsadda, Pakistan.

Emergency assistance. The Fund's Emergency Natural Disaster Assistance (ENDA) is provided to allow members to meet their immediate balance of payments financing needs arising from natural disasters without a serious depletion of their external reserves, such as in cases of shortfalls in export earnings and/or increased imports. Emergency assistance financing (see Web Tables 3.2 and 3.3) is disbursed in the form of outright purchases and does not involve specific economic performance targets. (Additionally, to support its poorest members affected by the most catastrophic of natural disasters, Fund assistance in the form of debt relief is now available through the Post-Catastrophe Debt Relief Trust; see Box 3.1.)

In September 2010, the Executive Board approved a disbursement of SDR 296.98 million (about US\$451 million) for Pakistan under ENDA to help the country manage the immediate aftermath of the massive and devastating floods that ravaged the country in July 2010. In January 2011, the Executive Board approved a combined SDR 5.36 million (about US\$8.19 million) in emergency assistance for St. Lucia to help the country cope with the economic consequences of Hurricane Tomas, which struck the Caribbean island in late October 2010, causing loss of life and significant damage to the nation's road network, water supply, and agriculture sector. The financial assistance consists of an SDR 3.83 million (about US\$5.85 million) disbursement under the IMF's Rapid Credit Facility (RCF) and SDR 1.53 million (about US\$2.34 million) under ENDA. A month later, the Executive Board approved a disbursement of an amount equivalent to SDR 2.075 million (about US\$3.26 million) under the RCF for St. Vincent and the Grenadines to help the country manage the economic impact of Hurricane Tomas, which inflicted significant damage on agriculture, housing, and infrastructure in that country as well.

Figure 3.1

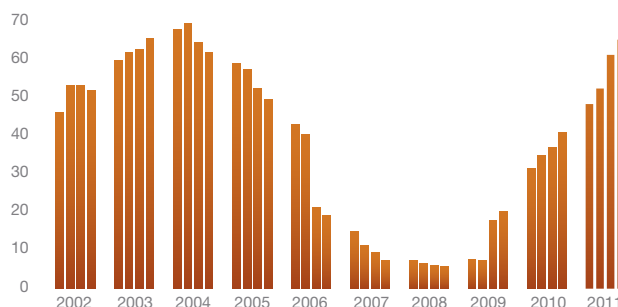
Arrangements approved during financial years ended April 30, 2002–11 (In billions of SDRs)



Source: IMF Finance Department.

Figure 3.2

Regular loans outstanding, FY2002–11 (In billions of SDRs)



Source: IMF Finance Department.

Table 3.2**Arrangements under main facilities approved in FY2011** (In millions of SDRs)

Member	Type of arrangement	Effective date	Amount approved
New Arrangements			
Antigua and Barbuda	36-month Stand-By	June 7, 2010	81.0
Armenia	36-month Extended Fund Facility	June 28, 2010	133.4
Colombia	12-month Flexible Credit Line	May 7, 2010	2,322.0
Greece	36-month Stand-By	May 9, 2010	26,432.9
Honduras	18-month Stand-By	October 1, 2010	64.8
Ireland	36-month Extended Fund Facility	December 16, 2010	19,465.8
Kosovo	18-month Stand-By	July 21, 2010	92.7
Macedonia, former Yugoslav Republic of	24-month Precautionary Credit Line	January 19, 2011	413.4
Mexico	24-month Flexible Credit Line	January 10, 2011	47,292.0
Poland	12-month Flexible Credit Line	July 2, 2010	13,690.0
Poland	24-month Flexible Credit Line	January 21, 2011	19,166.0
Romania	24-month Stand-By	March 31, 2011	3,090.6
Ukraine	29-month Stand-By	July 28, 2010	10,000.0
Total			142,244.5

Source: IMF Finance Department.

Support for low-income countries

Concessional financing. In FY2011, the Fund committed loans amounting to SDR 1.1 billion to its low-income member countries under the Poverty Reduction and Growth Trust (PRGT). Total concessional loans outstanding to 64 members amounted to SDR 4.9 billion at April 30, 2011. Detailed information regarding new arrangements and augmentations of access under the Fund's concessional financing facilities is provided in Table 3.3. Figure 3.3 illustrates amounts outstanding on concessional loans over the last decade.

Debt relief. The Fund provides debt relief to eligible countries that qualify for such relief under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). During FY2011, the Comoros reached its decision point¹² under the HIPC Initiative, and four members (the Democratic Republic of the Congo, Guinea-Bissau, Liberia, and Togo) reached their completion point.¹³ As of April 30, 2011, 36 countries had reached their decision point under the HIPC Initiative; of these, 32 countries had reached their completion point. In total, the IMF has provided debt relief of SDR 2.5 billion under the HIPC Initiative and SDR 2.3 billion under the MDRI (see Web Tables 3.4 and 3.5).¹⁴ With the vast majority of eligible countries having reached the completion point and received the debt relief for which they were eligible, the Executive Board met informally in February 2011 to discuss the future of the HIPC Initiative; it was expected to deliberate further on this issue in FY2012.

In July 2010, Haiti became the first recipient of debt relief financed through the newly created PCDR Trust (see Box 3.1), when the Executive Board decided to provide the country with debt relief in the form of a grant of SDR 178 million (around US\$268 million), used to cancel its entire outstanding debt to the IMF.¹⁵

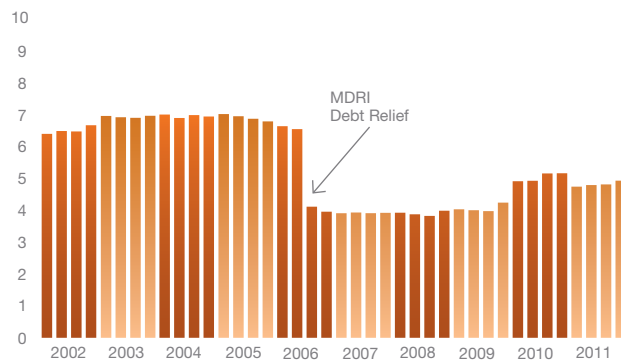
Policy Support Instrument. The IMF's Policy Support Instrument (PSI), introduced in October 2005, enables the Fund to support low-income countries that have made significant progress toward economic stability and no longer require IMF financial assistance, but seek ongoing IMF advice, closer monitoring, and endorsement of their economic policies—what is referred to as policy support and signaling. PSIs are available to all countries eligible for PRGT assistance with a Poverty Reduction Strategy in place. The Executive Board approved PSIs for six countries in FY2011: Cape Verde, Mozambique, Rwanda, Senegal, Tanzania, and Uganda.

Modifications to the financing framework**Enhancing the crisis prevention toolkit**

In August 2010 the Executive Board decided to increase the duration and credit available under the existing Flexible Credit Line and to establish a new Precautionary Credit Line for members with sound policies that nevertheless may not meet the FCL's high qualification requirements.¹⁶ This strengthening of the Fund's insurance-type instruments was designed to encourage countries to approach the Fund in a more timely fashion to help prevent a crisis, and to help protect them during a systemic crisis.

Figure 3.3**Concessional loans outstanding, FY2002–11**

(In billions of SDRs)



Source: IMF Finance Department.

The FCL, created in March 2009 as part of a major overhaul of the IMF's lending framework, allows members with very strong fundamentals, policies, and track records of policy implementation, without ex post policy conditions but subject, in the case of two-year arrangements, to an annual review of qualification, to draw on the line upon approval or to treat it as a precautionary instrument. The enhancements approved by the Board include

- doubling the duration of credit line arrangements to one year (from the previous six months) or to two years with an interim review of qualification after one year (from the previous one year with a review after six months);
- removing the implicit cap on access of 1,000 percent of a member's IMF quota,¹⁷ with access decisions based on individual country financing needs; and
- strengthening procedures by requiring early Board involvement in assessing the contemplated level of access and the impact of such access on the IMF's liquidity position.

Qualification for the PCL, available to a wider group of members than those that qualify for the FCL, is assessed in five broad areas: (1) external position and market access, (2) fiscal policy, (3) monetary policy, (4) financial sector soundness and supervision, and (5) data adequacy. Although it requires strong performance in most of these areas, the PCL allows access to precautionary resources to members that may still have moderate vulnerabilities in one or two of them. It has two main features:

- ex post conditionality focused on reducing any economic vulnerabilities identified in the qualification process, with progress monitored through semiannual program reviews.
- access of up to 500 percent of quota made available on approval of the arrangement and up to a total of 1,000 percent of quota after 12 months.

Table 3.3**Arrangements approved and augmented under the Poverty Reduction and Growth Trust in FY2011**

(In millions of SDRs)

Member	Effective date	Amount approved
New three-year Extended Credit Facility¹ arrangements		
Armenia	June 28, 2010	133.4
Benin	June 14, 2010	74.3
Burkina Faso	June 14, 2010	46.2
Guinea-Bissau	May 7, 2010	22.4
Haiti	July 21, 2010	41.0
Kenya	January 31, 2011	325.7
Lesotho	June 2, 2010	41.9
Sierra Leone	July 1, 2010	31.1
Yemen	July 30, 2010	243.5
Subtotal		959.3
Augmentations of Extended Credit Facility arrangements²		
Tajikistan	June 7, 2010	26.1
Togo	June 25, 2010	11.0
Subtotal		37.1
New Standby-By Credit Facility arrangements		
Honduras	October 1, 2010	64.8
Solomon Islands	June 2, 2010	12.5
Subtotal		77.2
Disbursements under Rapid Credit Facility		
Kyrgyz Republic	September 15, 2010	22.2
Nepal	May 28, 2010	28.5
St. Lucia	January 12, 2011	3.8
St. Vincent and the Grenadines	February 28, 2011	2.1
Subtotal		56.6
Total		1,130.3

¹ Previously Poverty Reduction and Growth Facility.² For augmentations, only the amount of the increase is shown.**Post-Catastrophe Debt Relief Trust**

Following the devastating earthquake in Haiti in January 2010, the IMF explored options for joining international efforts to provide extraordinary debt relief to the country. In June 2010 the Board approved the creation of a Post-Catastrophe Debt Relief Trust (see Box 3.1) to provide debt relief to very poor eligible low-income countries and free up their resources to meet their exceptional balance of payments needs resulting from catastrophic disasters.¹⁸

In considering the proposal for establishing the Trust, Executive Directors underlined the Fund's role in complementing, not substituting for, other bilateral and multilateral initiatives. They

broadly agreed that PCDR support should be limited to the poorest and most vulnerable countries among those eligible for support under the Poverty Reduction and Growth Trust. They also agreed that debt relief should be provided only after the most devastating of natural disasters, those that have an exceptionally large impact on the economy and the population of the affected country.

Most Executive Directors supported the staff's proposal that countries meeting the qualification criteria would automatically receive debt flow relief for two years following the catastrophic event, and most agreed that, after more data on relevant factors become available, the Board could declare the country's debt eligible for full stock relief, which could also cover any emergency liquidity support extended immediately following the disaster. Executive Directors emphasized that debt stock relief would be conditional on concerted debt relief efforts by other official creditors, as well as an assessment of the member's implementation of macroeconomic policies in the period preceding the decision to disburse debt relief.

Regarding financing, most Executive Directors supported, or could go along with, the proposal to transfer the surplus balance of the Multilateral Debt Relief Initiative I (MDRI-I) Trust to fund the PCDR Trust.¹⁹ It would be expected that, over time, members would contribute bilateral resources as might be needed to ensure adequate financing of the PCDR Trust for future potential cases.

Collaboration with other organizations

Group of Twenty Mutual Assessment Process

Leaders of the Group of Twenty industrialized and emerging market economies pledged at their 2009 Pittsburgh Summit to

work together to ensure a lasting recovery and strong and sustainable growth over the medium term and thus launched the "Framework for Strong, Sustainable, and Balanced Growth." The backbone of this framework is a multilateral process, the Mutual Assessment Process. At the request of the G-20, the IMF provides the technical analysis used in the MAP to evaluate how the G-20's respective national and regional policy frameworks fit together and whether policies pursued by individual G-20 countries are collectively consistent with the G-20's growth objectives. In October 2010, the Executive Board received an informal briefing on the revised staff assessment of G-20 policies in the context of the MAP.

At the Seoul Summit in November 2010, the G-20 made two key commitments in regard to addressing imbalances that could jeopardize their growth objectives: (1) an enhanced MAP, with indicative guidelines for key imbalances, and (2) commitments by each G-20 member to policy actions to help achieve the growth objectives identified by the leaders. At their February 2011 meeting in Paris, G-20 authorities reached agreement on the key indicators—public debt, fiscal deficits, private saving rate, private debt, and the external balance composed of the trade balance and net investment income flows and transfers—that will form the basis for assessing these imbalances, and at the G-20 ministers' meeting in Washington in April 2011, agreement was reached on the indicative guidelines (i.e., qualitative or quantitative benchmarks) against which the indicators will be assessed. This provides a concrete basis upon which G-20 economies can assess one another's economic policies and suggest policy remedies to address potentially destabilizing imbalances. It sets the stage for the next G-20 summit, in Cannes in November 2011, at which G-20 leaders are expected to reach a detailed agreement on the policies needed to achieve the shared growth objectives.

Box 3.1

Post-Catastrophe Debt Relief Trust

Assistance through the PCDR Trust is available to low-income countries eligible for concessional borrowing through the PRGT whose annual per capita income is below the prevailing income threshold for accessing the World Bank's most concessional lending from the International Development Association (IDA). (For countries with a population of less than one million, annual per capita income must be below twice the IDA cutoff.) PCDR support is limited to the most catastrophic of natural disasters, specifically those that have directly affected at least one-third of a country's population and destroyed more than a quarter of its productive capacity or caused damage deemed to exceed 100 percent of GDP.

Under PCDR Trust assistance, eligible low-income countries receive debt flow relief to cover all payments falling due on

such countries' eligible debt to the Fund from the date of the debt flow relief decision to the second anniversary of the disaster. Early repayment, by the Trust, of a country's full stock of eligible debt to the IMF is also possible in cases in which the disaster and the subsequent economic recovery efforts have created substantial and long-lasting balance of payments needs and in which the resources freed up by debt stock relief are critical for meeting these needs. Debt stock relief is conditional on concerted debt relief efforts by the country's official creditors, availability of Trust resources, and specified track record and cooperation requirements.

The Trust was initially financed by SDR 280 million (around US\$422 million) of the IMF's own resources and is expected to be replenished through future donor contributions, as necessary.

Financial Stability Board

As of September 2010, when approval was granted by the Executive Board, the IMF became a member of the Financial Stability Board, which brings together government officials responsible for financial stability in the major international financial centers, international regulatory and supervisory bodies, committees of central bank experts, and international financial institutions. The Fund and FSB collaborate on the biannual Early Warning Exercise, launched as part of the IMF's efforts to strengthen surveillance. In March 2011, the IMF and FSB organized a conference on the G-20 data gaps initiative in Washington, D.C.

In approving the Fund's membership in the FSB,²⁰ Executive Directors noted that Fund staff had already been collaborating informally but closely with the FSB's predecessor, the Financial Stability Forum, on a wide range of financial sector issues. They further noted that the responsibilities of the IMF and the FSB are distinct but closely related and complementary. They stressed that the Fund should continue to take the lead in surveillance of the international monetary system and analysis of macro-financial stability issues in its member countries. At the same time, the Fund should collaborate with the FSB to address financial sector vulnerabilities and to develop and implement strong regulatory, supervisory, and other policies that support financial stability.

Other collaboration

The IMF collaborates with a number of other organizations in the course of carrying out its responsibilities, including the World Bank, the regional development banks, UN agencies, and other international bodies. It also works with standard-setting bodies such as the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors. It has a Special Representative to the United Nations at UN Headquarters in New York who acts as liaison between the IMF and the UN system in areas of mutual interest, such as cooperation between the statistical services of the two organizations, and in new areas such as social protection and labor market policies, and facilitates reciprocal attendance and participation at events.

PROMOTING THE FUNCTIONING AND STABILITY OF THE INTERNATIONAL MONETARY SYSTEM

Although the international monetary system proved resilient to the crisis, tensions in the system—observed in widening global imbalances, volatile capital flows and exchange rate movements, and massive reserve accumulation—remain. Achieving a better-functioning international monetary system requires a combination of analyses—to better understand the factors at play—and strong multilateral policy instruments. Board work during the year in the areas of capital flows (including the Fund's role in regard to these flows), reserve accumulation, and reserve adequacy addressed key areas for effective functioning of the international monetary system, and the Board also considered whether the SDR could

have a role in enhancing international monetary stability. Given the breadth and complexity of the agenda, a Board stock-taking session on strengthening the international monetary system in April 2011 evaluated progress to date across the range of work streams involved and identified areas for further work.

Capital flows

The IMF's role regarding cross-border capital flows

In December 2010, the Executive Board discussed the IMF's role regarding cross-border capital flows.²¹ Executive Directors observed that, while capital flows have conferred substantial benefits by facilitating efficient resource allocation across countries, volatile capital flows played a key role in the recent crisis, both in increasing vulnerabilities and in transmitting shocks across borders.

Considering the IMF's mandate to oversee international monetary stability, Executive Directors agreed that the Fund's role regarding international capital flows should be strengthened. They saw merit in developing a coherent IMF view on capital flows and the policies that affect them, that could help establish guidelines for IMF surveillance on capital account policies and possibly others affecting capital flows. It was noted that such guidelines should be designed in a way that leaves sufficient room for country-specific circumstances and in particular should acknowledge the difference between countries with open capital accounts and those that have yet to liberalize.

Executive Directors noted that macroeconomic, financial, and capital account policies designed to address domestic concerns can have significant effects on other countries by generating or curtailing capital flows or acting to divert them to third countries. They also recognized the scope for members to take divergent approaches in addressing any tensions created, and that these could also have effects on others. Executive Directors emphasized that the Fund has an important role in drawing attention to these potential spillovers and the possible implications for the international monetary system as a whole. They supported efforts by the Fund to analyze and disseminate lessons from cross-country experiences in dealing with capital flows, and to foster dialogue with both originators and recipients of cross-border capital flows.

Executive Directors expressed a wide range of views regarding possible amendment of the Articles of Agreement to provide a more complete and consistent legal framework for addressing issues related to capital flows. While a number of Executive Directors were open to considering an amendment of the Articles in the future, most felt that it would be premature to initiate a discussion on this step without further analysis and practical experience.

Recent experiences in managing capital inflows

As a follow-up to the December 2010 discussion of cross-border capital flows (see previous subsection), in March 2011 the Executive Board discussed the IMF's work on recent cross-country experiences with capital flows and on developing a policy framework for manag-

ing capital inflows.²² Executive Directors agreed that the recent surge in capital inflows had been driven by a combination of improved fundamentals and growth prospects in capital-receiving economies and accommodative monetary policy in capital-originating economies, among other factors. They emphasized that capital inflows are generally beneficial for recipient countries, promoting investment and growth. At the same time, they recognized that a sudden surge in inflows can pose challenges, including currency appreciation pressures, overheating, the buildup of financial fragilities, and the risk of a sudden reversal of inflows. They observed that policy responses to the surge had varied across countries and that countries had generally supplemented macroeconomic policy with other measures to manage inflows, although there were wide differences in the nature, extent, and effectiveness of these measures.

Most Executive Directors broadly supported the substance of the proposed policy framework for managing capital inflows, which they agreed would apply to all countries with open or partially open capital accounts. Executive Directors emphasized that policy advice on managing inflows should be evenhanded and give due regard to country-specific circumstances and the external setting. They recommended that emphasis be placed on structural measures to increase the capacity of an economy to absorb capital inflows and strengthen the resilience of the domestic financial system in handling them.

Executive Directors noted that when a country is confronted with surging inflows, macroeconomic policies are appropriate tools—namely, rebalancing the monetary and fiscal policy mix consistent with inflation objectives, allowing the currency to strengthen if it is undervalued, and building foreign exchange reserves if these are not more than adequate from a precautionary perspective. They agreed that capital flow management measures could be used to address macroeconomic and financial risks related to inflows, but stressed that they should not be used as a substitute for necessary macroeconomic policy adjustment.

International reserves

Reserve accumulation and international monetary stability

Reserve accumulation has accelerated in the past decade, with total international reserves having reached levels well above traditional benchmarks, particularly in emerging markets. In May 2010, the Board reviewed links between official reserves accumulation and international monetary stability and considered options to make the international monetary system more robust in response to recurrent crises.²³

Executive Directors observed that although stability of the international monetary system was a long-term issue, it warranted attention in the context of the ongoing review of the Fund's mandate. Most observed that the current system had demonstrated its resilience, although increasing pressures were evident.

The unprecedented buildup of international reserves in recent years, with its concentration in a narrow set of currencies—though

partly reflecting policy choices—pointed, it was noted, to systemic imperfections, such as the absence of automatic adjustment to imbalances, asymmetric adjustment to shocks, and uneven availability of international liquidity. First and foremost, sound macroeconomic and financial policies, particularly by reserve issuers and other systemic countries, were felt to remain central to the long-term stability of the system. Enhanced Fund surveillance over members' policies was therefore perceived to be critical to international monetary system stability.

Executive Directors considered a number of options to mitigate the growth in demand for reserves. Many supported further analytical work that could provide guidance on appropriate levels of precautionary reserves tailored to country circumstances. Improved analyses of volatile capital flows were called for, as these flows were perceived as a key motivation for self-insurance. Executive Directors supported further work on the potential Fund role in helping its members reap the benefits from capital flows while sustaining domestic and global stability.

Assessing reserve adequacy

In March 2011, as many countries were grappling with ways to reduce external vulnerabilities and global reserve accumulation had resumed its precrisis pace, the Executive Board discussed approaches to assessing reserve adequacy.²⁴ Noting that consensus is lacking on what constitutes an adequate level of reserves, Executive Directors generally welcomed new metrics for emerging market and low-income countries proposed by the staff as useful starting points for analyzing adequacy of precautionary reserves. They stressed that there should be no “one approach fits all” to such assessments and supported supplementing the metrics with judgment and country-specific characteristics, including due consideration of macroeconomic and prudential frameworks and policies, as well as alternative forms of contingent financing, country insurance, and overall assets and liabilities, and they also noted the relevance of reserve management practices in consideration of reserve adequacy.

