I. Introduction

1. **This report provides an update of the work and direction of the Fund since the 2005 Annual Meetings.** Over the past six months, a principal area of work has been the development of concrete proposals for the implementation of the Managing Director's Report on the Fund's Medium-Term Strategy, endorsed by the IMFC last September. The specific proposals that have emerged from this work are contained in the Managing Director's follow up report (SM/06/112), and are not repeated here.

2. **In addition to the strategic review, the Fund has made progress in a number of areas**—importantly, the Fund has started implementing the Multilateral Debt Relief Initiative (MDRI) for 19 countries. The Policy Support Instrument (PSI) and the Exogenous Shocks Facility (ESF) have been established, increasing the Fund's flexibility to engage with low-income countries. We have begun to reorganize our financial sector work, with establishment of a new department as the center of excellence for financial and capital markets work in the Fund. A reform of employment conditions, compensation and benefits is near completion. And we have made progress on the medium-term budgetary framework.

3. **The Fund's work since the Annual Meetings has been set against a background of strong global growth despite higher oil prices.** The expansion has become more broadly-based; inflation has remained low; and global financial conditions have remained favorable, with unusually low risk premia and volatility. Yet risks remain from large global imbalances, the limited progress made in strengthening fiscal positions, the possibility of an avian flu pandemic, and the dangers of protectionism. Against this background, countries need to use the current favorable environment to address remaining vulnerabilities.

4. The remainder of the paper reports on the work in the following key areas: surveillance (Section II); the Fund's role in emerging markets (Section III); the Fund's role in low-income countries (Section IV); capacity and institution building (Section V); quotas and voice (Section VI); and managing the effectiveness of the institution, including the budget framework and the sustainability of the Fund's income (Section VII). Tables 1 to 9 provide data on the Fund's key activities.

II. The Effectiveness of Surveillance

A. Current Surveillance Issues

5. **Our surveillance, bilateral and multilateral, has concentrated on the risks posed by global imbalances, high and volatile oil prices, and innovation in financial markets.** Through the World Economic Outlook (*WEO*) and the Global Financial Stability Report (*GFSR*)—as well as in international fora—the Fund has continued to emphasize the need to address the growing imbalances within and between member countries, and has called for multilateral policy actions to help bring about a gradual and orderly unwinding of those imbalances. The Fund has stressed that actions are needed in all the systemically important countries and regions, including tighter fiscal policy in the United States, greater exchange rate flexibility in emerging Asia, and structural reforms in the EU and Japan. Recent

Article IV consultations with France, Germany, Italy and Japan have focused on the need for medium-term fiscal consolidation and for further structural reform. Global imbalances are being examined further at a high-level conference on the eve of the IMFC meeting. We have also been developing a strategy for dealing with adverse financial impacts of an avian flu pandemic.

6. **With high oil prices complicating the adjustment of global imbalances, Fund advice has focused on the policy response and improved data quality and transparency.** The *WEO* has examined the effect of oil prices on global imbalances, and concluded that the impact on current accounts may be longer lasting than during previous oil price shocks. Article IV consultations have also examined the impact of higher oil prices. We have emphasized the need to encourage investment in the oil sector and to facilitate adjustment to higher prices, including through eliminating distortions in energy pricing. We are encouraging Special Data Dissemination Standard (SDDS) and General Data Dissemination System (GDDS) participants to provide more information on oil and gas activities and to improve the quality and transparency of oil market data.

7. **There has also been increased emphasis on key balance sheet risks and financial vulnerabilities.** Some recent examples of balance sheet work are: the coverage of the U.S. household sector and mortgage markets in the *WEO* and *GFSR*, the long-term public sector balance sheet issues set out in Germany's Article IV report, and the FSAP update and analysis of the credit derivatives market in the United Kingdom. The staff paper on debt-related vulnerabilities and financial crises examined developments in Argentina, Uruguay, Turkey, Brazil, Peru, and Lebanon.[1] Staff has made progress in refining its modeling tools and in setting up a comprehensive database to support the analysis of global imbalances and other multilateral policy issues. And the analytical framework for the balance sheet approach has been extended by use of a contingent claims approach.

8. **More emphasis is being put on the regional context of surveillance to draw common policy lessons and to capture cross-country spillovers.** This work has, for example, highlighted the common challenges facing the Central and Eastern European economies where rapid income convergence could bring with it vulnerabilities from the large-scale use of foreign savings and rapid financial innovation. Staff has produced a number of regional economic outlook reports, which in the case of monetary unions have been made formally part of the bilateral Article IV process.[2] In an effort to improve outreach, staff has launched regional policy dialogues in Central America and the Eastern Caribbean

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[1] *Debt-Related Vulnerabilities and Financial Crises*, IMF Occasional Paper No. 240, October 24, 2005.