For emerging markets, whose balance of payments is dominated by capital account flows, Executive Directors generally welcomed the proposed new risk-weighted metric as building on the simple and transparent approach of traditional calculations while encompassing broader vulnerabilities. For low-income countries, whose balance of payments vulnerabilities are mostly based in the current account, Executive Directors concurred that the proposed approach for calibrating optimal reserves according to country characteristics provided an effective means of introducing such characteristics into the assessment. They encouraged further analysis and refinement as part of the ongoing work in this area to enable a more comprehensive assessment of reserve adequacy.

Special Drawing Rights

Enhancing international monetary stability: A role for the SDR?

In January 2011, the Executive Board discussed the potential contribution that the IMF's Special Drawing Rights could make



Left A man harvests grapes near the town of Rahovec, Kosovo. **Right** Workers prepare to unload a container ship at a terminal in the port of Aden, Republic of Yemen.

to improving the long-term functioning of the international monetary system.²⁵ Executive Directors stressed that enhancing the role of the SDR was not a substitute for efforts to strengthen the stability of the international monetary system, particularly greater global policy collaboration, supported by stronger surveillance, and an enhanced systemic financial safety net, along with financial deepening in emerging markets. It was observed that as a complement to these efforts, which should be pursued with urgency, an enhanced role for the SDR could potentially contribute to the long-term stability of the international monetary system, provided appropriate safeguards were put in place and political commitment and private sector interest were mobilized.

Executive Directors emphasized the need for an in-depth analysis of the causes of problems prevailing in the international monetary system, and to formulate a coherent package of reforms to address them. Many remained unconvinced at this stage that there was a key role for the SDR in the process. On the whole, Executive Directors expressed their willingness to consider SDR-related issues with an open mind, with a view to building a broad consensus across the membership.

Executive Directors considered the idea to expand the stock of official SDRs through regular allocations to meet the growing demand for international reserves and help reduce global imbalances. They took note of the staff's finding that, under most scenarios, regular SDR allocations would not be inflationary, and called for further reflection on the respective roles of SDR allocations and traditional conditionality-based IMF financing.

2010 review of SDR valuation

In November 2010, the Executive Board completed its review of SDR valuation, which it normally undertakes every five years, determining that the value of the SDR would continue to be based on a weighted average of the values of a basket of currencies comprising the U.S. dollar, euro, pound sterling, and Japanese yen and approving revised weights for the four currencies.

Effective January 1, 2011, the four currencies were assigned the following weights based on their roles in international trade and finance: U.S. dollar, 41.9 percent (compared with 44 percent at the 2005 review); euro, 37.4 percent (previously 34 percent); pound sterling, 11.3 percent (previously 11 percent); and Japanese yen, 9.4 percent (previously 11 percent), with the weights rounded to one decimal place, rather than to the nearest whole percentage point as in past reviews. The decision adopted followed the established methodology for SDR valuation.

The criteria used to select the currencies in the SDR basket remained unchanged from the 2000 and 2005 reviews: the currencies included in the SDR are the four currencies issued by IMF members, or by monetary unions that include IMF members, (1) whose exports of goods and services during the five-year period ending 12 months before the effective date of the revision have had the largest value, and (2) which have been determined by the Fund to be freely usable currencies in accordance with Article XXX(f) of the Fund's Articles of Agreement. The weights assigned to these currencies continue to be based on the value of the exports of goods and services by the member (or by members included in a monetary union) issuing the currency and the amount of reserves denominated in the respective currencies that are held by other members of the IMF.

The Board also reviewed the method for determining the SDR interest rate and decided to continue to set the weekly interest rate on the basis of a weighted average of interest rates on short-term instruments in the markets of the currencies included in the SDR valuation basket. The interest rate on the three-month Treasury bills of the United States, United Kingdom, and Japan and the three-month Euro rate will continue to serve as the representative interest rates for the U.S. dollar, pound sterling, Japanese yen, and euro, respectively.

The amounts of each of the four currencies to be included in the new SDR valuation basket were calculated on December 30, 2010, in accordance with the new weights, with the precise amounts of each currency determined in such a way that the value

of the new and existing SDR baskets remained the same. Effective January 1, 2011, the value of the SDR is the sum of the values of the following amounts of each currency—U.S. dollar, 0.660; euro, 0.423; pound sterling, 0.111; and Japanese yen, 12.1.

In their discussion in connection with the review of the SDR's valuation,²⁷ Executive Directors noted that although China had become the third-largest exporter of goods and services on a five-year-average basis and had taken steps to facilitate international use of its currency, the Chinese renminbi did not meet the criteria to be a freely usable currency and would therefore not be included in the SDR basket at this time. They urged that this issue be kept under review in light of future developments.

Executive Directors agreed that the next review of the method of valuation of the SDR should take place by 2015, with some noting that an earlier review should be considered if warranted by developments.

BUILDING A MORE ROBUST GLOBAL FINANCIAL SYSTEM

The financial crisis highlighted the crucial role played by the financial sector in global financial stability, and issues pertaining to that sector occupied a significant place in the IMF's work in FY2011, with a number of Board discussions considering a wide variety of aspects involved in strengthening the global financial system. (The Fund's stepped-up efforts in the area of financial sector surveillance also played a part in this; see "Financial Sector Surveillance" earlier in the chapter.)

Integrating financial stability assessments into Article IV surveillance

The Financial Sector Assessment Program, established in 1999 in the aftermath of the Asian crisis, provides a framework for comprehensive and in-depth assessments of a country's financial sector.²⁸ The program has been a key tool for analyzing the strengths and weaknesses of the financial systems of IMF member countries. Between its inception and 2010, more than three-quarters of the Fund's members volunteered for financial stability assessments under the program, some more than once.

FSAP assessments are conducted by joint IMF–World Bank teams in developing and emerging market countries and by the Fund alone in advanced economies. All include a financial stability assessment, which is the responsibility of the IMF; and those for developing and emerging market countries also include a financial development assessment, the responsibility of the World Bank.

In September 2010, the Executive Board decided to make financial stability assessments under the FSAP—which up to that point had been conducted on a strictly voluntary basis—mandatory for members with systemically important financial sectors, as part of the surveillance consultations under Article IV of the Fund's Articles of Agreement (see Box 3.2). In its discussion of the staff proposal with specific

Box 3.2

Mandatory financial stability assessments

The mandatory financial stability assessments approved by the Board in September 2010 comprise three elements: (1) an evaluation of the source, probability, and potential impact of the main risks to macrofinancial stability in the near term, based on an analysis of the structure and soundness of the financial system and its interlinkages with the rest of the economy; (2) an assessment of each country's financial stability policy framework, involving an evaluation of the effectiveness of financial sector supervision against international standards; and (3) an assessment of the authorities' capacity to manage and resolve a financial crisis should the risks materialize, looking at the country's liquidity management framework, financial safety nets, crisis preparedness, and crisis resolution frameworks. The mandatory assessments will take place every five years, although countries may undergo more frequent assessments, if appropriate, on a voluntary basis.

A total of 25 jurisdictions were identified as having systemically important financial sectors (see list below), based on a methodology that combines the size and interconnectedness of each country's financial sector. This group of countries covers almost 90 percent of the global financial system and 80 percent of global economic activity. It includes 15 of the G-20 member countries and a majority of members of the FSB, which has been working with the IMF on monitoring compliance with international banking regulations and standards. The methodology and list of jurisdictions will be reviewed periodically to make sure it continues to capture the countries with the most systemically important financial sectors that need to be covered by regular, in-depth, mandatory financial stability assessments.

Economies subject to mandatory financial stability assessments (as of September 2010)

Australia	Korea, Republic of
Austria	Luxembourg
Belgium	Mexico
Brazil	Netherlands
Canada	Russia
China	Singapore
France	Spain
Germany	Sweden
Hong Kong SAR	Switzerland
India	Turkey
Ireland	United Kingdom
Italy	United States
Japan	

modalities for implementing this important change,²⁹ most Executive Directors saw the mandatory financial stability assessments as an important step toward strengthening the Fund's financial sector surveillance, consistent with the Fund's existing bilateral surveillance mandate, and as a key component of the overall strategy to modernize the Fund's surveillance mandate and modalities. At the same time, Executive Directors called for further steps to integrate financial sector issues more fully into bilateral surveillance for all members.

Most Executive Directors supported or were willing to go along with the former Managing Director's proposal to set the expected frequency for financial stability assessments under Article IV at no more than five years. At the same time, Executive Directors acknowledged that, depending on the circumstances, it may be appropriate for the Managing Director in some cases to encourage members with systemically important financial sectors, on a voluntary basis, to undergo such assessments more frequently, in particular, within a three- to five-year time frame.

Executive Directors noted that making financial stability assessments under the FSAP mandatory for members with systemically important financial sectors should not lead to a diminished availability of FSAP assessments for members without systemically important financial sectors. They emphasized that developmental assessments conducted by the World Bank in developing and emerging market countries should continue to be provided on a voluntary basis and urged continued close cooperation between the Fund and the Bank in this area.

Macroprudential policy: An organizing framework

Results of a 2010 IMF survey of country practices reflected uncertainty among national policymakers in regard to macroprudential policy and its role in preserving financial stability, both at the conceptual level and in practical terms. In April 2011, the Executive Board discussed initial considerations for the elaboration of a macroprudential policy framework.³⁰ Executive Directors broadly agreed with the staff's proposed definition of macroprudential policy and its objectives,³¹ noting that the primary goal of the policy should be to limit the buildup of system-wide financial risk over time and across financial systems and countries. They stressed that macroprudential policy should be viewed as a complement to macroeconomic and microprudential policies and noted that boundaries between macroprudential and other policies, particularly microprudential ones, are not easy to draw in practice.

Executive Directors shared the staff's view that the analytical and operational underpinnings of macroprudential policy are still incompletely understood. They acknowledged that the measurement of systemic risk would be challenging and highlighted the need to expand data availability to strengthen the monitoring of such risk. Executive Directors emphasized that progress will depend on developing robust approaches for measuring systemic risk and on improving the capacity to detect its buildup. They considered that progress in addressing data gaps has been lagging and that efforts need to be intensified, since more-detailed information would help identify emerging imbalances.

Central banking lessons from the crisis

In June 2010, as policymakers were beginning to draw lessons from the crisis for policy frameworks, the Board discussed lessons for central banks from the crisis and important questions on the relationship between monetary policy and macroprudential issues.³²

Executive Directors concurred with the staff's assessment that financial stability should be primarily addressed using a macroprudential framework that integrates macroeconomic and systemic financial considerations and builds on microprudential supervision. They noted that the effective use of tools, such as capital requirements and buffers, forward-looking loss provisioning, liquidity ratios, and prudent collateral valuation, could reduce systemic risk by mitigating procyclicality and the buildup of structural vulnerabilities.

Executive Directors generally agreed that central banks should play an important role in macroprudential policies, regardless of whether they serve as the main financial regulator. They noted that considerable work remained to operationalize macroprudential frameworks and encouraged further progress in this area.

Executive Directors also broadly agreed that price stability should remain the primary objective of monetary policy and emphasized the importance of preserving central banks' hard-won credibility, which had been critical in anchoring inflation expectations. They noted, however, that increasing efforts should be made to monitor and assess systemic financial developments and risks.

Executive Directors noted that experience to date suggested that some good practices had been acquired for unconventional central bank measures. The effectiveness of these measures, it was observed, is enhanced by an explicit objective, clearly explained transmission, transparency, and protected central bank balance sheets.

Cross-border bank resolution

The complex issue of the resolution of international financial groups holds a high place on the international agenda. In July 2010 the Board discussed a proposed framework for enhanced coordination of cross-border bank resolution that would take a pragmatic approach focusing on enhanced coordination among national authorities.³³

Executive Directors concurred with staff assessments that strengthened supervision and regulatory regimes would be important in reducing the likelihood of financial firm failure. However, acknowledging that the possibility of failure cannot be eliminated, they recognized the need for robust resolution mechanisms to be employed effectively in cross-border scenarios.

The Board generally agreed that the following elements would be important features of a policy framework: countries would amend their national legislation to remove legal or practical barriers to cross-border cooperation, ensure that their national resolution regimes met core coordination standards and robust standards of supervision, and agree to procedural mechanisms for the coordi-



Left Laborers rebuild a railway outside Monrovia, Liberia.

Right A worker walks past new excavators at a Lonking factory in Shanghai, China.



nation of cross-border resolution actions. Additionally, Executive Directors observed that it could be useful to establish criteria for ex ante burden-sharing agreements, with the goal of minimizing the need for public funding, although some recognized potential obstacles for reaching consensus in this regard.

Executive Directors agreed that countries sharing specific cross-border banks should enhance cooperation and work to meet these criteria. They noted that such a framework represented a step in the right direction, but emphasized that a number of policy and technical issues remain to be addressed, calling on staff to work closely with the FSB and the standard setters in efforts to do so.

Financial interconnectedness

In October 2010, the Executive Board discussed financial interconnectedness, as part of the ongoing efforts to enhance IMF surveillance.³⁴ Executive Directors viewed the mapping of the cross-border financial architecture as a valuable first step towards constructing maps of systemic risk and identifying fault lines along which financial shocks could propagate. Such maps, it was observed, would further strengthen the Fund's capacity to assess vulnerabilities, monitor the buildup of systemic risks, and provide early warnings.

Executive Directors called for further work so that analysis of financial interconnectedness could be applied to the Fund's surveillance. The analysis, it was noted, could be used to enhance assessments under the FSAP and strengthen bilateral surveillance by incorporating multilateral perspectives. Executive Directors noted that, in keeping with the Fund's mandate and comparative advantage, the objective of such analysis should be to enhance macrofinancial assessments of risks.

Executive Directors recognized the large data gaps and challenges for both comprehensively mapping the global financial architecture and analyzing the buildup of systemic risk concentrations. They called for close collaboration and efficient division of labor

among all relevant parties and viewed the joint IMF-FSB working group on data gaps and systemic linkages³⁵ as a critically important effort in bridging such gaps. They highlighted the confidentiality concerns and legal constraints that prevent the sharing of information of individual institutions with nonsupervisory entities such as the Fund.

Financial sector contribution to crisis costs

In response to a request by G-20 leaders, the IMF prepared, for the leaders' meeting in Toronto in June 2010, a report on the range of options countries had adopted or were considering as to how the financial sector could make a fair and substantial contribution toward paying for any burden associated with government interventions to repair the banking system. The report followed an interim report on the matter presented to the G-20 finance ministers in April 2010.

After analyzing various options, the report proposed two forms of contribution from the financial sector, serving distinct purposes. The main component would be a "financial stability contribution," linked to a credible and effective resolution mechanism, initially levied at a flat rate (varying by type of financial institution) but refined thereafter to reflect individual institutions' riskiness and contributions to systemic risk—such as those related to size, interconnectedness, and substitutability—and variations in overall risk over time. Further contributions from the financial sector, if desired, could be levied through a "financial activities tax" on the sum of the profits and remuneration of financial institutions and paid to general revenue.

Review of the Standards and Codes Initiative

During the Board's review of the Standards and Codes Initiative in March 2011,³⁶ Executive Directors acknowledged that compliance with agreed-upon standards represents only one of the building blocks for crisis prevention. It was observed that



Left A salesman hawks a solar-powered LED lamp at a cattle market in Bukeda, Uganda. **Right** A coconut plantation in Guadalcanal produces copra, the main export of the Solomon Islands.

the recent crisis had identified gaps in the architecture of standards and codes and had brought to the fore the need to complement assessments for Reports on the Observance of Standards and Codes (ROSCs) with rigorous follow-up on implementation, strengthened surveillance of financial institutions, and international cooperation on cross-border issues and crisis resolution. It was noted that the impact of the crisis on public balance sheets also called for renewed attention to fiscal transparency, including a possible review of fiscal standards and an update of the framework for assessing data quality.

Executive Directors supported the decision by the FSB to combine the accounting and auditing standards embodied in the initiative into one policy area and to introduce a new policy area on crisis resolution and deposit insurance. Given the demand for assessments of the new standards and the limited resources available, Executive Directors generally considered it necessary to prioritize ROSCs across standards.

Executive Directors saw considerable merit in the use of topical trust funds to finance follow-up technical assistance in high-priority areas. They stressed the need to ensure that the focus on systemically important members does not crowd out low-income and emerging market countries.

Executive Directors generally supported the broader application of targeted ROSCs to enhance efficiency and allow for more frequent updates. Most agreed with recommendations to better integrate ROSC findings into Fund surveillance, including by following up on macro-relevant ROSC recommendations in the context of bilateral surveillance.

Executive Directors welcomed steps to improve the public's access to ROSCs and efforts to encourage countries to publish ROSCs.

They were generally open to considering a mechanism to facilitate public reporting on progress in implementing ROSC recommendations, based on clear guidelines to ensure credibility.

Executive Directors agreed that the next review of the Standards and Codes Initiative should be undertaken in five years, with some flexibility to conduct ad hoc reviews as necessary.

SUPPORTING GROWTH AND STABILITY IN LOW-INCOME COUNTRIES

Responding to the needs of its low-income country members has been a particular priority for the IMF in recent years, as these countries suffered the ill effects of the global financial crisis and more recently the renewed surge in food and fuel prices. Board discussions in FY2011 considered macroeconomic challenges facing these countries as they emerge from the crisis and explored ways that developing countries could enhance domestic revenues. The IMF introduced an analytical framework for assessing vulnerabilities and emerging risks in low-income countries arising from changes in the global economy. Demand for the Fund's concessional lending continued, as did efforts to ensure adequate resources for such lending (see "Budget and Income" in Chapter 5).

Though there is still much to be done, the Fund's ongoing efforts to assist its low-income members have met with some success. Initiatives such as the HIPC Initiative and MDRI (see "Support for Low-Income Countries" earlier in the chapter) have begun to realize their goal of lifting more households out of poverty and bringing low-income countries closer to achieving the Millennium Development Goals. Box 3.3 details one "success story" among the Fund's low-income countries: Liberia.

Macroeconomic challenges facing low-income countries

In November 2010, the Executive Board discussed macroeconomic challenges facing low-income countries as they exited from the global crisis.³⁷ Executive Directors noted that the crisis had triggered the sharpest economic slowdown in four decades, pushing an additional 64 million people into extreme poverty by year-end 2010. Nevertheless, in two-thirds of low-income countries, per capita GDP growth remained positive during the crisis, in contrast to previous crises and to the situation in most advanced economies.

Executive Directors attributed the resilience of low-income countries to generally stronger macroeconomic positions prior to this crisis, including smaller fiscal and current account deficits, lower debt and inflation, and higher levels of international reserves. Most of the countries, in particular those with IMF-supported programs, were able to maintain real primary spending growth throughout the crisis and even improve expenditure in priority sectors such as health, education, and infrastructure.

Executive Directors recognized the IMF's important role in helping low-income countries weather the crisis, through unprecedented financing and policy advice. The reform of the Fund's lending facilities for low-income countries, strengthening of the concessional financing framework, and general allocation of

SDRs were instrumental in cushioning the effects of the global crisis, catalyzing donor support, and facilitating an early rebound.

Looking ahead, Executive Directors noted that the pace of economic recovery in low-income countries, though varying across regions, was expected to be faster and more closely aligned with the rest of the world than in previous crises, reflecting greater trade and financial integration and more robust domestic policies. However, they cautioned against complacency, given the downside risks to the global economy as a whole and the reduced policy space in most countries.

Vulnerability Exercise for low-income countries

In March 2011, the IMF introduced an analytical framework for assessing vulnerabilities and emerging risks in low-income countries arising from changes in the global economy.³⁸ The Vulnerability Exercise for low-income countries is intended to enable Fund staff to spot vulnerabilities and assess member countries' resilience to emerging risks before they materialize, and thus help guide policy responses.

Previous internal IMF Vulnerability Exercises for advanced and emerging market economies have focused on capital account or systemic financial sector crises and growth recessions that have the potential to trigger significant contagion or dislocation on a

Box 3.3

Liberia achieves long-term debt sustainability

After nearly five years of intensive engagement with the Fund, the World Bank, and other official and private creditors, in June 2010, Liberia reached the completion point under the HIPC Initiative, its total external debt having been reduced by over 90 percent. The main factor in the country's progress, though, was the strong macroeconomic program and ambitious reform agenda implemented by the Liberian authorities.

The IMF's involvement began with technical assistance to help rebuild core functions of the Ministry of Finance and the Central Bank of Liberia, along with policy advice, monitoring of economic policy implementation, and periodic reporting to the international community on economic developments. Based on the country's continued progress in macroeconomic management and structural reforms, the IMF provided new financing in 2008 through the Extended Credit Facility (ECF). The Fund provided US\$0.9 billion in debt relief, financed through a major collective effort involving 102 IMF member countries, the bulk of which was delivered at the completion point.

In addition to reducing its debt burden, Liberia has expanded its capacity to deliver public services, as indicated by a doubling of tax receipts to GDP over the past five years to close to the

average for sub-Saharan Africa. Financial resilience to economic shocks has dramatically improved, with a multifold increase in foreign exchange reserves, in particular resulting from the 2009 allocation of SDRs to combat the global financial crisis. Liberia has balanced its budget for five years. As macroeconomic stability returned, the banking sector expanded, while the level of credit to the private sector—an important component of faster growth—increased to the average for Africa.

Despite this impressive progress over the past five years, Liberia still faces the legacy of conflict. Per capita income has increased by two-thirds, from US\$157 to US\$261, but remains low, making employment and income generation a top priority for the country. To ensure sustained economic growth, the country must rebuild the transportation infrastructure and utilities, develop its institutional capacity, and strengthen the rule of law, particularly property rights. The IMF will continue to contribute to the ongoing international effort to support Liberia and achieve a lasting reduction in poverty. Policy advice and monitoring under the ECF arrangement, as well as ongoing technical assistance in public financial management, revenue administration, and banking supervision, will help the Liberian authorities achieve their development goals.

regional or global scale. By contrast, the exercise for low-income countries focuses on these countries' vulnerabilities to sharp growth declines arising from external shocks—such as sharp swings in terms of trade and volatile external financing flows. These shocks can spark fiscal and external instability, debt distress, banking system stress, and steep output drops, all of which can generate substantial welfare losses and even social dislocation.

The results of the annual Vulnerability Exercise for low-income countries will bolster IMF surveillance by strengthening risk assessments of individual low-income countries and providing the basis for cross-country comparisons and analyses. Assessments of emerging external risks relative to existing policy buffers will help identify areas where buffers would need to be strengthened, and highlight the scope for preemptive policy action.

The Vulnerability Exercise is part of a broader program of IMF work aimed at helping low-income countries manage volatility and mitigate external shocks. The program also includes forthcoming work on the role of contingent financing instruments in managing volatility in low-income countries, as well as a review of the macroeconomic and policy challenges of low-income countries facing fragilities, including those arising from fragile political environments and weak institutional capacity.

Revenue mobilization in developing countries

In March 2011, the Executive Board discussed revenue mobilization in developing countries.³⁹ Executive Directors broadly agreed with the main principles and recommendations in the staff's analysis of the topic, stressing that their application should pay due regard to member countries' specific circumstances and the appropriate sequencing of reforms. They underscored the

important role of the Fund in continuing to support developing countries' efforts to mobilize domestic revenue to meet their substantial spending needs and expressed strong support for Fund technical assistance in this area.

Executive Directors emphasized that while the primary objective of tax reform is to increase government revenue, its distributional effects, as well as its impact on efficiency and long-term growth, should be taken into consideration. Social protection of the poorest, including through basic public spending, should be an overarching concern.

Executive Directors appreciated the staff's wide-ranging discussion of core tax policy issues for developing countries. They noted that the value-added tax (VAT) has proved to be a relatively efficient source of revenue. Careful explanation and further analysis of the distributional impact of the VAT and of the links between VAT revenue and its use for poverty reduction is needed, given the limited capacity in some countries to implement well-targeted social programs.

Executive Directors observed that tax evasion and avoidance by the wealthiest and most influential has been a cause of concern in some countries, particularly those with persistently low tax-to-GDP ratios. Addressing this problem requires concerted efforts, aimed not only at increasing government revenue, but also at improving the transparency and fairness of the tax system.

Executive Directors welcomed the trend toward reduced reliance on trade tax revenues, but stressed the need to offset the budgetary impact with domestic taxation. Greater international cooperation, including on information exchange and in regional groupings, can help protect and strengthen the revenue bases of developing countries. IMF technical assistance in this area will be useful.

4 | REFORMING AND STRENGTHENING THE IMF TO BETTER SUPPORT MEMBER COUNTRIES



4

REFORMING AND STRENGTHENING THE IMF TO BETTER SUPPORT MEMBER COUNTRIES

The IMF has been undergoing a fundamental governance overhaul, with the aim of ensuring that the institution better reflects the changing realities of the global economy, including the heightened importance of emerging markets, while protecting the voting shares of the poorest members. The latest round of reforms, approved in FY2011, builds on those initiated in 2008 and, combined with the earlier steps, will increase by nine percentage points the quota shares of dynamic emerging market and developing countries as a group. The new allocation of quota shares will result in the biggest-ever shift of influence within the institution in favor of emerging market and developing countries.

Additionally, reforms are under way in the composition and operation of the IMF's Executive Board. They include a proposed amendment to the IMF's Articles of Agreement for moving to an all-elected Board, eliminating the category of appointed Executive Directors,⁴⁰ and reducing the combined Board representation of advanced European members by two chairs. There will also be further scope for appointing second Alternate Executive Directors to enhance representation of multi-country constituencies. Together, the quota reforms and changes to the Executive Board will enhance the IMF's credibility and effectiveness.

Other reforms were approved during the year to further strengthen the IMF's crisis prevention role. Options were also considered for enhancing the Fund's response to systemic crises, emphasizing the importance of a strengthened global financial safety net, with the IMF playing a central role within its mandate.

In response to rising demand for technical assistance, the Fund set up new trust funds to support capacity building and continued to strengthen its partnerships with donors and enhance the effectiveness and efficiency of its technical assistance. The crisis also highlighted the lack of timely, accurate information and its potential to hinder the ability of policymakers and market participants to develop effective responses, and efforts continued in FY2011 to address crisis-related and other data issues.

QUOTA, GOVERNANCE, AND MANDATE REFORMS

Quota, voice, and governance

Entry into force of the 2008 quota and voice reforms

In March 2011, the quota and voice reforms approved by the Board of Governors in 2008 entered into force,⁴¹ following ratification of the required amendment to the Fund's Articles of Agreement by 117 member countries, representing more than 85 percent of the Fund's total voting power.⁴² The reforms strengthen the representation of dynamic economies in the IMF and enhance the voice and participation of low-income countries. Quota increases for 54 member countries amounting to SDR 20.8 billion (about US\$33.7 billion) will become effective, once members consent and quota subscriptions are paid. As of end-April 2011, more than 95 percent of the overall increases under the reform had been paid. Because the amendment establishes a mechanism that keeps constant the ratio of basic votes to total votes, its near tripling of the basic votes (of which each member has an equal number, with additional votes distributed in proportion to each country's quota) increases the influence of low-income countries in the organization. Furthermore, the reforms enable Executive Directors representing a specified number of member countries to appoint a second Alternate Executive Director following the 2012 regular elections of Executive Directors. The Board of Governors' Resolution approving the amendment had set that number as "at least 19," but in the context of the 2010 quota and voice overhaul (see the next subsection), the Board of Governors lowered the number to "7 or more."

2010 quota and governance overhaul

In November 2010, the Executive Board approved further quota and governance reforms beyond those endorsed in 2008, with the completion of the Fourteenth General Review of Quotas and a proposed amendment of the IMF's Articles of Agreement on the reform of the Executive Board.⁴³ The reform package, once it is ratified by the membership, will double quotas to approximately SDR 476.8 billion (about US\$772.9 billion), shift more than 6 percent of quota shares to dynamic emerging market and developing countries and from overrepresented to underrepresented countries, and protect the quota shares and voting power of the poorest members. With this shift, Brazil, the Russian Federation, India, and China (the so-called BRIC countries) will be among the Fund's 10 largest shareholders. In addition, the 2010 reforms will lead to an all-elected Board, advanced European countries committed under the reforms to reducing their combined representation by two chairs, and there will be further scope for appointing second Alternate Executive Directors to enhance representation of multicountry constituencies. A comprehensive review of the formula for determining members' quotas will be completed by January 2013, and completion of the Fifteenth General Review of Quotas will be moved up to January 2014. A comparative table of quota shares before and after implementation of the reforms is available on the IMF's website.⁴⁴

The reform package was subsequently approved by the Board of Governors in December 2010.⁴⁵ The proposed quota increases and the amendment must now be accepted by the membership, which in many cases involves parliamentary approval. Members committed to making their best efforts to complete ratification by the 2012 Annual Meetings.

The quota shift under the reforms would exceed the target set in October 2009 by the IMFC of a shift in quota share of at least 5 percent from overrepresented countries to underrepresented countries, while protecting the voting share of the poorest members. The 10 largest members of the Fund would consist of the United States, Japan, the BRIC countries, and the four largest European countries (France, Germany, Italy, and the United Kingdom). The Executive Board endorsed a timeline that calls for the quota increase and realignments and the proposed amendment on Executive Board reform to take effect by the 2012 Annual Meetings.

The reform was the culmination of a number of Board meetings between the Spring Meetings, when the IMFC called for acceleration of quota and governance reforms, and the November announcement of the reform package,⁴⁶ as well as inputs from the Independent Evaluation Office, outside experts, and civil society in recent years. Among these numerous Board meetings was a broad discussion on IMF governance reform in July 2010.⁴⁷ At that July discussion, Board members' views remained divided on approaching governance and quota reforms as a package. Nevertheless, all Executive Directors underscored the importance of moving to a shared vision of reforms to enhance the Fund's legitimacy and effectiveness.

In their discussion of enhancing ministerial engagement and oversight, Executive Directors agreed that engagement by ministers and governors is essential to the effective discharge of the institution's responsibilities, including promotion of multilateral cooperation and coherence of policies. However, views on the best means of delivering such engagement—whether through reform of the advisory IMFC or a shift to a decision-making entity—continued to differ.

Many Executive Directors remained unconvinced of the need for a new ministerial-level decision-making body. They cautioned against weakening the Board of Governors and the Executive Board or upsetting the current accountability framework, which they viewed as appropriate. Against the background of a proposal to establish such a new decision-making body, many called for further reforms of the IMFC, including its procedures, through shorter term limits for the IMFC Chair, more interactive plenary discussions, and earlier circulation of draft communiqués.

Executive Directors stressed that representation at the Board must respect the principle of voluntary constituency formation. Many Executive Directors viewed a move to an all-elected Board, together with steps to avoid further concentration in voting power, as useful to level the playing field among Executive Directors. However, a number of others argued against changing well-established rules, noting that the existing system provided appropriate limits to the

concentration of voting power, critical to an effective Board. Most Executive Directors noted that greater leeway to appoint a second Alternate Executive Director for multicountry constituencies could facilitate a recomposition of the Board.

In the area of management selection and staff diversity, Executive Directors reiterated their commitment to an open and transparent process for selecting management, and many agreed that a political commitment to end the unwritten understandings that govern the selection of management would be necessary. They emphasized that more needed to be done to promote staff diversity—with respect to nationality, gender, and background—particularly at senior levels. They looked forward to keeping abreast of efforts to strengthen results.

Modernizing the Fund's mandate

The global crisis exposed weaknesses in economic oversight—national, regional, and global—prior to the crisis, prompting major institutional innovations to uncover risks and meet large and diverse financing needs. At the October 2009 Annual Meetings, the IMFC called for the Fund to “review its mandate to cover the full range of macroeconomic and financial sector policies that bear on global stability.” The mandate work covers three broad areas: surveillance, financing, and the stability of the international monetary system.

Executive Board report to the IMFC

In response to the IMFC's call to review the Fund's mandate, the Executive Board held formal and informal discussions on various aspects of the issue in the first half of FY2011 and delivered a report to the IMFC on progress in this area at the October 2010 Annual Meetings. The Board continued its consideration of the Fund's mandate in the remaining months of FY2011, with an informal briefing on next steps in regard to the Fund's future financing role, a number of discussions in regard to the Fourteenth General Review of Quotas and further discussion of governance reform (see previous section), and a follow-up discussion on modernizing the Fund's surveillance mandate and modalities (see Chapter 3).

Future financing role

In August 2010, the Executive Board approved a set of reforms to further strengthen the IMF's crisis prevention role by refining the Flexible Credit Line and establishing a new Precautionary Credit Line (see “Enhancing the Crisis Prevention Toolkit” in Chapter 3). Executive Directors also considered options for enhancing the Fund's response to systemic crises and underlined the importance of a strengthened global financial safety net, with the IMF playing a central role within its mandate.⁴⁸

Executive Directors concurred with staff assessments that although the experience with the FCL during the global financial crisis had been positive, the line's attractiveness and signaling effects could be further improved by removing the implicit cap on access and lengthening the duration of purchase rights. While reaffirm-

ing the FCL's qualification requirements, they stressed the need for continued strict and evenhanded qualification assessments to safeguard the use of IMF resources and send clear signals to markets regarding the strength of members' policies.

Executive Directors welcomed the staff's proposed procedures regarding early Board involvement in assessments of members' need for IMF resources and of the impact of contemplated access on the Fund's liquidity position. They generally agreed that the current upward-sloping commitment fee schedule is adequate for guarding against unduly large precautionary use of Fund resources.

As a dedicated instrument in the credit tranches for sound performers that do not meet FCL qualification standards, it was observed, the PCL could provide positive market signals about members' policies and track records through the qualification assessment. While some concerns remained about certain aspects of the establishment of the PCL—including the proliferation and overlap of instruments, the perceived tiering of the membership, and the assessment process—Executive Directors generally considered that the diverse needs of the membership would be best met by tailoring IMF financing instruments and conditionality to the varying strengths, fundamentals, and policies of members.

Executive Directors called for rigorous and evenhanded assessments of qualification for use of Fund resources, conducted in a confidential manner and only upon request of a member. Although a wide range of views were expressed on the desirable nature and extent of ex post conditionality in the PCL, on balance, Executive Directors agreed that the staff's proposal to focus policy conditionality on reducing remaining vulnerabilities, with use of prior actions and performance criteria where warranted, struck the appropriate balance and was consistent with the IMF's Guidelines on Conditionality.⁴⁹

Executive Directors had an initial discussion of options for strengthening the IMF's response to systemic shocks, including the proposal to establish a Global Stabilization Mechanism. On balance, most Executive Directors were open to further discussion of options and modalities to address systemic events in the context of a simplified mechanism, as a process that is centered on decisions by the Executive Board and that emphasizes close cooperation with relevant institutions, relies on existing IMF instruments and policies, and makes allowance for consensual and simultaneous offers of FCL arrangements to multiple countries. Further interaction with the membership would be critical, it was noted, to forge the broadest possible consensus. Executive Directors also supported further work by the staff to explore enhanced synergies with regional financing arrangements.

MEMBERSHIP, BOARD, AND INSTITUTIONAL ACTIVITIES

Membership

Tuvalu became the IMF's 187th member in June 2010, when it signed the Fund's Articles of Agreement.⁵⁰ In April 2011, the IMF



Left IMFC Chairman Tharman Shanmugaratnam addresses the media at a Spring Meetings press conference. **Right** The parliament building sits on the atoll of Funafuti, the capital of Tuvalu, the IMF's 187th member country.



received an application from the authorities of South Sudan for admission to membership, which is currently under consideration according to the IMF's established membership procedures.⁵¹

Acceptance of Article VIII obligations by the Lao People's Democratic Republic

In July 2010, the government of the Lao People's Democratic Republic, which joined the IMF in 1961, notified the IMF that it had accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement, effective May 28, 2010.⁵² In doing so, the country undertook not to impose restrictions on the making of payments and transfers for current international transactions, and not to engage in, or permit any of its fiscal agencies to engage in, any discriminatory currency arrangements or multiple currency practices, except with IMF approval. A total of 167 of the IMF's 187 members have now accepted the obligations under Article VIII (see Appendix Table II.8).

Executive Board

2010 election of Board members

Under current arrangements, the IMF's Executive Board is composed of 24 Executive Directors, 5 of whom are appointed and 19 of whom are elected by member countries or by groups of countries, and the Managing Director, who serves as its Chair. The Articles of Agreement require a regular election of Executive Directors to take place every two years. The 2010 regular election of the IMF Executive Directors was completed and the new Executive Board took office in November 2010, with the term of the Executive Directors running through October 31, 2012.⁵³ In accordance with the requirement in the Articles, the next regular election of the Executive Board will be held in the fall of 2012. The objective is to hold the 2012 elections under the reform package approved by the Board of Governors in December 2010, under which, as noted previously, the Executive Board will consist solely of elected Executive Directors.

Maximizing Executive Board efficiency and effectiveness

In May 2010, the Working Group on Executive Board Committees assigned top priority to identifying reforms to increase the Board's effectiveness and efficiency. Among the measures taken to handle the continued heavy workload in the aftermath of the global crisis were (1) prioritization of policy and country items in the work program to smooth work flow and minimize clustering of Board meetings before the Spring Meetings and Annual Meetings, (2) improved coordination between the Board, management, and staff in implementing the work program calendar, (3) increased use of lapse-of-time procedures for Article IV consultations and program reviews, and (4) more-focused preparations for Board meetings to provide added room for discussions to concentrate on strategic issues.

IMFC Chairmanship

The IMFC, comprising finance ministers and central bank governors, is the Board of Governors' primary advisory body and deliberates on the principal policy issues facing the IMF. It meets twice a year, in the spring and at the time of the IMF–World Bank Annual Meetings in the fall.

In March 2011, IMFC members selected Tharman Shanmugaratnam, Minister for Finance of Singapore, as Chairman of the Committee, for a term of up to three years.⁵⁴ Minister Tharman has been Singapore's Minister for Finance since December 2007, having served earlier as the Minister for Education. Before his entry into politics, he held the post of the Managing Director of the Monetary Authority of Singapore, Singapore's central bank and financial regulator. He brings broad experience, deep knowledge of economic and financial issues, and active engagement with global policymakers to his role as IMFC Chair.

Minister Tharman succeeded Dr. Youssef Boutros-Ghali, Egypt's former Minister of Finance, who resigned the previous month.⁵⁵

Dr. Boutros-Ghali had served as IMFC Chairman since October 2008. The former Managing Director expressed his gratitude to Dr. Boutros-Ghali for his service to the IMF and its membership, noting that under his chairmanship, the IMFC had played an instrumental role in providing advice and guidance to help secure policy coordination for a global recovery from the financial crisis, and to shape the future of the IMF—through the modernization of IMF surveillance, the overhaul of its lending framework, and the quota and governance reform.

Passing of Alternate Governor Moeketsi Senaoana

The IMF community was saddened by the death of Central Bank of Lesotho Governor and IMF Alternate Governor Moeketsi Senaoana in March 2011.⁵⁶ A specialist in the fields of macroeconomics and economic development, Dr. Senaoana brought a wealth of experience to his dealings with the Fund. His previous roles included Minister of Finance and Development Planning and Senior Finance and Investment Policy Advisor for the Southern African Development Community. He also taught economics at the National University of Lesotho. Following Dr. Senaoana's passing, the former Managing Director expressed heartfelt condolences to the people of Lesotho and Dr. Senaoana's family, noting that he would be sorely missed.

Annual and Spring Meetings revamp

As part of ongoing efforts to modernize and promote greater engagement among stakeholders, a number of reforms were introduced at the October 2010 Annual Meetings and the April 2011 Spring Meetings. The overall aim was to maximize the potential of the meetings as a premier forum for policymakers and other stakeholders on the most pressing international macroeconomic and financial issues. The number and variety of events were substantially expanded to broaden the impact and appeal of the meetings. A new, more modern logo was designed to give the meetings consistent brand recognition. The meetings' schedule was compressed and anchored around the streamlined plenary session, with the Governors' speeches webcast. Requests for meetings by the G-20, Group of Twenty-Four (G-24), and Commonwealth were accommodated, as well as an enhanced program of seminars and conferences. Increased digital signage and touch screens provided participants with a wide variety of information in real time. An online collaboration network for delegates and staff, "IMFConnect," was launched. The IMF reached out to audiences through the international, regional, and national

press, as well as through social media. It established additional media partnerships (BBC, CCTV, CNBC, FT, NDTV) for the seminar program and expanded its fellowship programs to enable journalists and representatives of civil society organizations from emerging and developing economies to cover the meetings.

BUILDING CAPACITY IN MEMBER COUNTRIES

Capacity building, a core function of the IMF, consists of technical assistance (TA) and training designed to strengthen the capacity of recipient countries to implement macroeconomic policy in support of sustained growth.

Technical assistance

At the request of member countries, the IMF provides TA to give more in-depth policy advice on specialized issues and help put in place institutional arrangements for the design and implementation of sound macroeconomic, financial, and structural policies. TA activities are integrated with IMF surveillance and lending and support the IMF's general policy advice. Through in-depth discussion with countries on technical matters, capacity-building activities also help IMF staff stay up to date on emerging risks to the international economy.

The IMF offers TA in its areas of core expertise: fiscal affairs, monetary and capital markets, statistics, and legal frameworks governing economic activities (Figure 4.1). In FY2011, the IMF provided TA to more than 180 of its member countries all over the world (Figure 4.2), with about 60 percent delivered to low- and lower-middle-income countries (Figure 4.3) and a significant increase in TA delivered to upper-middle- and high-income countries as a result of the crisis in Europe. TA to countries with IMF-supported programs continued to increase (Figure 4.4).

Technical assistance initiatives

Responding to the crisis

In FY2011, the IMF's TA focused on helping countries recover from the global financial crisis and its aftermath. Assistance on fiscal issues was deployed in countries hit hard by the global crisis,

Box 4.1

A half-century of Fund service: A. Shakour Shaalan

In January 2011, the Executive Board expressed its appreciation to its Dean, A. Shakour Shaalan, for his five decades of dedicated service to the IMF. An Egyptian national, Mr. Shaalan joined the Fund as an economist in the Research Department in 1961. In 1969, he moved to the Middle Eastern Department, initially as Division Chief and later as Director, managing the department with grace and very strong leadership. In 1992, Mr. Shaalan

became Executive Director for Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, the Syrian Arab Republic, and the Republic of Yemen. At the Board's commemoration of Mr. Shaalan's service to the Fund, former Managing Director Dominique Strauss-Kahn described him as "an incredible ambassador of the Fund to its members, an advocate of the staff, and a very cooperative partner to management."

such as Greece, Hungary, Iceland, and Latvia. This assistance identified tax and expenditure measures that could be adopted by these countries' authorities in their adjustment programs, as many of the measures ultimately were. To help countries strengthen public finances over the longer term, IMF TA also recommended measures to improve budget controls, public financial management, and revenue administration. Requests increased for assistance dealing with the causes and consequences of financial crises, particularly on crisis resolution, financial sector surveillance, stress testing, regulatory reform, cross-border bank resolution, macroprudential policy, systemic liquidity management, and managing public sector balance sheet risks. For instance, finan-

cial sector TA has been an essential part of the IMF's assistance to deal with the severe impact of the global crisis in Iceland and debt crisis in Jamaica.

Traditional capacity-building technical assistance

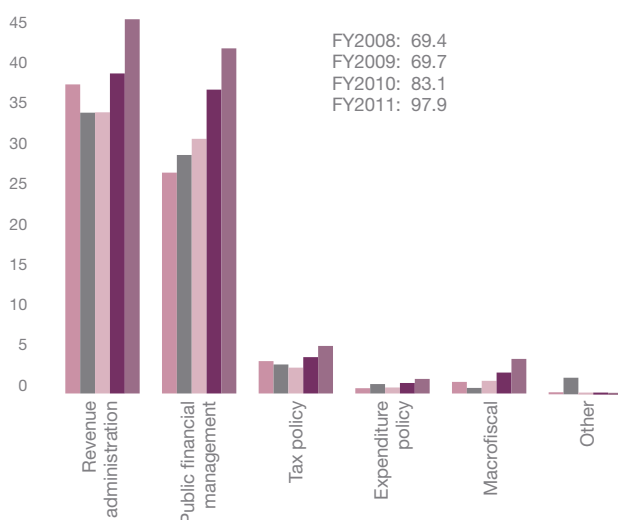
Demand for TA in the area of *fiscal affairs* remained high in FY2011, with assistance delivered during the year to help reinforce basic institutional infrastructure, tax policy and administration, resilience of the financial sector, the soundness of monetary operations, and high-quality statistics in low- and middle-income countries, as well as in fragile states.

Figure 4.1

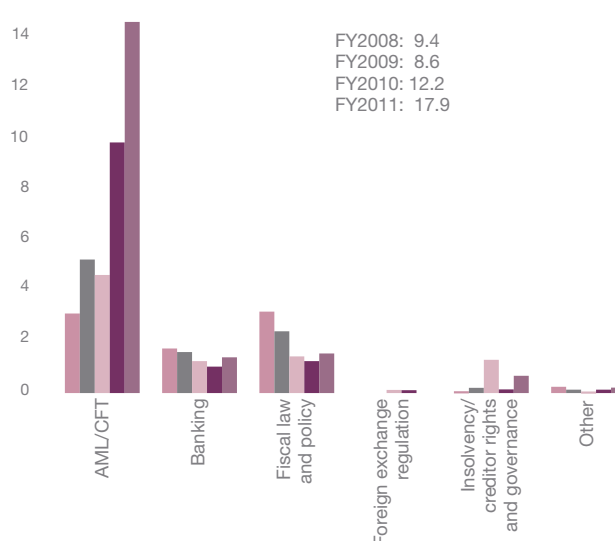
TA delivery by subjects and topics (In person-years)

● FY2007 ● FY2008 ● FY2009 ● FY2010 ● FY2011

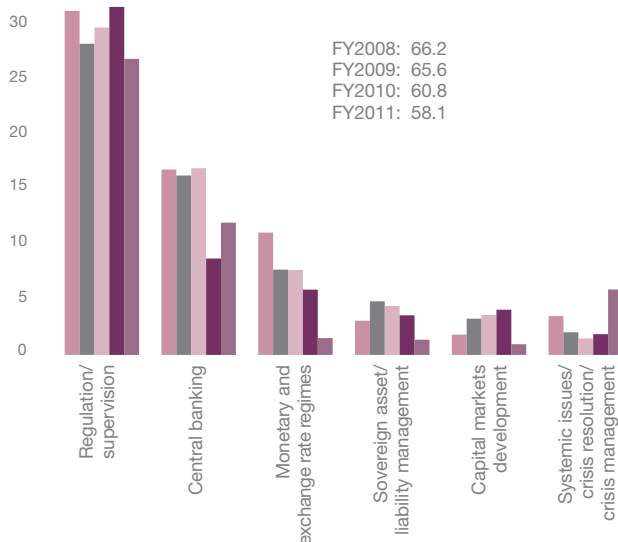
Fiscal Affairs



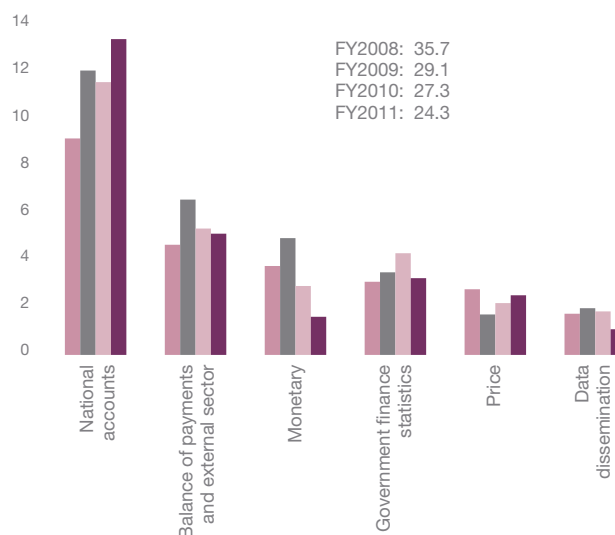
Legal



Monetary and Capital Markets



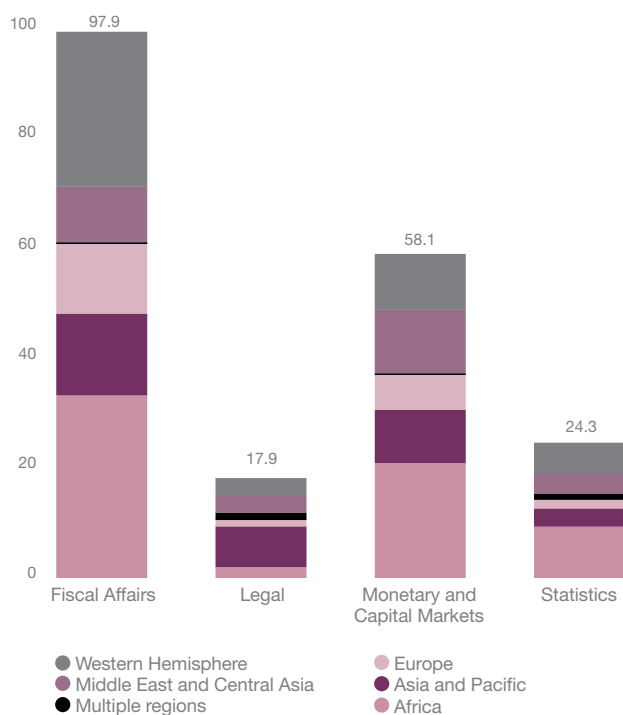
Statistics



Source: IMF Office of Technical Assistance Management.

Figure 4.2

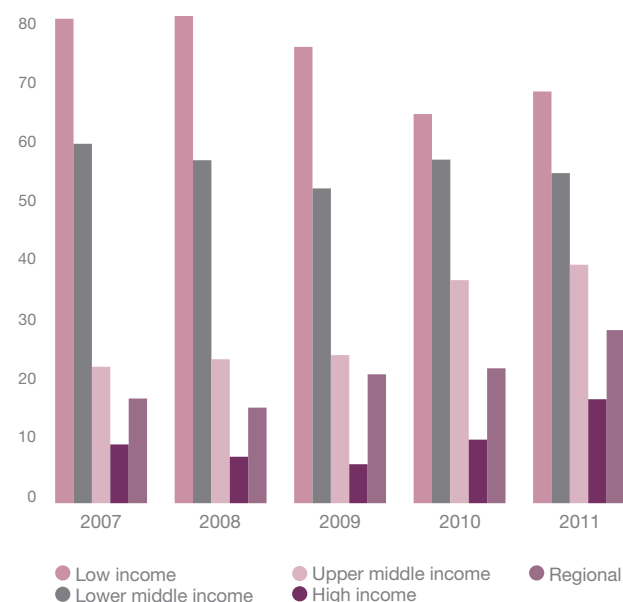
TA delivery during FY2011 by subjects and regions
(In person-years)



Source: IMF Office of Technical Assistance Management.

Figure 4.3

TA delivery by income group (In person-years)



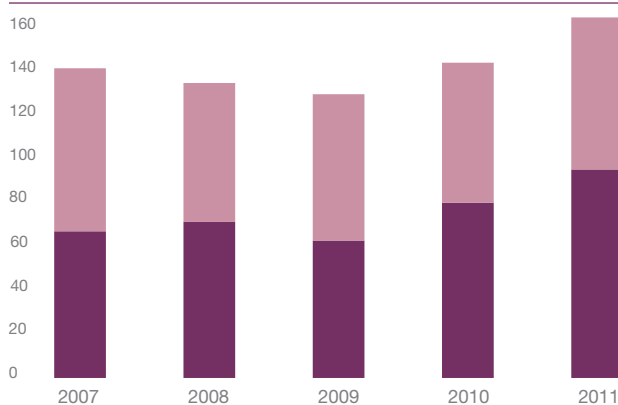
Source: IMF Office of Technical Assistance Management.

Figure 4.4

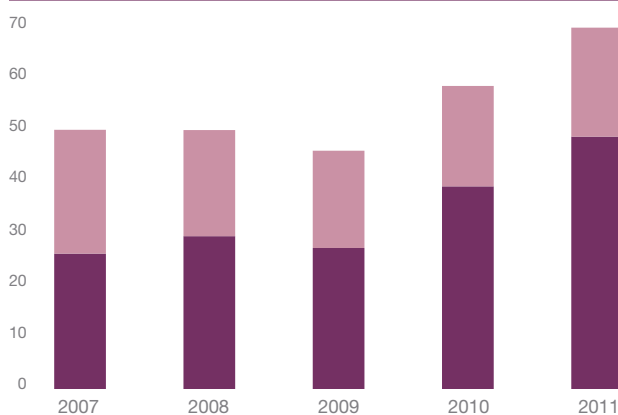
TA by country status

Other (light pink) Program countries (dark purple)

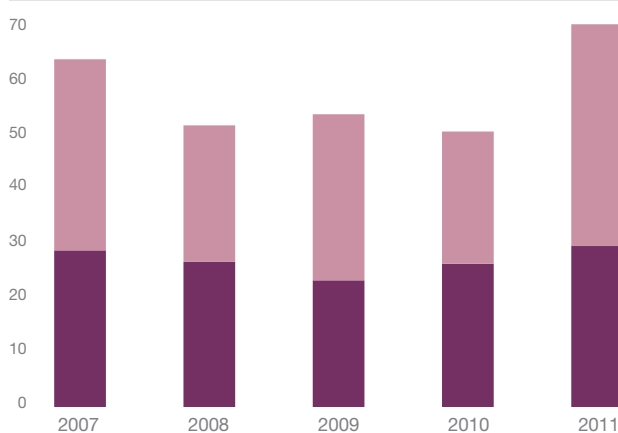
IMF Overall¹



Fiscal Affairs



Monetary and Capital Markets



Source: IMF Office of Technical Assistance Management.

¹ Does not include training delivered by IMF Institute.



Left Representatives of civil society organizations, journalists, and youth fellows exchange views at the 2011 Spring Meetings. **Right** Women prepare paprika in a village near Strumica, former Yugoslav Republic of Macedonia.



Capacity-building TA in the fiscal area during the year was wide ranging. TA to Haiti aimed at helping to mobilize external aid for reconstruction, in particular, through improving macrofiscal forecasting and reporting, cash management, and government accounting. Assistance for Jordan, Mexico, Nigeria, Panama, and Peru covered specialized areas such as fiscal risk analysis, public-private partnership management, and fiscal aspects of sovereign wealth fund design. In addition, Fund TA supported the former Yugoslav Republic of Macedonia in long-term capacity building and tax administration reforms, Peru in reorganizing the Ministry of Finance and introducing a single treasury account, and Vietnam in implementing a reform strategy for tax policy and administration.

Capacity-building TA on *monetary and financial* issues during the year helped countries improve monetary operations and guided them on ways to strengthen central bank accounting. Long-term experts in Cambodia, Indonesia, the Philippines, and Vietnam worked with counterparts to strengthen banking supervision.

Work continued in FY2011 to help countries improve the compilation of macroeconomic and financial *statistics*. Among the highlights, IMF experts worked with 72 countries to complete a Coordinated Direct Investment Survey in December 2010 and to help these countries improve data on foreign direct investment. The IMF also helped a number of African countries improve economic statistics and data dissemination and several Caribbean countries to develop more accurate GDP and price statistics series. In addition, experts assisted a number of sub-Saharan African countries in implementing regional standards for government finance statistics. With IMF assistance, many other countries also upgraded statistical reporting and data dissemination.

Advice on *legal* issues focused on frameworks governing economic policy, anti-money laundering and combating the financing of terrorism, and obligations under the IMF Articles of Agreement. Complementing TA in the fiscal and financial sector, legal experts helped countries draft legislation on financial sector issues, taxation, public financial management, and corporate and household insolvency issues.

Reforms of the technical assistance program

The IMF continued to enhance the effectiveness of its TA in FY2011 by expanding its partnerships with donors and improv-

ing management of donor-financed TA activities. Donor contributions to finance IMF capacity-building activities have been instrumental in allowing the Fund to respond to rising demand, including requests for more-specialized advice (Figure 4.5).

Regional Technical Assistance Centers

Donor financing is instrumental in funding the operations of the IMF's seven Regional Technical Assistance Centers (RTACs), located in the Pacific, the Caribbean, Africa, the Middle East, and Central America. These regional centers are an important part of the IMF's regional approach to technical assistance and training, which allows assistance to be better tailored to the particular needs of each region and enhances the IMF's ability to respond quickly to emerging needs.

In response to the recipient countries' request, the IMF continued expanding its network of RTACs. Following extensive preparations, AFRITAC South started operations in June 2011 in Mauritius. It serves southern Africa, with donor support from the African Development Bank, Australia, Brazil, Canada, the European Union's regional program with regional organizations (the Indian Ocean Commission, the Common Market for Eastern and Southern Africa, the East African Community, and the Intergovernmental Authority on Development), the European Investment Bank, Finland, Switzerland, and the United Kingdom. Pending sufficient financing, another RTAC is expected to open in 2012 to serve non-Francophone western Africa (which will complete coverage of sub-Saharan Africa). A center to serve Central Asia is also planned.

Major funding drives are also under way for new phases of the existing RTACs, which are also expanding in response to demand.

Topical trust funds

Donor financing is also critical for support of technical assistance provided through the IMF's topical trust funds (TTFs), which covers specialized topics and complements the regionally focused assistance delivered through the RTACs. The first TTF, which began operations in May 2009, concentrates on capacity building in connection with anti-money laundering and combating the financing of terrorism (AML/CFT).

Work plans for FY2012 have been endorsed by donors for two new TTFs (in the areas of tax policy and administration and

managing natural resource wealth).⁵⁷ These two new trust funds are financed by Australia, Belgium, the European Union, Germany, Kuwait, Luxembourg, the Netherlands, Norway, Oman, and Switzerland, which have pledged US\$45 million or over 80 percent of the two TTFs' five-year budgets. As many of these donors also supported the first TTF, their willingness to extend their participation to other similar initiatives signals that they consider TTFs to be an effective way to coordinate capacity building and leverage IMF expertise. Preparations are also under way for launching a TTF on the externally financed appointees program, and work continues on organizing TTFs on economic statistics and sustainable debt strategy and to support training for Africa.

Expanding bilateral partnerships with donors

The IMF works continuously to widen and deepen its bilateral partnerships with donors. After contributing to the support of RTACs in December 2009, the European Union entered into its first bilateral agreement with the IMF to support the institution's capacity-building activities in November 2010. The IMF also intensified its partnerships in FY2011 with Japan (the largest donor to the Fund's capacity-building initiatives), the United Kingdom, Switzerland, Canada, Australia, Norway, the Netherlands, France, and New Zealand, all of which continued to support IMF TA during the year despite fiscal pressures. Japan, for instance, committed more than US\$100 million over FY2010–12. Sweden resumed its support of IMF TA in FY2011, contributing to a new multidonor Liberia Macro Fiscal Trust Fund. In addition, a letter of understanding was signed with the World Bank during the year for a US\$5.6 million project funded by Canada to support economic management in the Caribbean, and a letter of understanding with the United States—its first—was also signed. In FY2011, total funding received to support capacity building was around US\$120 million, up by 21 percent from the previous year (see Web Table 4.1).

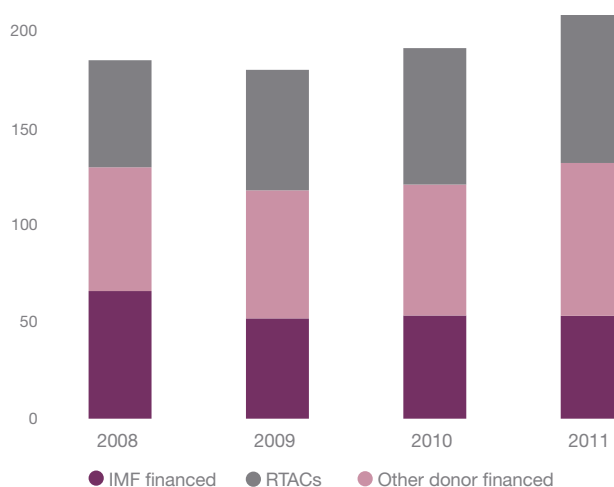
Improving effectiveness and efficiency

The Fund continued to make progress in FY2011 towards achieving the objectives of its 2008 TA reform, which include enhanced efficiency, strengthened internal prioritization, and improved costing. This progress has helped attract donor contributions (see previous subsection), which have enabled the Fund to meet the increased demand for capacity building since the Fund was downsized in 2008–09. In light of the major structural changes that had taken place, the IMF eliminated the policy for country contributions for capacity building before it was to enter into effect (May 1, 2011). While envisaged in the 2008 TA reform, implementation of the charging policy had been postponed in view of the crisis and at the urging of a number of member countries. The decision to eliminate this policy was based on the assessment that the costs of charging for capacity-building activities were higher than the limited benefits in the new environment, and also to mitigate the risk that charging could result in diverting TA to those that can pay.

A number of working groups were convened in FY2011 to follow up on the 2008 reform and focus on various aspects of enhancing the effectiveness and efficiency of the IMF's TA. A working

Figure 4.5

TA delivery by the IMF (In person-years)



Note: Data do not include IMF Institute.

Source: IMF Office of Technical Assistance Management.

group on IMF TA financing examined the right mix between donor and IMF financing to ensure sufficient flexibility to respond to urgent TA needs. Another working group, on results-based management, reviewed international practices to develop an IMF approach in this area, drawing on the existing TA planning and implementation process. A third working group focused on drawing up recommendations to standardize the operations of all RTACs and further align RTAC TA with other IMF TA.

Additionally, evaluations of selected capacity-building activities continue to be undertaken, including assessments of their effectiveness and efficiency. In FY2011, the IMF facilitated evaluations of the Belgian, Swiss, and Japanese bilateral trust funds and started preparations for independent external evaluations of the AML/CFT topical trust fund and a study of the administrative cost of the RTAC in the Caribbean, which are expected to commence in FY2012.

Training

Training for member country officials is an integral part of the IMF's capacity-building efforts. Courses and seminars are designed to share IMF staff expertise on a wide array of topics critical to effective macroeconomic and financial analysis and policymaking, including courses on the compilation of macroeconomic statistics and various fiscal, monetary, and legal issues. Most of the training is provided through a program organized by the IMF Institute (in collaboration with other departments), delivered mainly at IMF headquarters, at seven regional training centers around the world, and through distance learning.

Important progress has been made on the key medium-term goal of rebuilding the volume of training with donor support, following cuts in FY2009 owing to the IMF's restructuring exercise. In FY2011, more than 9,000 participant-weeks of training were



Left A small-scale factory manufactures cement blocks by hand in Port-au-Prince, Haiti. **Right** Attendees listen to speakers at a conference on low-income countries at IMF headquarters in November 2010.



delivered through the IMF Institute program—a 6 percent increase from FY2009—attended by 4,200 officials (see Web Table 4.2). Training for Latin America received increased support with the expansion of the Joint Regional Training Center for Latin America in Brazil in May 2010.⁵⁸ An agreement between Kuwait and the IMF signed in November 2010 to create a new IMF–Middle East Center for Economics and Finance will substantially increase the support for IMF training in that region beginning in FY2012.⁵⁹ The IMF Institute has further strengthened the evaluation of training, providing additional feedback to donors (see Box 4.2).

The training curriculum is continually adapted to the IMF's priorities and the evolving needs of member countries; to this end, additional training was provided in FY2011 on macroeconomic diagnostics and financial sector issues. The IMF Institute held a high-level seminar, "Natural Resources, Finance and Development: Confronting Old and New Challenges," in Algeria, and a conference, "Financial Regulation and Supervision: Lessons

from the Crisis," jointly with the George Washington University. A high-level panel and regional dialogue, "Growth and Employment in Europe," was held at the Joint Vienna Institute.

DATA AND DATA STANDARDS INITIATIVES

The IMF's standards for data dissemination

Data dissemination standards help enhance the availability of timely and comprehensive statistics, which contributes to the pursuit of sound macroeconomic policies. Among the steps the IMF has taken to enhance transparency and openness is the establishment and strengthening of data dissemination standards to guide countries. The Special Data Dissemination Standard (SDDS), established in March 1996, is intended to guide members in the provision of their economic and financial data to the public. The General Data Dissemination System (GDDS), established

Box 4.2

Evaluating the effectiveness of IMF Institute training

The IMF Institute utilizes a variety of monitoring and evaluation techniques to ensure that its programs are meeting the training needs of member countries. Techniques include (1) quantitative and qualitative evaluations of training from the participants at the end of every course; (2) input from the Institute's partners at the regional training centers; (3) a triennial survey of participants' sponsoring agencies, carried out by an internationally known research firm; (4) brainstorming meetings with senior country officials; and (5) follow-up surveys one year to 18 months after a sample of courses, to assess whether benefits from the training are sustained. These surveys, launched in FY2011, are also conducted by an independent market research firm to ensure the anonymity of responses. Follow-up surveys were conducted

in FY2011 for seven courses delivered in FY2010 (two at the IMF's Singapore Training Institute, two at the Joint Vienna Institute, one at the India Training Program, one at IMF headquarters, and one offered through distance learning). Questionnaires were sent to the participants and to the managers in their agencies who had sponsored their participation in the training.

The feedback received through these various evaluation channels has been very positive. In the new follow-up surveys, participants and their sponsors overwhelmingly confirmed that the training had helped participants do their jobs better and enhanced their promotion prospects, and that participants had shared what they learned with colleagues.

Box 4.3

Data and statistics activities in FY2011

The recent crisis reaffirmed an old lesson: that good data and good analysis are essential for effective surveillance and policy responses at both the national and international levels. Partly in response to the data gaps highlighted by the crisis and partly as the result of ongoing efforts, FY2011 was a busy year for data and statistics at the IMF. Activities included launching *new online databases* to provide public access to key statistics that are relevant, coherent, and internationally comparable for use primarily by policymakers. The *Financial Access Survey* features indicators of geographic and demographic outreach of financial services; the *Quarterly Public Sector Debt Database* has public sector debt statistics for 35 countries, updated every three months, in collaboration with the World Bank; and the *Coordinated Direct Investment Survey* is the first worldwide survey of foreign direct investment positions, a collaborative effort by the IMF and its interagency partners the European Central Bank (ECB), Eurostat, the Organization for Economic Cooperation and Development (OECD), and the United Nations Conference on Trade and Development (UNCTAD).

During the year, the IMF released the second part of its *Handbook on Securities Statistics*, which covers debt securities holdings, with the Bank for International Settlements (BIS). Produced in response to calls by different international groups to develop methodological standards for securities statistics,

the *Handbook* is designed to help national and international agencies produce securities statistics for use in monetary policy formulation and financial stability analysis. The *Handbook* is a joint initiative with the Bank for International Settlements and the European Central Bank. Part 1 of the *Handbook*, on debt securities issues, was released in May 2009. Part 3, on nondebt securities, is expected to be released in FY2012.

The Fund worked with partner organizations during the year to organize conferences on data and statistics, such as the *Conference on Strengthening Position and Flow Data in the Macroeconomic Accounts*, held jointly with the OECD, which focused on compiling sectoral integrated macroeconomic accounts to fill an important data gap identified in the wake of the financial crisis. A conference of G-20 senior officials on the *G-20 Data Gaps Initiative* held at IMF headquarters in Washington, D.C., in March 2011, jointly with the FSB Secretariat, took stock of the progress made on the initiative. In preparation for the conference, the Fund held a meeting of the *Inter-Agency Group on Economic and Financial Statistics*, which includes the BIS, ECB, Eurostat, IMF (chair), OECD, United Nations, and World Bank. The Fund established a *Government Finance Statistics Advisory Committee*, with country experts and representatives from international agencies and data users, to help improve fiscal statistics.

in 1997, provides a framework to help countries develop their statistical systems to produce comprehensive and accurate statistics for policymaking and analysis. Participation in the SDDS and GDDS is voluntary.⁶⁰

In May 2010, Georgia subscribed to the SDDS, bringing the number of subscribing countries to 68. Bhutan and Kosovo joined the GDDS in May 2010 and April 2011, respectively, bringing to 98 the number of GDDS participants (excluding the countries that have graduated from the GDDS to the SDDS). Comprehensive information on the statistical production and dissemination practices of Bhutan, Georgia, and Kosovo now appears on the IMF's Dissemination Standards Bulletin Board, which provides access to the SDDS, GDDS, and Data Quality Reference sites.⁶¹

Interim report for the Eighth Review of the Fund's Data Standards Initiatives

In its March 2010 discussion on broadening financial indicators in the SDDS, the Executive Board agreed to accelerate the timing of the Eighth Review of the Fund's Data Standards Initiatives and requested an interim briefing within a year of that discussion; in February 2011, the Board discussed the Interim Report prepared by the staff in response to that request.⁶² The Interim Report was built on work for the G-20 economies and paves the way for preparation of the Eighth Review to fill data gaps and promote transparency through data dissemination.

Executive Directors took note of the satisfactory progress with recent modifications to the IMF's data standards, including the addition of financial soundness indicators to the SDDS and alignment of the GDDS with the SDDS. They were encouraged by the positive overall feedback received from subscribers, participants, and other stakeholders, while noting areas where there is scope for improvement. They noted that the global financial crisis had highlighted the need for high-quality, comparable, and timely data, which are crucial for early detection of risks and vulnerabilities.

Executive Directors recognized that, although a lack of data was not a main cause of the global financial crisis, the crisis revealed serious data gaps in key areas where interlinkages across institutions and markets could pose risks and vulnerabilities to the national and global financial systems. This argues, it was noted, for consideration of an efficient way to address these gaps, especially for countries with systemically important global financial sectors. Accordingly, most Executive Directors supported further work on a proposal for an "SDDS Plus" as an additional tier of the Fund's Data Standards Initiatives, along the broad outline and modalities mapped out in the Interim Report.

Executive Directors looked forward to considering concrete proposals for enhancements to the SDDS at the time of the Eighth Review in 2012, as well as a fruitful discussion on the possible modalities for addressing data gaps identified by the recent crisis, along with further analysis of the resource implications.

5 FINANCES, ORGANIZATION, AND ACCOUNTABILITY



5

FINANCES, ORGANIZATION, AND ACCOUNTABILITY

The global crisis highlighted the need for a substantial increase in the IMF's resources for providing financing to member countries. During FY2011, the IMF approved a historic increase in members' quotas, which is now awaiting ratification by the Fund membership to become effective, and also approved and activated a significant expansion of its standing arrangements to borrow from member countries, significantly augmenting its resources available to provide such financing. It also signed bilateral agreements with a number of member countries to support both nonconcessional and concessional lending. Conclusion of the Fund's limited gold sales during the year will ensure funding of an endowment under the Fund's new income model endorsed in 2008. There is also support for making resources linked to the gold sales profits available to provide concessional assistance to low-income countries, though agreement on the final strategy is still pending.

The Executive Board completed its annual review of the IMF's administrative and capital budgets, approving an FY2012 budget that includes initial financing for major building repairs to the older of the Fund's two headquarters buildings (HQ1) and the Concordia building, as well as necessary investments in information technology equipment and software. It also reviewed the adequacy of the Fund's precautionary balances and its safeguards assessment policy. The Executive Board welcomed the formation of an external panel of experts to review the framework used by the Fund to manage its strategic, financial, and operational risks. It also approved extending the mandate of the Fund's Office of Internal Audit and Inspection (OIA) to cover audits of financial expenses and compliance with Fund policies, regulations, and procedures of the Executive Board and its related entities, including the Offices of Executive Directors and the Independent Evaluation Office.

In the area of human resources, strong efforts in recruitment continued in FY2011, as did the implementation of significant human resources reforms. Dominique Strauss-Kahn resigned as Managing Director in May 2011, and the Executive Board initiated the selection process for the next Managing Director, which was completed in June 2011, with the naming of Christine Lagarde as the Fund's new Managing Director. After Deputy Managing Director Murilo Portugal left the Fund in March 2011, he was replaced by a new Deputy, Nemat Shafik.

The Independent Evaluation Office continued its work in evaluating IMF policies and activities, publishing an assessment of the IMF's performance in the period leading up to the global crisis, completing work on an evaluation of research at the IMF, and initiating the work program for upcoming evaluations. Outreach continued to form an important part of the Fund's overall strategy, with the Regional Advisory Groups meeting jointly for the first time at the 2010 Annual Meetings and significant initiatives to improve the Fund's relationships with its Asian members and to increase its engagement with trade unions.

BUDGET AND INCOME

Quota increases

The IMF's resources for providing financing come primarily from the quota subscriptions each country pays upon joining the Fund, broadly based on its relative size in the world economy. As discussed in Chapter 4, two recent reforms are expected to substantially increase IMF members' quotas. In March 2011, the IMF's 2008 quota and voice reforms entered into force. The reforms include quota increases for 54 member countries amounting to SDR 20.8 billion (about US\$33.7 billion). In December 2010, the IMF's Board of Governors approved further reforms that, when ratified by the membership, will double member quotas to approximately SDR 476.8 billion (about US\$772.9 billion). This unprecedented augmentation of members' quotas is targeted for completion before the 2012 Annual Meetings.

Expansion and activation of New Arrangements to Borrow

To supplement its quota resources, the IMF has two standing sets of credit lines, the General Arrangements to Borrow (GAB, established in 1962) and the New Arrangements to Borrow (NAB, established in 1998). Under these arrangements, a number of member countries or their institutions stand ready to lend additional funds to the IMF, through activation of the arrangements.

In April 2009, in the face of a sharp increase in the demand for IMF financing resulting from the global crisis, G-20 leaders (with the IMFC's subsequent endorsement) called on the IMF to increase available resources for providing such financing. In November 2009, the 26 NAB participants at the time and 13 prospective new participants reached agreement in principle on an expanded and more flexible NAB, and in April 2010, the IMF adopted a formal decision to expand the NAB substantially, adding 13 new participants, including a significant number of emerging markets. This reform of the NAB was subject to ratification by the existing 26 participants and required that a minimum threshold of new participants notify the Fund of their adherence to the expanded NAB. In March 2011, the IMF announced that the ratification process was complete and that the expansion had taken effect.⁶³ Once all new participants have notified the Fund of their adherence

to the expanded NAB (which in a few cases still requires completion of domestic approval procedures), the expansion will increase the NAB more than tenfold, from SDR 34 billion (about US\$55 billion) to SDR 367.5 billion (about US\$576 billion). As of April 30, 2011, total effective NAB credit arrangements stood at SDR 363.2 billion.

In April 2011, the IMF announced that its Executive Board had formally completed the process for the first activation of the expanded NAB, which required the consent of participants with an 85 percent majority of total credit arrangements among participants eligible to vote, and the approval of the Board.⁶⁴ Given the substantial increase in quota resources that is expected to become available once the quota increase under the Fourteenth General Review of Quotas comes into effect, it was agreed that the NAB should be correspondingly scaled back, with details to be determined during the upcoming review of the NAB that is expected to be completed by mid-November 2011.

Bilateral borrowing agreements

Supplemental financing agreements

To provide the IMF with access to supplemental financing while the proposed expansion of the NAB was pending, a number of countries signed bilateral loan and note purchase agreements (borrowing agreements) with the Fund. In addition to the 16 bilateral borrowing agreements and three note purchase agreements that went into effect in FY2009 and FY2010, a few borrowing agreements became effective in FY2011: with the Bank of Austria and Bank of Slovenia in October 2010 and the Bank of Italy in March 2011.⁶⁵ All three of these agreements were part of a March 2009 EU commitment to contribute up to €75 billion (then equal to about US\$100 billion) to support the IMF's lending capacity, which the EU subsequently augmented with a commitment for an additional €50 billion to the Fund's expanded NAB. Now that the expansion of the NAB has taken effect, bilateral borrowing arrangements with NAB participants are no longer being used to finance new commitments, and any outstanding balances under these bilateral lines may be folded into the NAB.

Agreements in support of lending to low-income countries

Following the Executive Board's approval of reforms to the IMF's concessional lending facilities in July 2009, the former Managing Director launched a fund-raising campaign seeking additional bilateral loan resources and subsidy contributions to support concessional lending under the PRGT. In FY2011, the IMF, as Trustee of the PRGT, signed a number of agreements with member countries to support lending in low-income countries. Loan agreements were signed with the Norwegian Ministry of Finance in June 2010, Netherlands Bank in July 2010, Bank of France in September 2010, Bank of Korea in January 2011, and Bank of Italy and Swiss National Bank in April 2011, and note purchase agreements were signed with the People's Bank of China, Japan, and the United Kingdom in September 2010.⁶⁶

Adequacy of the Fund's precautionary balances

The IMF maintains reserves as precautionary balances that can be used, if necessary, to absorb financial losses. In September 2010, the Executive Board reviewed the adequacy of the Fund's precautionary balances and considered a proposed shift to a more transparent, rules-based framework for assessing reserve adequacy and adjusting the precautionary balances target over time.⁶⁷

Executive Directors observed that, since the last review in late 2008, the balance of financial risks facing the Fund had shifted from income to credit risks as the Fund responded to members' needs in the global financial crisis. It was noted that while credit capacity had nearly doubled, credit outstanding had almost tripled, and total commitments had reached new highs. Credit concentration remained high,⁶⁸ and the size of the largest individual exposures had increased sharply and was projected to rise further.

Executive Directors stressed that, within the IMF's multilayered framework for managing credit risks,⁶⁹ an adequate level of precautionary balances remained essential in mitigating financial risks and protecting the value of reserve assets that members place with the Fund. The rules-based approach to assessing reserve adequacy proposed by the staff would, it was felt, increase the transparency of decisions on the target and provide greater guidance on the need for adjustments over time, while leaving scope for Board discretion in light of a broad assessment of the financial risks facing the Fund.

Executive Directors supported setting a floor for precautionary balances, to protect against an unexpected rise in credit risks and ensure a sustainable income position, and generally supported an initial floor of SDR 10 billion, while highlighting the need to keep this floor under review. Most supported maintaining the precautionary balances target broadly within a range of 20–30 percent of total credit, subject to such a floor.

Income, charges, remuneration, and burden sharing

Income

Since its inception, the IMF has relied primarily on its lending activities to fund its administrative expenses. A reform of the Fund's income model approved by the Board of Governors in May 2008 allows the IMF to diversify its sources of income through the establishment of an endowment funded within the Investment Account with the profits from a limited sale of the Fund's gold holdings (see "Gold Sales" later in the chapter), a broadening of the IMF's investment authority to enhance returns on investments, and resumption of the practice of reimbursing the Fund for the cost of administering the PRGT.

Broadening the Fund's investment authority required an amendment of the Articles of Agreement, and in February 2011, the proposed amendment to expand the investment authority became effective following ratification by the membership with the required majorities.⁷⁰ The amendment provides authority to broaden the range of instruments in which the IMF may invest,

in accordance with rules and regulations to be adopted by the Executive Board. Currencies in an amount equivalent to the gold profits of SDR 6.85 billion were transferred from the General Resources Account to the Investment Account in March 2011 and invested. The endowment envisioned in the revised income model is expected to be established following adoption by the Executive Board of new rules and regulations for the expanded investment authority authorizing such an endowment.

Charges

The main sources of IMF income continue to be its lending activities and investments. The basic rate of charge (the interest rate on IMF financing) comprises the SDR interest rate plus a margin expressed in basis points.⁷¹ For both FY2011 and FY2012, the Board agreed to keep the margin for the rate of charge unchanged, at 100 basis points. Consistent with the new income model, the decision was guided by the principles that the margin should cover the Fund's costs for intermediation and buildup of reserves and that it should be broadly aligned with rates in the capital markets.

Surcharges of 200 basis points are levied on the use of large amounts of credit (above 300 percent of a member's quota) in the credit tranches⁷² and under Extended Arrangements; these are referred to as level-based surcharges. The IMF also levies time-based surcharges of 100 basis points on the use of large amounts of credit (with the same threshold as above) that remains outstanding for more than 36 months.

In addition to periodic charges and surcharges, the IMF also levies service charges, commitment fees, and special charges. A service charge of 0.5 percent is levied on each drawing from the General Resources Account. A refundable commitment fee is charged on amounts available under GRA arrangements, such as Stand-By Arrangements, as well as Extended, Flexible Credit Line, and Precautionary Credit Line Arrangements, during each 12-month period. Commitment fees are levied at 15 basis points on amounts committed up to 200 percent of quota, 30 basis points on amounts committed in excess of 200 percent and up to 1,000 percent of quota, and 60 basis points on amounts committed over 1,000 percent of quota. The fees are refunded when credit is used, in proportion to the drawings made. The IMF also levies special charges on overdue principal payments and on charges that are overdue by less than six months.

Remuneration and interest

On the expenditure side, the IMF pays interest (remuneration) to members on their creditor positions in the GRA (known as reserve tranche positions). The Articles of Agreement provide that the rate of remuneration shall be not more than the SDR interest rate, nor less than 80 percent of that rate. The rate of remuneration is currently set at the SDR interest rate, which is also the current interest rate on IMF borrowing. As noted earlier in the chapter, in 2009, the Executive Board agreed to boost the IMF's lending capacity, via borrowings, as part of its near-term response to the global financial crisis. At April 30, 2011, the IMF

held borrowed funds from members through bilateral loans and note purchase agreements, and the enlarged and expanded New Arrangements to Borrow, amounting to SDR 19.7 billion.

Burden sharing

The IMF's rates of charge and remuneration are adjusted under a burden-sharing mechanism established in the mid-1980s that distributes the cost of overdue financial obligations equally between creditor and debtor members. Quarterly interest charges that are overdue (unpaid) for six months or more are recovered by increasing the rate of charge and reducing the rate of remuneration (burden-sharing adjustments). The amounts thus collected are refunded when the overdue charges are settled.

In FY2011, the adjustments for unpaid quarterly interest charges averaged less than 1 basis point, reflecting the rise in IMF credit outstanding owing to the effect of the global crisis on members and a similar increase in member reserve tranche positions. The adjusted rates of charge and remuneration averaged 1.35 percent and 0.35 percent, respectively, in FY2011.

Net income

The IMF's net operational income in FY2011, before taking account of profits from the gold sales it conducted, was SDR 780 million, reflecting primarily income from high levels of lending activity. The returns net of fees on the IMF's investments were 0.89 percent, outperforming the benchmark one- to three-year index by 54 basis points. Profits from the gold sales in FY2011 were SDR 3.1 billion and were transferred to the Fund's Investment Account for investment, as previously discussed.

Gold sales

As noted earlier in the chapter, the new income model for the IMF approved in 2008 includes the establishment of an endowment in the Investment Account funded from the profits of the sale of a limited portion of the IMF's gold holdings, with the objective of investing these resources and generating returns to contribute support to the IMF's budget while preserving the endowment's long-term real value. The Executive Board agreed in July 2009 that in addition to funding the endowment, part of the gold sale proceeds would also be used to increase the IMF's resources for concessional lending to low-income countries. In September 2009, the Board formally approved the sale of 403.3 metric tons of the IMF's gold, representing one-eighth of the institution's total holdings.

The gold sales were initiated in October 2009. Under modalities adopted to safeguard against disruption of the gold market, the Fund first offered gold for off-market sale (at market prices prevailing at the time of the sale) to official sector holders such as central banks. Three central banks purchased a total of 212 metric tons of the available gold within a few months of the offering, leaving a balance of 191.3 metric tons still available for purchase. In February 2010, the IMF announced plans to pursue a second phase of gold sales on the market, making it clear that off-market

sales could also continue, and that further sales to official holders would reduce, by a corresponding amount, the quantities of gold available for on-market sale.

As the on-market sales were taking place, in September 2010, the IMF announced a sale of 10 metric tons of gold, at prevailing market prices, to the Bangladesh Bank.⁷³ The following December, the IMF announced the conclusion of the limited gold sales program.⁷⁴

The IMF's gold sales generated total proceeds of SDR 9.54 billion. Of this amount, SDR 2.69 billion represented the gold's book value and SDR 6.85 billion represented profits. As noted, all sales (whether off market or on market) were based on market prices, which were higher than assumed at the time the new income model was endorsed. Funding the endowment with gold profits at the level originally assumed at the time the new income model was endorsed in 2008, and increasing resources for concessional lending to the levels agreed upon in July 2009, would have required an average sales price of US\$935 per ounce. The actual average sales price was US\$1,144 per ounce, resulting in additional "windfall" profits from the gold sales.

Use of gold sale profits

In April 2011, the Executive Board held a preliminary discussion on the use of the gold sale profits.⁷⁵ Executive Directors noted their expectation that at least SDR 4.4 billion (US\$7.0 billion) of the profits would be used to fund an endowment within the IMF's Investment Account, as previously specified.

They also affirmed their support for the strategy to use part of the profits to generate SDR 0.5–0.6 billion in end-2008 net present value (NPV) terms in resources for subsidies for the PRGT. However, use of resources linked to the gold sales to generate PRGT subsidies would require an indirect transfer mechanism: resources related to the gold sale profits would be distributed to members in proportion to quotas, and those members would be asked to return the resources (or broadly equivalent amounts) as subsidy contributions. Assuming 90 percent of the distribution would be returned by members, an estimated SDR 0.6–0.7 billion, in end-2008 NPV terms, would need to be distributed to generate bilateral subsidy contributions to the PRGT in the specified amounts (SDR 0.5–0.6 billion in end-2008 NPV terms). Executive Directors emphasized the importance of minimizing leakage in this process by seeking satisfactory assurances from members, prior to distribution of any resources, that they will return broadly equivalent amounts to the Fund as bilateral contributions to the PRGT.

With regard to the remaining windfall profits of about SDR 1.75 billion (US\$2.84 billion), Executive Directors discussed a number of preliminary options. Given the diversity of views expressed on the matter, the Board planned to revisit the potential uses of the windfall profits by the time of the 2011 Annual Meetings. It was decided that in the interim, the windfall profits would remain in the Investment Account and that an equivalent amount of FY2011 net income would be proposed for inclusion in the Fund's general reserves in the context of the FY2011 income disposition decisions, pending a future decision on their use.

Administrative and capital budgets

In April 2010, in the context of a FY2011–13 medium-term budget (MTB), the Executive Board authorized total net administrative expenditures for FY2011 of US\$891 million as well as a limit on gross expenditures of US\$1,013 million (see Table 5.1). It also approved capital expenditures of US\$48 million (see Table 5.2).

The FY2011 budget represented the final stage of the three-year restructuring program that started in FY2009. As part of the restructuring, the Fund's new structural steady-state budget was reduced by US\$100 million in real terms and the number of staff positions by 380, compared with the FY2008–10 MTB.

Meeting the demands of the global crisis, which struck only a few months into the restructuring effort, proved challenging. To fund crisis-related activities, a flexible approach was adopted: dollar budgets were shifted across departments through reallocation and across financial years by carrying forward unspent appropriations to the next financial year. This flexible approach continued in FY2011, with a structural net budget envelope of US\$891 million, and unspent resources from FY2010 authorized for spending in FY2011 of US\$62 million, for a total of US\$953 million. Of the latter, US\$52 million was specifically earmarked for temporary, crisis-related activities.

Actual net administrative expenditures in FY2011 amounted to US\$917 million, US\$36 million less than the budgeted US\$953 million, mainly as the result of underspending in travel, building facilities, and other operational expenditures. Actual spending on capital information technology (IT) was according to plan, while spending on facilities was kept to minimum levels. As the long-term investment plans for repairing HQ1 and the Concordia building (see Box 5.1) were developed during FY2011, only the most urgent facilities remediation or maintenance investments were carried out. Consistent with the previous year, IT investments focused on improving information and data management, the delivery of systems to support reforms to human resources, and improving operational efficiency.

For financial reporting purposes, the IMF's administrative expenses are accounted for in accordance with International Financial Reporting Standards (IFRS) rather than on a cash basis of budgetary outlays. IFRS require accounting on an accrual basis and the recording and amortization of employee benefit costs based on actuarial valuations. Table 5.3 provides a detailed reconciliation between the FY2011 net administrative budget outturn of US\$917 million and the IFRS-based administrative expenses of SDR 649 million (US\$999 million) as reported in the audited IMF financial statements.

The Fund's business plan for FY2011 focused on global cooperative solutions to work out effective exit strategies from stimulus policies, strengthen oversight of economic and financial systems, and reform the global financial architecture. Concurrently, the Fund continued to provide direct services to member countries through assistance and policy advice to countries affected by the crisis, and substantial technical assistance for capacity building in less-developed member countries (Table 5.4).

In April 2011, the Board approved a budget for FY2012 authorizing net administrative expenditures of US\$985 million and a limit on gross administrative expenditures of US\$1,161 million, which includes a carry-forward limit of US\$37 million to FY2012. The capital budget was set at US\$162 million, which includes initial financing for the major building repairs to HQ1 and the Concordia building (Box 5.1) and for necessary investments in IT equipment and software. The Board also endorsed indicative budgets for FY2013–14.

The FY2012–14 MTB aims to address recent changes in core IMF work—relating to crisis prevention, surveillance of the global economy, and financial sector analysis—through a modest (about 3 percent) increase in the Fund's underlying or “structural” budget. It also continues to provide funding, through an additional temporary expenditure envelope, for a temporary spike in crisis-related activities to assist countries directly affected by the ongoing global crisis. At the same time, the MTB incorporates substantial efforts that have been made to reallocate resources within and across departments so that the bulk of the savings achieved during the recent restructuring can be preserved despite the need for higher spending.

Arrears to the IMF

Overdue financial obligations to the IMF fell from SDR 1,309 million at end-April 2010 to SDR 1,305 million at end-April 2011 (Table 5.5). Sudan accounted for about 75 percent of remaining arrears, and Somalia and Zimbabwe for the remaining 18 and 7 percent, respectively. At end-April 2011, all arrears to the IMF were protracted (outstanding for more than six months); one-third consisted of overdue principal, the remaining two-thirds of overdue charges and interest. More than four-fifths represented arrears to the GRA, and the remainder to the Trust Fund and the PRGT. Zimbabwe is the only country with protracted arrears to the PRGT. The general SDR allocation in August 2009 has facilitated all protracted cases in remaining current in the SDR Department.

Under the IMF's strengthened cooperative strategy on arrears, remedial measures have been applied to address the protracted arrears. At the end of the financial year, Somalia and Sudan remained ineligible to use GRA resources. Zimbabwe will not be able to access GRA resources until it fully settles its arrears to the PRGT. A declaration of noncooperation, the partial suspension of technical assistance, and removal from the list of PRGT-eligible countries remain in place as remedial measures related to Zimbabwe's outstanding arrears. In January 2011, the Executive Board decided to continue the Fund's technical assistance to Zimbabwe in targeted areas.

Audit mechanisms

The IMF's audit mechanisms comprise an external audit firm, an internal audit function, and an independent External Audit Committee that exercises general oversight over the annual audit.

External Audit Committee

The External Audit Committee (EAC) has three members, selected by the Executive Board and appointed by the Managing Direc-

Table 5.1**Administrative budget by major expenditure category, FY2009–14**

(In millions of U.S. dollars)

	FY2009		FY2010		FY2011		FY2012	FY2013	FY2014
	Budget	Outturn	Budget	Outturn	Budget	Outturn	Budget	Budget	Budget
Personnel	697	659	710	694	739	757	823	849	857
Travel	98	77	89	89	104	94	107	110	111
Buildings and other	164	150	168	162	169	169	181	183	185
Annual Meetings	—	—	5	5	—	—	—	6	—
Contingency reserves	8	—	7	—	—	—	12	15	18
Total gross budget expenditures	967	885	979	950	1,013	1,021	1,123	1,163	1,172
Receipts ¹	-99	-72	-100	-87	-122	-104	-138	-159	-162
Total net budget expenditures	868	813	880	863	891	917	985	1,004	1,010
Carry-forward ²	—	—	52	...	62	...	34
Total net budget expenditures (including carry-forward)	868	813	932	863	953	917	1,019	1,004	1,010

Source: IMF Office of Budget and Planning.

Note: Components may not sum exactly to totals because of rounding. Dashes (—) represent zeroes; ellipsis points (...) indicate data are not available.

¹ Includes donor-financed activities, cost-sharing arrangements with the World Bank, sales of publications, and parking.² Resources carried forward from the previous year under established rules.**Table 5.2****Medium-term capital expenditure, FY2009–14**

(In millions of U.S. dollars)

	FY2009		FY2010		FY2011		FY2012	FY2013	FY2014
	Budget	Outturn	Budget	Outturn	Budget	Outturn	Budget	Budget	Budget
Building facilities ¹	17	17	15	12	17	22	128	350	4
Information technology	32	32	30	33	32	32	34	24	31
Total capital expenditures	48	49	45	45	48	54	162	374	35

Source: IMF Office of Budget and Planning.

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

¹ Includes major building repairs.**Table 5.3****Administrative expenses reported in the financial statements**

(In millions of U.S. dollars, unless otherwise indicated)

FY2011 net administrative budget outturn	917
Timing differences:	
Pension and postemployment benefits costs	31
Capital expenditure—amortization of current and prior years' expenditure	45
Amounts not included in the administrative budget (capital and restructuring budgets):	
Capital expenditure—items expensed immediately in accordance with IFRS	9
FY2011 IFRS restructuring costs ¹	1
Less: reimbursements to the General Department (from the PCDR Trust and the SDR Department)	-4
Total administrative expenses reported in the audited financial statements	999
Memorandum item:	
Total administrative expenses reported in the audited financial statements (in millions of SDRs)	649

Sources: IMF Finance Department and Office of Budget and Planning.

Note: Components may not sum exactly to totals because of rounding. Conversions are based on the average FY2011 U.S. dollar/SDR exchange rate of 1.54.

¹ Represents costs recognized during FY2011. In accordance with IFRS, certain restructuring costs are recognized prior to actual cash outlays; the FY2008 financial statements included a provision of SDR 68 million, equivalent to US\$111 million.

Table 5.4
Budgeted expenditures shares by responsibility area, FY2010–14¹
 (Percentage shares of total gross expenditures, excluding reserves)

	FY2010		FY2011		FY2012	FY2013	FY2014
	Budget	Outturn	Budget	Outturn	Budget	Budget	Budget
Global cooperative economic solutions	34	36	31	35	33	32	32
Global economic policy dialogue	20	20	20	22	21	21	21
Oversight of the global economic and financial system	14	16	12	13	12	11	11
Direct member services	66	64	69	65	67	68	68
Advise member countries on economic policies	23	22	22	22	21	21	21
Support countries' economic policy adjustments	19	19	20	19	18	18	17
Provide capacity building ²	24	23	27	24	28	30	30

Source: IMF Office of Budget and Planning.

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

¹ Support and governance expenditures are allocated across outputs. Excludes departmental carry-forward for FY2011.² Includes technical assistance and training.**Table 5.5**
Arrears to the IMF of countries with obligations overdue by six months or more and by type
 (In millions of SDRs; as of April 30, 2011)

	Total	By type		
		General Department (including Structural Adjustment Facility)	Trust Fund	PRGT
Somalia	231.4	223.2	8.2	—
Sudan	986.7	905.8	80.9	—
Zimbabwe	87.2	—	—	87.2
Total	1,305.2	1,128.9	89.1	87.2

Source: IMF Finance Department.

Box 5.1**Major building repairs at IMF headquarters**

The IMF's main capital expenditures over the medium term will be on repairs to HQ1 and the Concordia building. Several discussions with the Committee on the Budget have helped to work out appropriate remediation and implementation proposals. Both projects also include enhanced governance frameworks including project review teams, and in the case of HQ1, an external peer reviewer.

HQ1. Major portions of the HQ1 building are almost 40 years old and have exceeded or are reaching the end of their useful lives. Substantial investments will be required to replace a number of key building systems to ensure safety, energy efficiency, and more rational use of office space. Building assessments confirmed that major portions of the building's infrastructure were beyond their useful life and that several systems were at risk of imminent failure. A number of alternative approaches were identified, ranging from continued piecemeal repairs (the

least disruptive option for staff, but by far the most expensive) to a more comprehensive repair effort which would involve renovating two floors at a time. It was ultimately determined that the latter option was the most affordable and would place the building in good operational condition for the next 20 years. The repairs will take place over four years (FY2012–16).

Concordia. The Concordia extended-stay facility consists of the Concordia (45 years old) and Bond (80 years old) buildings and is mostly used to house students in IMF Institute courses. It is also reaching the end of its useful life, and major investment will be required to repair and maintain the facility. An in-depth analysis of the existing conditions of the buildings and remediation alternatives was undertaken in 2010 and early 2011. After careful consideration of options, staff recommended renovating Concordia over the next two years (FY2012–13) and selling the Bond building.

tor. Under the Fund's By-Laws and the terms of reference approved by the Executive Board, the EAC has general oversight of the annual audit. Members, who serve three-year terms on a staggered basis and are independent of the Fund, are nationals of different member countries and must possess the expertise and qualifications required to oversee the annual audit. Typically, EAC members have significant experience in international public accounting firms, the public sector, or academia.

The EAC selects one of its members as Chair, determines its own procedures, and is independent of the IMF's management in overseeing the annual audit. It meets in Washington, D.C., each year, normally in January, in June after the completion of the audit, and in July to report to the Executive Board. IMF staff and the external auditors consult with EAC members throughout the year. The 2011 EAC members are Arfan Ayass, Amelia Cabal, and Ulrich Graf (Chair).

External audit firm

The external audit firm, which is selected by the Executive Board in consultation with the EAC and appointed by the Managing Director, is responsible for conducting the IMF's annual external audit and expressing an opinion on its financial statements, accounts administered under Article V, Section 2(b), and the Staff Retirement Plan. At the conclusion of the annual audit, the EAC briefs the Executive Board on the audit results and transmits the report issued by the external audit firm, through the Managing Director and the Executive Board, for consideration by the Board of Governors. Two such Board briefings were conducted during FY2011, in July 2010 and February 2011.

The external audit firm is normally appointed for five years. Deloitte & Touche LLP is currently the IMF's external audit firm. It issued an unqualified audit opinion on the IMF's financial statements for the financial year ended April 30, 2011.

Office of Internal Audit and Inspection

The IMF's internal audit function is assigned to the Office of Internal Audit and Inspection, which independently examines the effectiveness of the Fund's risk management, control, and governance processes. In April 2011, the Executive Board decided, as part of a comprehensive internal audit framework, to extend the OIA's audit coverage to the Executive Board, offices of Executive Directors, and the Independent Evaluation Office and its staff. Prior to the Board's decision, the OIA's audit coverage extended only to Fund staff.

The OIA conducted about 20 audits and reviews in FY2011 in the following areas: financial audits on the adequacy of controls and procedures to safeguard and administer the IMF's financial assets and accounts, IT audits to evaluate the adequacy of IT management and the effectiveness of security measures, and operational and effectiveness reviews of work processes, associated controls, and the efficacy of operations in meeting the Fund's overall goals. It also conducted two confidential investigations and four advisory reviews to help in streamlining business processes to facilitate the implementation of internal development projects.

Separate from its internal audit function, OIA also serves as Secretariat to the Advisory Committee on Risk Management. In this capacity, OIA coordinates production of an annual risk management report to the Board.

In line with best practices, the OIA reports to IMF management and to the EAC, thus ensuring its independence. The Board is informed of OIA activities twice a year, via an activity report that contains information on the OIA's planned audits and reviews, as well as the results and status of audit recommendations, and all audit reports are shared with the Executive Board. The most recent informal Board briefing on these matters took place in December 2010. No significant weaknesses in the Fund's internal control structure and financial statements have been identified, while the implementation rate for recommendations stemming from audits/reviews is good.

Risk management

Efforts are ongoing to strengthen risk management at the IMF. The Advisory Committee on Risk Management provides a cross-departmental forum to discuss important incidents and risks, and prepares an annual report on risk management. The Board is periodically briefed on risk management issues, and in May 2010 held a discussion on the 2010 Report on Risk Management. Directors broadly concurred with the assessment of the main risks presented in the report, agreeing that the Fund's more prominent role has had ramifications for its financial, operational, and strategic risks.

Safeguards assessments policy

The IMF's safeguards assessment policy, which has been an integral part of the institution's lending operations since 2002, aims to provide assurances that central banks are able to adequately manage resources provided by the IMF, and provide reliable information. As of April 30, 2011, some 218 assessments of 90 central banks had been conducted. The safeguards policy is subject to periodic review, and in July 2010, the Executive Board concluded its third periodic review of the policy, which included discussion of a report prepared by an independent panel of experts assembled to advise the Executive Board in its review.⁷⁶

Executive Directors reiterated the continued effectiveness of the safeguards policy in helping mitigate the risks of misreporting and misuse of Fund resources and in maintaining the Fund's reputation as a prudent lender. They observed the positive impact of the policy on central bank operations, evidenced by a continuing trend towards enhanced transparency and improved control systems by central banks assessed. They also noted that the policy has played an important role in the detection and resolution of cases involving misreporting and governance abuse, but stressed that safeguards assessments alone cannot be a panacea for governance abuse and control overrides.

Executive Directors affirmed that the existing policy requirement for publication of financial statements that have been independently audited by high-quality firms in accordance with inter-

national standards remained broadly appropriate, as did the deadline of the first review under a new or augmented financing arrangement for completion of a safeguards assessment, and that these requirements should continue to be applied consistently. Against the backdrop of an increasing number of such cases recently, they welcomed the steps taken to ensure that an appropriate framework between the central bank and the state treasury is in place for timely servicing the member's financial obligations to the Fund, and endorsed their application as a standard procedure under the existing safeguards framework. The Board reviewed and endorsed a number of recommendations made by the independent panel, in particular, to sharpen the focus on governance and risk management in assessments, enhance collaboration with stakeholders, and promote transparency through wider dissemination of safeguards findings.

The next review of the policy is scheduled to take place in 2015.

External review panel to assess the Fund's risk management framework

In December 2010, the former Managing Director appointed a high-level external panel to undertake a review of the IMF's risk management framework, in accordance with the decision, at the time of the framework's establishment in 2007, to review it after three years. The review is intended to provide an objective and expert assessment of all aspects of the framework—the processes used to identify, evaluate, and mitigate potential risks to the Fund and its operations—recognizing the Fund's unique role in the international financial system, particularly its surveillance activities and responsibilities as a lender of last resort. The panel is chaired by Guillermo Ortiz and includes Jacob A. Frenkel, Malcolm D. Knight, and Thomas O'Neill as members. It was expected to issue its report before the 2011 Annual Meetings.

HUMAN RESOURCES POLICIES AND ORGANIZATION

Human resources in FY2011

Human resources management at the IMF aims at supporting the Fund's evolving business objectives by attracting and retaining a high-caliber, diverse staff, with a mix of relevant skills and experiences, and managing staff efficiently and effectively in an environment that rewards excellence and fosters teamwork. The Fund made significant progress toward these objectives in FY2011, through the continuation of a strong recruitment drive and the implementation of important human resources reforms.

Workforce characteristics

The pace of IMF recruitment remained high in FY2011. A total of 195 new staff members were brought on board during the year, compared with an average of about 150 hires annually in recent years. Moving in the direction of more flexible employment,

in particular in response to crisis-related temporary needs, about two-fifths of new staff were hired on a limited-term basis. To meet evolving business needs, the Fund recruited a higher proportion of midcareer economists, as well as staff with financial sector and fiscal/debt management skills.

As of April 30, 2011, the IMF had 1,949 professional and managerial staff and 473 staff at the support level. A list of the Fund's senior officers and the IMF's organization chart can be found on pages 63 and 64, respectively.

The IMF makes every effort to ensure that staff diversity reflects the institution's membership and recruits actively from all over the world.⁷⁷ Of the 187 member countries at end-April 2011, 142 were represented on the staff. Web Tables 5.1–5.4 show the distribution of the IMF's staff by nationality, gender, and country type and the staff salary structure. Recruitment for the Fund's Economist Program produced strong diversity results for FY2011: about 70 percent of those hired for the program came from underrepresented regions, and more than half were women. New policy measures were put in place during the year to raise the share of nationals from underrepresented regions at the managerial level. The proportion of nationals from developing and transition countries continued to grow, and the diversity benchmark for the representation of women at senior levels was met.

Management salary structure

Management remuneration is reviewed periodically by the Executive Board; the Managing Director's salary is approved by the Board of Governors. Annual adjustments are made on the basis of the Washington, D.C., consumer price index. Reflecting the responsibilities of each management position, as of July 1, 2010, the salary structure for management was as follows:

Managing Director	US\$450,380
First Deputy Managing Director	US\$391,630
Deputy Managing Directors	US\$372,980

The remuneration of Executive Directors was US\$235,180, and the remuneration of Alternate Executive Directors was US\$203,440. The average salary in FY2011 for IMF Senior Officers (see page 63) was US\$305,615.

Human resources reforms

Compensation and benefits

To increase the transparency and discipline of salary budgets and salary increases while maintaining the competitiveness of Fund salaries, a new system for determining merit pay and the salary budget was adopted in FY2011. Although the IMF's Medical Benefits Plan is not subject to U.S. law, the Fund voluntarily amended it to take into consideration U.S. health care reform in order to maintain alignment with comparator plans. An enhanced compensation and benefits program for locally hired employees in overseas offices was also developed.



Left IMF staff attend a town hall meeting in January 2011.
Right Newly appointed Deputy Managing Director Nemat Shafik (left) greets staff members soon after taking office in April 2011.



Staff survey

The IMF conducted a comprehensive survey of staff views in late 2010—the first since 2003—in which staff expressed their opinions on a range of workplace issues, such as career development, work environment, performance management, and leadership. Early in FY2012, the IMF's management adopted an action plan to address issues that were revealed by the results as areas of opportunity.

Modernizing human resources service delivery

Significant progress was made during the year in ongoing efforts to introduce technology as a way of improving human resources service delivery. Advances in the automation of benefits applications and enrollment, as well as electronic human resources records management, enhanced the effectiveness and efficiency of some core human resources activities.

Renewal of the Human Resources Department

The Fund's Human Resources Department began refocusing its activities in FY2011 to respond more effectively to the Fund's evolving business needs and achieve significant efficiency savings; that refocusing continued into the early part of FY2012. New priority areas include a strategic workforce planning capability, more support for external and internal staff mobility, and leadership development.

Management changes

Upon the resignation of Managing Director Dominique Strauss-Kahn early in FY2012, First Deputy Managing Director John

Lipsky—who had announced prior to the Managing Director's resignation that he would not seek to extend his term as First Deputy Managing Director when it expired—took over as Acting Managing Director. The Executive Board immediately initiated the selection process for the next Managing Director, and in June 2011 selected Christine Lagarde, who took office in July 2011.

In January 2011, Deputy Managing Director Murilo Portugal announced he was relinquishing his position as Deputy Managing Director,⁷⁸ agreeing to remain with the IMF as Special Advisor to the Managing Director until early March, when he returned to Brazil to assume the presidency of the Brazilian Banking Federation (FEBRABAN).

In February 2011, the former Managing Director proposed the appointment of Nemat Shafik, then Permanent Secretary of the U.K. Department for International Development, to fill the vacant Deputy Managing Director position.⁷⁹ Ms. Shafik, a national of Egypt, the United Kingdom, and the United States, was the youngest-ever Vice President of the World Bank, where she was responsible for a private sector and infrastructure portfolio of investments and was part of the senior management team of the International Finance Corporation. Ms. Shafik's appointment was subsequently confirmed by the Board, and she joined the IMF in April.

Passing of Tommaso Padoa-Schioppa

In December 2010, the IMF community was saddened to learn of the death of Tommaso Padoa-Schioppa (Box 5.2), who had served the IMF in a number of capacities, including as Chair of the IMFC in 2007–08.

ACCOUNTABILITY

Transparency policy

The IMF's transparency policy, enacted in 1999 and most recently revised in March 2010, states that "recognizing the importance of transparency, the Fund will strive to disclose documents and information on a timely basis unless strong and specific reasons argue against such disclosure." This principle, according to the policy, "respects, and will be applied to ensure, the voluntary nature of publication of documents that pertain to member countries."⁸⁰ The Executive Board receives annual updates on the implementation of the Fund's transparency policy; these reports are part of the information the IMF makes public as part of its efforts in the area of transparency. The 2010 update was provided to the Board in August 2010 and is available on the IMF's website.⁸¹

Independent Evaluation Office

Role of the office and its evaluations

The Independent Evaluation Office (IEO), established in 2001, evaluates IMF policies and activities with the goal of increasing the Fund's transparency and accountability, strengthening its learning culture, and supporting the Executive Board's institutional governance and oversight responsibilities. Under its terms of reference, the IEO is fully independent of Fund management and operates at arm's length from the Fund's Executive Board, to which it reports its findings.

IEO work program

Evaluation of IMF performance in the run-up to the financial and economic crisis

In February 2011, the IEO released its evaluation of the IMF's performance in the run-up to the financial and economic crisis, which focused on the performance of IMF surveillance during 2004–07.⁸² The report found that the IMF provided few clear warnings about the risks and vulnerabilities associated with the impending crisis before its outbreak. During the run-up to the crisis, the banner message of IMF surveillance, according to the report, was characterized by overconfidence in the soundness and resiliency of large financial institutions and endorsement of the financial practices in the main financial centers. The risks associated with housing booms and financial innovations were downplayed, as was the need for stronger regulation to address these risks.

Although the report focused on financial sector issues because of the nature of the crisis, most of its recommendations (see Box 5.3) deal with institutional changes that would improve the IMF's capacity to detect these and other types of risks and vulnerabilities that could be at the center of a future crisis. The main vehicle for taking forward the IEO's recommendations is the Triennial Surveillance Review (see Chapter 3).

In the Executive Board's January 2011 discussion of the IEO's evaluation, Executive Directors broadly agreed with the IEO findings on the factors that had contributed to the failure to identify risks and give clear warnings in the run-up to the global financial crisis. They broadly endorsed the IEO recommendations, particularly to help strengthen the IMF's institutional environment and analytical capacity. They considered that the report provided a balanced assessment of the failure of Fund surveillance to adequately anticipate and warn about the global crisis, consistent with the Fund's own reports that acknowledged these shortcomings. Executive Directors noted that the reform initiatives undertaken since the onset of the crisis would help enhance the candor and traction of surveillance. Nevertheless, they agreed that further actions should be considered.

Other IEO work in FY2011

In addition to the evaluation of the Fund's performance in regard to the global crisis, in FY2011 the IEO completed an evaluation of research at the IMF, which was discussed by the Executive Board early in FY2012, and the results of the evaluation were published shortly thereafter. The IEO's 2010 Annual Report was published in July 2010. Completed evaluations, issues papers, IEO Annual Reports, and other documentation are available on the IEO website (www.ieo-imf.org).

Upcoming IEO work

Following consultation with country authorities, Executive Directors, management, staff, and outside stakeholders, an informal Executive Board workshop was held in September 2010 to discuss topics for new IEO evaluations. The IEO subsequently initiated work on two evaluations, one of the IMF's role as a trusted advisor, and another of IMF advice and country perspectives on international reserves; work on a third evaluation was expected to begin later in 2011. The IEO is also consulting with various stakeholders to help define the proposed focus and approach for each evaluation and expects to post draft issues papers for public comment.

Implementation of IEO recommendations

To ensure systematic follow-up and monitoring of IEO recommendations endorsed by the Executive Board, soon after the Board discusses each IEO evaluation, IMF staff and management prepare a forward-looking plan for implementing those recommendations. Subsequently, progress is reported to the Board through periodic monitoring reports. In December 2010, the Board agreed to the management implementation plan and supplement submitted in response to the IEO evaluation of IMF interactions with member countries, discussed by the Board in December 2009.⁸³ In its evaluation report,⁸⁴ the IEO examined country perspectives on the IMF's country-level interactions during surveillance, program, and technical assistance missions in 2001–08 and put forward a series of recommendations aimed at enhancing the effectiveness of those interactions.



Left IEO Director Moises J. Schwartz presents results of the IEO's evaluation of IMF performance in the period leading up to the financial crisis. **Right** The IMF's HQ1 building will undergo substantial renovations over the next five years.



Box 5.2

Tommaso Padoa-Schioppa

Tommaso Padoa-Schioppa, who passed away in December 2010 at the age of 70, was Italy's Minister of Economy and Finance in 2006–08 and was, at the time of his death, the Chairman for Europe of Promontory Financial Group, a consulting firm for global financial services companies, and the President of Notre Europe, a prominent Paris-based think tank, as well as an unpaid adviser to the government of Greece. He was a former Chairman of the Trustees of the IASC (International Accounting Standards Committee) Foundation and member of the Executive Board of the European Central Bank, as well as the Chairman of the IMFC. Additionally, he served as Chairman of Italy's Commissione Nazionale per le Società e la Borsa (CONSOB), Deputy General Director of the Banca d'Italia, and General Director for Economic and Financial Affairs at the Commission of the European Communities. He was Joint Secretary to the Delors Committee, Chairman of the Banking Advisory Committee of the European

Commission, Chairman of the Basel Committee on Banking Supervision, and Chairman of the Committee on Payment and Settlement Systems.

Mr. Padoa-Schioppa was the author of more than 100 publications, many of them in English and in French. He graduated from the Luigi Bocconi University in Milan and held a master's degree from the Massachusetts Institute of Technology.

Former Managing Director Dominique Strauss-Kahn, in announcing Mr. Padoa-Schioppa's death, thanked him for "his long service to the international community," noting that "his continued service to the IMF, and to the promotion of global economic cooperation, remained an active feature of his life, even after he left government service." At the time of his passing, Mr. Padoa-Schioppa was serving as a member of the IMF's Regional Advisory Group for Europe.

The first external evaluation of the IEO took place in 2006. At that time, Executive Directors considered it appropriate to conduct another evaluation in five years. This second evaluation was expected to begin in the latter half of 2011.

Engagement with external stakeholders

Regional Advisory Groups

As part of a broader effort to strengthen its engagement with the membership and to better inform about its activities and policy advice, the IMF has formed informal Regional Advisory Groups for Africa, the Americas, Asia and the Pacific, Europe, the Middle East, and the Caucasus and Central Asia. The groups have an

independent, advisory function and bring different perspectives to the Fund's work in the regions. Their membership comprises prominent experts from the private and public sectors, as well as academia and civil society.

At the first joint meeting of the Advisory Groups, held at the October 2010 Annual Meetings,⁸⁵ members of the five groups⁸⁶ met with the former Managing Director and senior Fund management. Advisory Group members were debriefed on the outcome of the Annual Meetings and provided with an overview of the global economic developments. They also exchanged views about the implications of these developments for the challenges facing each region and the role of the Fund in helping them meet these challenges.

Box 5.3

The IEO report's recommendations and the staff's response

- **Create an environment that encourages candor and diverse/dissenting views**, by actively seeking alternative or dissenting views in Board and/or management discussions and creating a risk assessment unit that reports directly to management and organizes periodic Board seminars on the risk scenarios, among other measures. *The staff agreed that more could be done to seek alternative or dissenting views and that broadening the staff's financial sector expertise is important.*
- **Strengthen incentives to "speak truth to power,"** by encouraging staff to ask probing questions and challenge management's views and those of country authorities and considering issuing staff reports without the need for Board endorsement, in order to promote more effective bilateral surveillance, along with other steps. *The staff agreed that at a minimum, there must be readiness to speak truth to power in private when financial stability is at stake and where there is a concern about triggering an adverse market reaction, observing that this arguably had been done over the preceding two years since the onset of the crisis and would need to be carried forward consistently.*
- **Better integrate financial sector issues into macroeconomic assessments**, by ensuring that the coverage, periodicity, and participation in mandatory financial stability assessments reflect new developments in the rapidly changing financial markets and institutions, continuing to strengthen the FSAP, and other steps. *The staff noted that in addition to reforms of the FSAP, the Fund had taken other measures in this area since the crisis, such as additional hiring and better integration of financial sector experts, enhanced analysis of financial sector risks and surrounding policy issues in both multilateral and bilateral surveillance, the creation of a macrofinancial unit in the Research Department, and devoting significantly more resources to research and surveillance on financial markets and large complex financial institutions.*
- **Overcome silo behavior and mentality** by clarifying the rules and responsibilities for the internal review process, in particular, for "connecting the dots" and establishing inter-departmental collaboration at an earlier stage of the Article IV process and of the development of themes and ideas for multilateral surveillance documents. *The staff acknowledged that despite recent progress (such as the new internal review process, the spillover reports, the Vulnerability Exercise for advanced countries and the Early Warning Exercise, and weekly cross-departmental surveillance meetings), more could be done to foster cross-departmental collaboration, and would have appreciated more specific suggestions from the IEO on furthering collaboration.*
- **Deliver a clear, consistent message to the membership on the global outlook and risks**, by ensuring that the assessment of the global economy is consistent and comprehensive, taking a stance on a central scenario with clear specifications of risks and vulnerabilities around this scenario, and transmitting it to the membership clearly, and on issues of systemic importance, emphasizing risks and vulnerabilities instead of focusing on possible benign scenarios. *The staff noted recent efforts to strengthen the integration of the WEO and GFSR, including joint forewords and a new statement by the Managing Director that seeks to integrate themes. It cautioned that the recommendation to be ready to err more often in the direction of emphasizing risks and vulnerabilities in systemic cases could stoke bureaucratic impulses toward pro forma recitation of risks, thus increasing false alarms and reducing the traction of Fund surveillance.*

Asia 21

To strengthen the relationship between the IMF and Asia, the IMF and the government of Korea hosted a landmark conference, “Asia 21: Leading the Way Forward,” in July 2010 in Daejeon, marking the first time such a meeting had been held by the Fund in the region. The gathering brought together more than 500 high-level participants, including finance ministers, central bank governors, and business leaders from across the region, to discuss Asia’s leading role in the recovery from the global financial downturn. In addition to the former Managing Director, who opened the conference alongside Korea’s Minister of Strategy and Finance, other top IMF officials attending the conference were Deputy Managing Director Naoyuki Shinohara and Special Advisor Min Zhu.

At the conference’s conclusion, the IMF made three key commitments to Asia: working to make its analysis more useful and available to Asian members, working to strengthen the global financial safety net, and supporting the further strengthening of Asia’s role and voice in the global economy. These “Daejeon deliverables” are intended to significantly strengthen the partnership between the IMF and Asia.

Trade unions

Over the past few years, the IMF has undertaken efforts to broaden its interaction with labor at the international and national levels. The former Managing Director met with G-20 labor leaders on the eve of numerous G-20 summits, and a significant majority of IMF country teams include union meetings as a regular part of their interaction with stakeholders. In June 2010, the former Managing Director delivered a keynote speech and participated in a panel discussion at the Second Global Congress of the International Trade Union Confederation (ITUC) in Vancouver.

In September 2010, the IMF cosponsored with the International Labor Organization (ILO) in Oslo “The Challenges of Growth, Employment and Social Cohesion,” a high-level conference that brought together political, labor, and business leaders and leading academics to explore new ways of forging a sustainable, job-rich economic recovery from the global financial crisis.⁸⁷ At a follow-up “Dialogue on Growth and Employment in Europe” in Vienna in March 2011, representatives of the ITUC, European Trade Union Confederation, and national unions met with IMF and ILO officials to review the employment situation in Europe and to assess progress since the Oslo conference. As part of the Oslo commitments, the IMF and the ILO, together with the ITUC, are also jointly supporting a series of tripartite social consultations in several countries between government, employers, and trade union representatives, in which labor market and employment issues are to be discussed frankly and possible adjustments to existing policies considered.

Regional Economic Outlook Reports

The IMF publishes, as part of its World Economic and Financial Surveys, biannual *Regional Economic Outlook* reports (REOs),

providing more-detailed analysis of economic developments and key policy issues for five major world regions: Asia and the Pacific, Europe, the Middle East and Central Asia, sub-Saharan Africa, and the Western Hemisphere. Publication of the REOs is typically coordinated with extensive outreach events in each region. Press releases summarizing REO findings can be found on the IMF’s website, along with the full text of the REOs themselves, as well as transcripts and webcasts of press conferences held upon publication.⁸⁸

Regional offices

The IMF has small offices in countries around the world. In addition to Regional Technical Assistance Centers and Training Institutes (see Chapter 4), it has resident representative offices in many of its member countries, along with regional offices in Europe and Tokyo.

The IMF’s Offices in Europe (EUO) represent the Fund in the region, advising management and departments as needed, supporting the Fund’s operations in Europe, and providing a conduit for European views on issues of interest to the Fund. European-based institutions, including the Organization for Economic Cooperation and Development (OECD), EU, FSB, and Bank for International Settlements (BIS), are playing a crucial role in dealing with the economic and financial crisis. Strengthening the IMF’s coordination with these institutions has thus been paramount. EUO’s activities focus primarily on four areas. First, EUO contributes to the Fund’s multilateral and regional surveillance by representing the IMF in various institutions and by reporting on the views and activities of European-based international organizations, think tanks, and prominent experts, and participating in Fund consultations with EU institutions. Second, EUO represents the Fund in the day-to-day activities of the OECD’s Development Assistance Committee and has close working relationships with bilateral and multilateral development agencies in Europe. Third, EUO conducts extensive outreach to better inform the policy debate and disseminate the views of the Fund on key policy issues in Europe. Fourth, EUO works with the Human Resources Department to help fulfill the Fund’s recruitment objectives.

As the Fund’s window to the Asia and Pacific region, the importance of which is growing in the global economy, the Office for Asia and the Pacific (OAP) assists in monitoring economic and financial developments to help bring a more regionally focused perspective to the Fund’s surveillance. It seeks both to enhance the understanding of the Fund and its policies in the region and to keep the Fund informed of regional perspectives on key issues. In this capacity, OAP coordinates the Fund’s relations with regional fora in Asia, including the Asia-Pacific Economic Cooperation, the Association of South East Asian Nations (ASEAN), and ASEAN+3. OAP also organizes conferences and events that offer a forum for discussion of current topics central to the IMF’s work, as well as promoting capacity building in the region through the Japan-IMF scholarship program and macroeconomic seminar programs.

EXECUTIVE DIRECTORS AND ALTERNATES

as of April 30, 2011¹

APPOINTED

Meg Lundsager <i>Douglas A. Rediker</i>	United States
Mitsuhiro Furusawa <i>Tomoyuki Shimoda</i>	Japan
Klaus D. Stein <i>Stephan von Stenglin</i>	Germany
Ambroise Fayolle <i>Ayméric Ducrocq</i>	France
Alexander Gibbs <i>Robert Elder</i>	United Kingdom

ELECTED

Willy Kiekens (Belgium) <i>Johann Prader</i> (Austria)	Austria, Belarus, Belgium, Czech Republic, Hungary, Kosovo, Luxembourg, Slovak Republic, Slovenia, Turkey
Carlos Pérez-Verdía (Mexico) <i>José Rojas</i> (Venezuela, República Bolivariana de)	Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, República Bolivariana de Venezuela
Age F.P. Bakker (Netherlands) <i>Yuriy G. Yakusha</i> (Ukraine)	Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, former Yugoslav Republic of Macedonia, Moldova, Montenegro, Netherlands, Romania, Ukraine
Arrigo Sadun (Italy) <i>Panagiotis Roumeliotis</i> (Greece)	Albania, Greece, Italy, Malta, Portugal, San Marino, Timor-Leste
Duangmanee Vongpradhip (Thailand) <i>Aida Budiman</i> (Indonesia)	Brunei Darussalam, Cambodia, Republic of Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, Vietnam
HE Jianxiong (China) <i>LUO Yang</i> (China)	China
Christopher Legg (Australia) <i>Heenam Choi</i> (Korea)	Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, Uzbekistan, Vanuatu
Thomas Hockin (Canada) <i>Stephen O'Sullivan</i> (Ireland)	Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines

ELECTED (CONTINUED)

Benny Andersen (Denmark) <i>Audun Grønn</i> (Norway)	Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden
Moeketsi Majoro (Lesotho) <i>Momodou Saho</i> (The Gambia)	Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe
A. Shakour Shaalan (Egypt) <i>Sami Geadah</i> (Lebanon)	Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libyan Arab Jamahiriya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Republic of Yemen
Arvind Virmani (India) <i>P. Nandalal Weerasinghe</i> (Sri Lanka)	Bangladesh, Bhutan, India, Sri Lanka
Ahmed Alkholifey (Saudi Arabia) <i>Ahmed Al Nassar</i> (Saudi Arabia)	Saudi Arabia
Paulo Nogueira Batista, Jr. (Brazil) <i>Maria Angélica Arbeláez</i> (Colombia)	Brazil, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, Trinidad and Tobago
René Weber (Switzerland) <i>Katarzyna Zajdel-Kurowska</i> (Poland)	Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan
Aleksei V. Mozhin (Russian Federation) <i>Andrei Lushin</i> (Russian Federation)	Russian Federation
Mohammad Jafar Mojarraf (Islamic Republic of Iran) <i>Mohammed Daïri</i> (Morocco)	Islamic Republic of Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Morocco, Pakistan, Tunisia
Alfredo Mac Laughlin (Argentina) <i>Pablo García-Silva</i> (Chile)	Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay
Kossi Assimaidou (Togo) <i>Nguéto Tirainia Yambaye</i> (Chad)	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-Bissau, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé and Príncipe, Senegal, Togo

¹ The voting power of each chair can be found in Appendix IV on the Annual Report web page (www.imf.org/external/pubs/ft/ar/2011/eng/); changes in the Executive Board during FY2011 are listed in Appendix V on the Annual Report web page.

SENIOR OFFICERS

as of April 30, 2011

Olivier Blanchard, *Economic Counsellor*
 José Viñals, *Financial Counsellor*

AREA DEPARTMENTS

Antoinette Monsio Sayeh
Director, African Department

Anoop Singh
Director, Asia and Pacific Department

Antonio Borges
Director, European Department

Masood Ahmed
Director, Middle East and Central Asia Department

Nicolas Eyzaguirre
Director, Western Hemisphere Department

FUNCTIONAL AND SPECIAL SERVICES DEPARTMENTS

Andrew Tweedie
Director, Finance Department

Carlo Cottarelli
Director, Fiscal Affairs Department

Leslie Lipschitz
Director, IMF Institute

Sean Hagan
General Counsel and Director, Legal Department

José Viñals
Director, Monetary and Capital Markets Department

Olivier Blanchard
Director, Research Department

Adelheid Burgi-Schmelz
Director, Statistics Department

Reza Moghadam
Director, Strategy, Policy, and Review Department

INFORMATION AND LIAISON

Caroline Atkinson
Director, External Relations Department

Shogo Ishii
Director, Regional Office for Asia and the Pacific

Emmanuel van der Mensbrugghe
Director, Offices in Europe

Elliott Harris
Special Representative to the United Nations

SUPPORT SERVICES

Shirley Siegel
Director, Human Resources Department

Siddharth Tiwari
Secretary, Secretary's Department

Frank Harnischfeger
Director, Technology and General Services Department

Jonathan Palmer
Chief Information Officer, Technology and General Services Department

OFFICES

Daniel Citrin
Director, Office of Budget and Planning

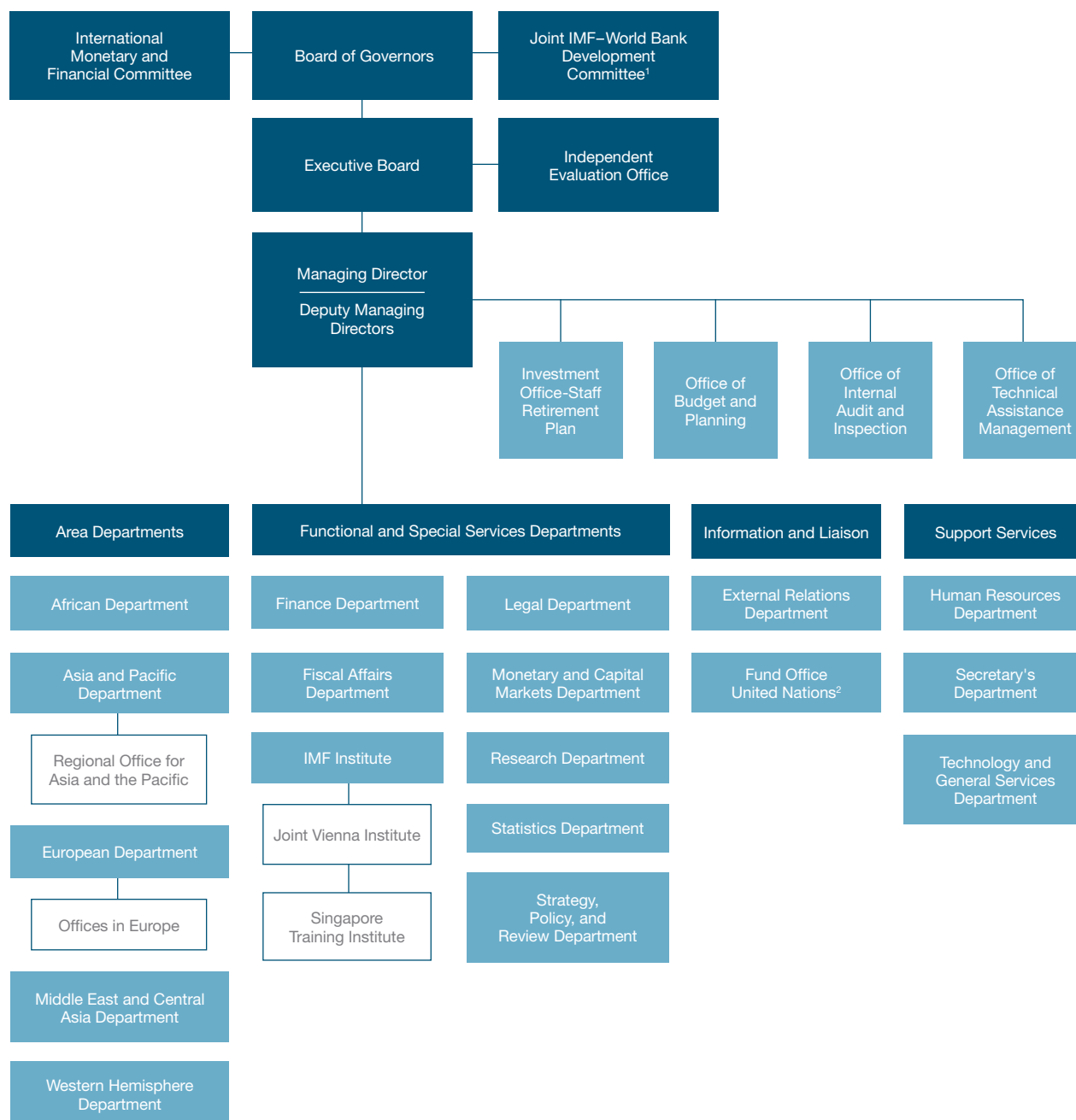
G. Russell Kincaid
Director, Office of Internal Audit and Inspection

J. Roberto Rosales
Director, Office of Technical Assistance Management

Moises J. Schwartz
Director, Independent Evaluation Office

IMF ORGANIZATION CHART

as of April 30, 2011



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 Attached to the Office of Managing Director.

NOTES

CHAPTER 1

- 1 The IMF's financial year (FY) begins on May 1 and ends the following April 30. This Annual Report covers FY2011, which ran from May 1, 2010, through April 30, 2011, though as necessary it makes reference to pertinent events that occurred after the end of April 2011 but before the Report went to press in mid-August.

CHAPTER 3

- 2 For additional information on the IMF's surveillance activities, see "Factsheet: IMF Surveillance" (www.imf.org/external/np/exr/facts/surv.htm).
- 3 See Public Information Notice (PIN) No. 10/128, "IMF Executive Board Discusses Follow-Up to Modernizing the Fund's Surveillance Mandate and Modalities" (www.imf.org/external/np/sec/pn/2010/pn10128.htm). The September Board discussion focused on selected ideas that had garnered support in previous Board discussions, including that in April 2010 on modernizing the Fund's surveillance mandate (see PIN No. 10/52, "IMF Executive Board Discusses Modernizing the Surveillance Mandate and Modalities and Financial Sector Surveillance and the Mandate of the Fund," www.imf.org/external/np/sec/pn/2010/pn1052.htm), as well as a broad review of the Fund's mandate covering surveillance, financing, and the stability of the international monetary system in February 2010 (see PIN No. 10/33, "The Fund's Mandate—An Overview of Issues and Legal Framework," www.imf.org/external/np/sec/pn/2010/pn1033.htm).
- 4 Systemic economies are those countries with financial sectors that have the greatest impact on global financial stability.
- 5 For more information on the FSAP, see "Factsheet: Financial Sector Assessment Program (FSAP)" (<http://www.imf.org/external/np/exr/facts/fsap.htm>).
- 6 See PIN No. 10/76, "IMF Executive Board Discusses Study on Emerging Markets' Performance During the Crisis" (www.imf.org/external/np/sec/pn/2010/pn1076.htm).
- 7 See PIN No. 10/59, "IMF Executive Board Discusses Revenue and Expenditure Policies for Fiscal Consolidation in the Wake of the Global Crisis" (www.imf.org/external/np/sec/pn/2010/pn1059.htm).
- 8 This figure includes amounts for arrangements that were subsequently cancelled.
- 9 The arrangement with Armenia is a blended arrangement under the Extended Fund Facility and Extended Credit Facility.
- 10 The arrangement with Honduras is a blended Stand-By Arrangement and arrangement under the Standby Credit Facility (a concessional facility funded by the Poverty Reduction and Growth Trust; see "Concessional Financing" later in the chapter).
- 11 In IMF terminology, disbursements under financing arrangements from the General Resources Account are termed "purchases" and repayments are referred to as "repurchases."
- 12 Once a country has met certain criteria, the Executive Boards of the IMF and World Bank decide on its qualification for debt relief, and the international community commits to reducing debt to a level that is considered sustainable. This first stage under the HIPC Initiative is referred to as the decision point. Once a country reaches its decision point, it may immediately begin receiving interim relief on its debt service falling due.
- 13 A country must meet additional criteria to reach its completion point, which allows it to receive the full debt relief committed at decision point under the HIPC Initiative.
- 14 Debt relief under the MDRI is provided to qualifying countries in support of their efforts to reach the United Nations' Millennium Development Goals.
- 15 See Press Release (PR) No. 10/299, "IMF Executive Board Cancels Haiti's Debt and Approves New Three-Year Program to Support Reconstruction and Economic Growth" (www.imf.org/external/np/sec/pr/2010/pr10299.htm).
- 16 See PR No. 10/321, "IMF Enhances Crisis Prevention Toolkit" (www.imf.org/external/np/sec/pr/2010/pr10321.htm).
- 17 In establishing the FCL in 2009, the Board expressed an expectation that access under FCL arrangements would normally not exceed 1,000 percent of quota, although there was no preset limit on access.
- 18 See PIN No. 10/92, "IMF Executive Board Establishes a Post-Catastrophe Debt Relief Trust" (www.imf.org/external/np/sec/pn/2010/pn1092.htm).

- 19 A transfer in the amount of SDR 280 million was subsequently approved.
- 20 See PIN No. 10/133, “IMF Executive Board Approves Fund Membership in the Financial Stability Board” (www.imf.org/external/np/sec/pn/2010/pn10133.htm).
- 21 See PIN No. 11/1, “IMF Executive Board Discusses the Fund’s Role Regarding Cross-Border Capital Flows” (www.imf.org/external/np/sec/pn/2011/pn1101.htm).
- 22 See PIN No. 11/42, “IMF Executive Board Discusses Recent Experiences in Managing Capital Inflows” (www.imf.org/external/np/sec/pn/2011/pn1142.htm).
- 23 See PIN No. 10/72, “IMF Discusses Reserves Accumulation and International Monetary Stability” (www.imf.org/external/np/sec/pn/2010/pn1072.htm).
- 24 See PIN No. 11/47, “IMF Executive Board Discusses Assessing Reserve Adequacy” (www.imf.org/external/np/sec/pn/2011/pn1147.htm).
- 25 See PIN No. 11/22, “IMF Executive Board Concludes the Meeting on Enhancing International Monetary Stability—A Role for the SDR?” (www.imf.org/external/np/sec/pn/2011/pn1122.htm). For more information about the SDR, an international reserve asset created by the IMF in 1969 to supplement its member countries’ official reserves, see “Fact-sheet: Special Drawing Rights (SDRs)” (www.imf.org/external/np/exr/facts/sdr.htm).
- 26 See PR No. 10/434, “IMF Determines New Currency Weights for SDR Valuation Basket” (www.imf.org/external/np/sec/pr/2010/pr10434.htm).
- 27 See PIN No. 10/149, “IMF Executive Board Completes the 2010 Review of SDR Valuation” (www.imf.org/external/np/sec/pn/2010/pn10149.htm).
- 28 The FSAP—the IMF’s premier tool for assessing members’ financial vulnerabilities and financial sector policies—is legally a technical assistance instrument with voluntary country participation, and assessments under the FSAP take place separately from members’ Article IV consultations, which are mandatory for all members.
- 29 See PIN No. 10/135, “IMF Executive Board Discusses Integrating Stability Assessments into Article IV Surveillance” (www.imf.org/external/np/sec/pn/2010/pn10135.htm) and PR No. 10/357, “IMF Expanding Surveillance to Require Mandatory Financial Stability Assessments of Countries with Systemically Important Financial Sectors” (www.imf.org/external/np/sec/pr/2010/pr10357.htm).
- 30 See PIN No. 11/46, “Macroprudential Policy: An Organizing Framework” (www.imf.org/external/np/sec/pn/2011/pn1146.htm).
- 31 The staff paper proposed the following definition of macroprudential policy: “an overarching policy to address the stability of the financial system as a whole, the objective of which is to limit systemic, or system-wide, financial risk.”
- 32 See PIN No. 10/89, “IMF Discusses Central Banking Lessons from the Crisis” (www.imf.org/external/np/sec/pn/2010/pn1089.htm).
- 33 See PIN No. 10/90, “IMF Executive Board Discusses Cross-Border Bank Resolution” (www.imf.org/external/np/sec/pn/2010/pn1090.htm).
- 34 See PIN No. 10/150, “IMF Executive Board Discusses Financial Interconnectedness” (www.imf.org/external/np/sec/pn/2010/pn10150.htm).
- 35 The FSB established the Working Group on Data Gaps and Systemic Linkages in early 2010 to address the recommendations in the IMF-FSB report “The Financial Crisis and Information Gaps” on the design of a common template for systemically important financial institutions. The IMF led the work stream on data availability and collection of new statistics.
- 36 See PIN No. 11/38, “Review of the Standards and Codes Initiative” (www.imf.org/external/np/sec/pn/2011/pn1138.htm). Web Box 3.2 provides background information on ROSCs, including statistics on ROSC completion in FY2011.
- 37 See PIN No. 10/148, “Emerging from the Global Crisis—Macroeconomic Challenges Facing Low-Income Countries” (www.imf.org/external/np/sec/pn/2010/pn10148.htm).
- 38 See PR No. 11/102, “IMF Introduces Framework for Low-Income Country Vulnerability Exercise to Assess Impact of External Shocks” (www.imf.org/external/np/sec/pr/2011/pr11102.htm).
- 39 See PIN No. 11/36, “IMF Executive Board Discusses Revenue Mobilization in Developing Countries” (www.imf.org/external/np/sec/pn/2011/pn1136.htm).

CHAPTER 4

- 40 Currently the members with the five largest quotas each appoint an Executive Director.
- 41 See PR No. 11/64, “The IMF’s 2008 Quota and Voice Reforms Take Effect” (www.imf.org/external/np/sec/pr/2011/pr1164.htm).
- 42 An amendment to the IMF’s Articles of Agreement enters into force for all members on the date the IMF certifies that three-fifths of IMF members representing 85 percent of the total voting power have accepted the amendment.
- 43 See PR No. 10/418, “IMF Executive Board Approves Major Overhaul of Quotas and Governance” (www.imf.org/external/np/sec/pr/2010/pr10418.htm).
- 44 See www.imf.org/external/np/sec/pr/2011/pdfs/quota_tbl.pdf.
- 45 See PR No. 10/477, “IMF Board of Governors Approves Major Quota and Governance Reforms” (www.imf.org/external/np/sec/pr/2010/pr10477.htm).

- ⁴⁶ These included discussions of considerations surrounding the size of the Fund (April), as well as a number of discussions in the specific context of the Fourteenth General Review of Quotas: further considerations regarding quota shares (July), further considerations on the review in general (September), and possible elements of a compromise (October), as well as the culminating discussions on the Fourteenth General Review and elements of an agreement regarding IMF quota and governance reform (November).
- ⁴⁷ See PIN No. 10/108, “IMF Executive Board Discusses IMF Governance Reform” (www.imf.org/external/np/sec/pn/2010/pn10108.htm).
- ⁴⁸ See PIN No. 10/124, “The Fund’s Mandate—Future Financing Role” (www.imf.org/external/np/sec/pn/2010/pn10124.htm).
- ⁴⁹ The IMF’s Guidelines on Conditionality, adopted in 2002, are available on the IMF’s website at www.imf.org/External/np/pdr/cond/2002/eng/guid/092302.htm. For general information on conditionality in IMF financing, see “Factsheet: IMF Conditionality” (www.imf.org/external/np/exr/facts/conditio.htm).
- ⁵⁰ See PR No. 10/256, “Tuvalu Joins the IMF as 187th Member” (www.imf.org/external/np/sec/pr/2010/pr10256.htm).
- ⁵¹ See PR No. 11/145, “IMF Receives Membership Application from South Sudan, Seeks Contributions to Technical Assistance Trust Fund to Help New Country” (www.imf.org/external/np/sec/pr/2011/pr11145.htm).
- ⁵² See PR No. 10/298, “Lao People’s Democratic Republic Accepts IMF’s Article VIII Obligations” (www.imf.org/external/np/sec/pr/2010/pr10298.htm).
- ⁵³ See PR No. 10/458, “IMF Membership Completes 2010 Executive Board Election” (www.imf.org/external/np/sec/pr/2010/pr10458.htm).
- ⁵⁴ See PR No. 11/96, “IMFC Selects Tharman Shanmugaratnam as New Chairman” (www.imf.org/external/np/sec/pr/2011/pr1196.htm).
- ⁵⁵ See PR No. 11/29, “Youssef Boutros-Ghali Resigns from the Chairmanship of the IMFC” (www.imf.org/external/np/sec/pr/2011/pr1129.htm).
- ⁵⁶ See PR No. 11/85, “Statement by IMF Managing Director Dominique Strauss-Kahn on Death of Central Bank of Lesotho Governor and IMF Alternate Governor Moeketsi Senoana” (www.imf.org/external/np/sec/pr/2011/pr1185.htm).
- ⁵⁷ See PR No. 10/497, “IMF Launches Trust Fund to Help Countries Manage Their Natural Resource Wealth” (www.imf.org/external/np/sec/pr/2010/pr10497.htm), and PR No. 10/500, “IMF Launches Trust Fund to Help Countries Improve Tax Policy and Administration” (www.imf.org/external/np/sec/pr/2010/pr10500.htm).
- ⁵⁸ See PR No. 10/215, “IMF Managing Director Dominique Strauss-Kahn Says Brazil Key in Global Economic Governance; Signs Agreement for New Joint Regional Training Center for Latin America” (www.imf.org/external/np/sec/pr/2010/pr10215.htm).
- ⁵⁹ See PR No. 10/412, “IMF and Kuwait Establish an IMF–Middle East Center for Economics and Finance” (www.imf.org/external/np/sec/pr/2010/pr10412.htm).
- ⁶⁰ For more information on the SDDS and GDDS, see “Factsheet: IMF Standards for Data Dissemination” (www.imf.org/external/np/exr/facts/data.htm), as well as Web Box 3.2.
- ⁶¹ This bulletin board is available via the IMF’s website (<http://dsbb.imf.org/Applications/web/gdds/gddscountrylist/>).
- ⁶² See PIN No. 11/33, “Interim Report for the Eighth Review of the IMF’s Data Standards and Codes Initiative” (www.imf.org/external/np/sec/pn/2011/pn1133.htm).

CHAPTER 5

- ⁶³ See PR No. 11/74, “Major Expansion of IMF Borrowing Arrangements Takes Effect, Boosting Resources for Crisis Resolution” (www.imf.org/external/np/sec/pr/2011/pr1174.htm).
- ⁶⁴ See PR No. 11/109, “IMF Activates Expanded Borrowing Arrangements” (www.imf.org/external/np/sec/pr/2011/pr11109.htm).
- ⁶⁵ See PR No. 10/281, “IMF Signs Agreement to Borrow up to €2.18 Billion from the Österreichische Nationalbank” (www.imf.org/external/np/sec/pr/2010/pr10281.htm); PR No. 10/384, “IMF Signs Agreement to Borrow up to €280 Million from the Bank of Slovenia” (www.imf.org/external/np/sec/pr/2010/pr10384.htm); and PR No. 11/76, “IMF Signs Agreement to Borrow up to €8.11 Billion from Bank of Italy” (www.imf.org/external/np/sec/pr/2011/pr1176.htm).
- ⁶⁶ See PR No. 10/286, “IMF Signs SDR 300 Million Borrowing Agreement with the Norwegian Ministry of Finance Representing the Kingdom of Norway to Support Lending to Low-Income Countries” (www.imf.org/external/np/sec/pr/2010/pr10286.htm); PR No. 10/309, “IMF Signs SDR 500 Million Borrowing Agreement with De Nederlandsche Bank NV to Support Lending to Low-Income Countries” (www.imf.org/external/np/sec/pr/2010/pr10309.htm); PR No. 10/340, “IMF Signs Agreements Totaling SDR 5.3 Billion with Japan, the Banque de France, the United Kingdom and the People’s Bank of China to Support Lending to Low-Income Countries” (www.imf.org/external/np/sec/pr/2010/pr10340.htm); PR No. 11/50, “IMF Signs SDR 500 Million Borrowing Agreement with the Bank of Korea to Support Lending to Low-Income Countries” (www.imf.org/external/np/sec/pr/2011/pr1150.htm); PR No. 11/172, “IMF Signs SDR 800 Million Borrowing Agreement with the Bank of Italy to Support Low-Income Countries” (www.imf.org/external/np/sec/pr/2011/pr1172.htm); and PR No. 11/185, “IMF Signs SDR 500 million Borrowing Agreement with the Swiss National Bank to Support Low-Income Countries” (www.imf.org/external/np/sec/pr/2011/pr1185.htm).

- 67 See PIN No. 10/137, “IMF Executive Board Discusses the Adequacy of the Fund’s Precautionary Balances” (www.imf.org/external/np/sec/pn/2010/pn10137.htm).
- 68 As of the end of July 2010, shortly before the Board discussion, the five largest borrowers accounted for 71 percent of total IMF credit extended.
- 69 The IMF’s framework for managing credit risk—that is, the risk that a borrower could fail to meet its financial obligations to the Fund—comprises a number of elements, including, in addition to those mentioned (its lending policies and its precautionary balances), the IMF’s safeguards assessments, its arrears strategy, and its burden-sharing mechanism. The IMF’s de facto preferred creditor status—that is, its members’ giving priority to repayment of their obligations to the Fund over those to other creditors—provides an additional measure of credit risk mitigation.
- 70 See PR 11/52, “IMF’s Broader Investment Mandate Takes Effect” (www.imf.org/external/np/sec/pr/2011/pr1152.htm).
- 71 For an explanation of the SDR and related issues, see “Fact-sheet: Special Drawing Rights (SDRs)” (www.imf.org/external/np/exr/facts/sdr.htm).
- 72 *Credit tranches* refer to the size of a member’s purchases (disbursements) in proportion to its quota in the IMF. 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. Disbursements above 25 percent of quota 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 Stand-By or Extended Arrangements, as well as the Flexible Credit Line. Access to IMF resources outside an arrangement is rare and expected to remain so.
- 73 See PR No. 10/333, “IMF Announces Sale of 10 Metric Tons of Gold to the Bangladesh Bank” (www.imf.org/external/np/sec/pr/2010/pr10133.htm).
- 74 See PR No. 10/509, “IMF Concludes Gold Sales” (www.imf.org/external/np/sec/pr/2010/pr10509.htm).
- 75 See PIN No. 11/48, “IMF Executive Board Considers Use of Gold Sale Profits” (www.imf.org/external/np/sec/pn/2011/pn1148.htm).
- 76 See PIN No. 10/113, “IMF Executive Board Concludes Review of the Safeguards Assessments Policy” (www.imf.org/external/np/sec/pn/2010/pn10113.htm).
- 77 Diversity issues are addressed separately in the Diversity Annual Report.
- 78 See PR No. 11/12, “Deputy Managing Director Murilo Portugal to Leave the IMF” (<http://www.imf.org/external/np/sec/pr/2011/pr1112.htm>).
- 79 See PR No. 11/55, “IMF Managing Director Dominique Strauss-Kahn Proposes Appointment of Nemat Shafik as Deputy Managing Director” (www.imf.org/external/np/sec/pr/2011/pr1155.htm).
- 80 For the full text of the IMF’s transparency policy, see “The Fund’s Transparency Policy” (www.imf.org/external/np/pp/eng/2009/102809.pdf).
- 81 See “Key Trends in Implementation of the Fund’s Transparency Policy” (www.imf.org/external/np/pp/eng/2010/082310.pdf).
- 82 The IEO’s report, along with the Summing Up of the Executive Board discussion of the report and the IMF staff response to the report, is available on the IEO’s website (www.imo-imf.org/eval/complete/eval_01102011.html).
- 83 See PIN No. 11/4, “IMF Executive Board Discusses Implementation Plan in Response to Board-Endorsed Recommendations Arising from the IEO Evaluation of IMF Interactions with Member Countries” (www.imf.org/external/np/sec/pn/2011/pn1104.htm). The implementation plan and supplement are available at www.imf.org/external/pp/longres.aspx?id=4519 and www.imf.org/external/pp/longres.aspx?id=4520, respectively.
- 84 See “IMF Interactions with Member Countries” (www.imo-imf.org/eval/complete/eval_01202010.html).
- 85 See PR No. 10/350, “IMF Regional Advisory Groups to Hold First Joint Meeting During 2010 Annual Meetings” (www.imf.org/external/np/sec/pr/2010/pr10350.htm), and PR No. 10/382, “IMF Advisory Groups Discuss Regional Economic Challenges During 2010 Annual Meetings” (www.imf.org/external/np/sec/pr/2010/pr10382.htm).
- 86 The Regional Advisory Group for the Caucasus and Central Asia was formed after the 2010 Annual Meetings, at the beginning of 2011.
- 87 See PR No. 10/314, “IMF and ILO Conference in Oslo to Address Ways of Accelerating a Job-Rich Crisis Recovery” (www.imf.org/external/np/sec/pr/2010/pr10314.htm), and PR No. 10/324, “IMF and ILO Launch Background Paper on the ‘Challenges of Growth, Employment and Social Cohesion’ for High-Level Conference on September 13 in Oslo” (www.imf.org/external/np/sec/pr/2010/pr10324.htm).
- 88 The REOs are available via the REO web page on the IMF’s website (www.imf.org/external/pubs/ft/reo/rerepts.aspx). Materials related to the REOs published in FY2011 can also be found on the website.

ACRONYMS AND ABBREVIATIONS

AFRITAC	Africa Technical Assistance Center
AML/CFT	anti-money laundering/combating the financing of terrorism
BIS	Bank for International Settlements
BRIC	Brazil, the Russian Federation, India, and China
EAC	External Audit Committee
ECB	European Central Bank
ECF	Extended Credit Facility
ENDA	Emergency Natural Disaster Assistance
FCL	Flexible Credit Line
FM	<i>Fiscal Monitor</i>
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FY	financial year
G-20	Group of Twenty
GAB	General Arrangements to Borrow
GDDS	General Data Dissemination System
GFSR	<i>Global Financial Stability Report</i>
GRA	General Resources Account
HIPC	Heavily Indebted Poor Countries
IDA	International Development Agency
IEO	Independent Evaluation Office
IFRS	International Financial Reporting Standards
ILO	International Labor Organization
IMFC	International Monetary and Financial Committee
IT	information technology
ITUC	International Trade Union Confederation
MAP	Mutual Assessment Process
MDRI	Multilateral Debt Relief Initiative
MTB	medium-term budget
NAB	New Arrangements to Borrow
OECD	Organization for Economic Cooperation and Development
OIA	Office of Internal Audit and Inspection
PCL	Precautionary Credit Line
PCDR	Post-Catastrophe Debt Relief
PRGT	Poverty Reduction and Growth Trust
RCF	Rapid Credit Facility
REO	<i>Regional Economic Outlook</i>
ROSC	Report on Observance of Standards and Codes
RTAC	Regional Technical Assistance Center
SDDS	Special Data Dissemination Standard
SDR	Special Drawing Right
TA	technical assistance
TTF	topical trust fund
UN	United Nations
WEO	<i>World Economic Outlook</i>

CREDITS

This Annual Report was prepared by the Editorial and Publications Division of the IMF's External Relations Department. Tim Callen and Sandy Donaldson oversaw the work of the Report team, which was under the direction of the Executive Board's Evaluation Committee, chaired by Moeketsi Majoro. The editors and chief writers were Michael Harrup and S. Alexandra Russell, who jointly coordinated the drafting and production processes as well. Andrea Richter Hume made substantial contributions to the writing, and Sherrie M. Brown proofread the text. Teresa Evaristo and Phoebe Kieti provided editorial assistance.

Photography:

© Rolf Bruderer/Corbis	cover (left)
© Exactostock/Superstock	cover (right)
Michael Spilotro/IMF staff photo	pages 4, 39 (left), 57 (right), 59 (left, right)
Stephen Jaffe/IMF staff photo	pages 6, 47 (right), 57 (left)
Daniel Acker/Landov	page 7 (left)
EPA/Sergio Barrenechea/Landov	page 7 (right)
Cliff Owen/IMF staff photo	pages 8 (left), 35 (right), 43 (left)
EPA/Leonardo Munoz/Landov	page 8 (right)
Eric Taylor/Bloomberg via Getty Image	page 11 (left)
© Orjan F. Ellingvag/Corbis	page 11 (right)
Reuters/Imelda Medina/Landov	page 13 (left)
Reuters/Kacper Pempel/Landov	page 13 (right)
Reuters/Jerry Lampen/Landov	page 15 (left)
Bernd Wüstneck/dpa/Landov	page 15 (right)
Reuters/Edgard Garrido/Landov	page 19 (left)
Reuters/Gleb Garanich/Landov	page 19 (right)
Mashid Mohadjerin/Redux	page 22 (left)
A. Majeed/AFP/Getty Images	page 22 (right)
Reuters/Hazir Reka/Landov	page 28 (left)
Reuters/Khaled Abdullah/Landov	page 28 (right)
Reuters/David Lewis/Landov	page 31 (left)
Reuters/Aly Song	page 31 (right)
Sven Torfinn/Panos Pictures	page 32 (left)
Heldur Netocny/Photolibrary	page 32 (right)
R H Productions/Photolibrary	page 35 (left)
© Global Warming Images/Alamy	page 39 (right)
Reuters/Ognen Teofilovski/Landov	page 43 (right)
Ryan Rayburn/IMF staff photo	page 45 (left)
Reuters/Kena Betancur	page 45 (right)
Henrik Gschwindt de Gyor/IMF staff photo	page 47 (left)