[2] *Fund Surveillance Over Members of Currency Unions,* December 21, 2005.

Currency Union and efforts are being made to increase civil society dialogue through surveillance, regular meetings and through management visits.

9. **The Fund is developing a strategy to help members to prepare for the financial market risks of an avian flu pandemic.** In the event of a severe pandemic, the human costs and suffering could be devastating, the economic costs could be large and the global financial system could be disrupted. The Fund is working with national authorities to lower the risks by helping members to deal with the possible stress on institutions and finances, and by disseminating good practice principles on business continuity plans for central banks, supervisors, and for financial institutions. These issues are discussed in a separate paper.[3]

B. Increased Focus on Exchange Rates

10. **In the past six months, greater prominence has been given to exchange rate issues in bilateral and multilateral surveillance.** The Fund's tools for exchange rate analysis are being broadened and improved, and internal review processes are being strengthened. Our assessments of equilibrium exchange rates are being extended in 2006 to cover over 25 emerging markets using a variety of approaches, in addition to the advanced economies already included in the exercise. These assessments will be carefully reviewed within the Fund, including by the Surveillance Committee chaired by the Managing Director. As analytical methods are refined and experience is gained, consideration could be given to publishing these assessments in the *WEO*. The 2006 *Annual Report on Exchange Rate Arrangements and Exchange Restrictions* will include updated information on the classification of members' *de facto* exchange rate regimes, and a companion review will propose a tightening of the criteria for classifying exchange rate regimes. And the Fund will review the 1977 decision on surveillance over exchange rate policies with a view to update it to be more relevant for a world of capital mobility and floating exchange rates.

C. Reforms to Financial Sector Surveillance

11. **Improving the effectiveness and organizational structure of financial sector work at the Fund has been a key focus of the last six months.** The working group chaired by William McDonough reviewed the Fund's financial and capital markets work and reported to management in late 2005. Separately, the Fund's Independent Evaluation Office (IEO) completed an evaluation of the Financial Sector Assessment Program (FSAP).[4] Both

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[3] *Progress Report to the International Monetary and Financial Committee on Fund Initiatives to Promote Avian Flu Preparedness,* April 18, 2006. Also see *The Global Economic and Financial Impact of an Avian Flu Pandemic and the Role of the IMF,* February 28, 2006.

[4] The Board also discussed a staff study *IMF Executive Board Discusses Implications of the New Basel Capital Adequacy Framework for Banks ("Basel II")*, PIN 05/154, November 7, 2005.

reports highlighted the importance of the linkages between financial sector vulnerabilities and macroeconomic stability. The IEO noted the usefulness of the FSAP in that regard and highlighted the key steps to make these assessments more central to the Fund's bilateral and multilateral surveillance.

12. **We have initiated a major reorganization to put financial issues at the heart of the Fund's work.** In a globalized world where capital moves almost instantaneously across borders, the distinction between domestic and international financial markets is increasingly blurred. This calls for a shift in the emphasis of Fund surveillance from real to financial developments and their interactions, with a greater focus on balance sheet linkages and the sources of financing. Against this background, Fund management has taken the following steps: [5]

- The International Capital Markets (ICM) and the Monetary and Financial Systems (MFD) departments will be merged to create a single center of excellence for financial, capital market and monetary policy work in the Fund.
- A new Financial Sector Steering Committee, chaired by the Managing Director, will oversee the merger of the two departments, and will coordinate financial sector work and ensure close involvement of Fund management in financial sector issues.
- A taskforce, assisted by outside experts and policy makers, has been set up to upgrade the analytical framework for covering financial sector issues in Article IV consultations.
- FSAP and their updates will be prioritized to better focus our surveillance and to improve their quality and impact.

III. Role of the Fund in Emerging Market Economies

13. **Adapting the Fund's financing instruments to an environment of large-scale private capital flows is an ongoing challenge.** Against a backdrop of favorable financial conditions, many emerging market countries have strengthened policies and lowered vulnerabilities. Some have also reduced their borrowing from the Fund. Both Argentina and Brazil have made early repayment of their entire outstanding obligations to the Fund. Other members, particularly in Asia, have built high levels of liquidity through reserve accumulation and regional agreements. These new conditions in emerging market economies provide a unique opportunity to address remaining vulnerabilities in order to enhance medium-term growth potential. The current circumstances, and the growth of large-scale private sector capital flows, also necessitate a refocusing of the Fund's policy advice, its

[5] The McDonough Group has agreed to return in one year to assess progress on these initiatives.

technical assistance (TA), and modalities for lending. Specific proposals are contained in the Managing Director's follow up strategy report.

14. **Recent work has included better assessment of debt dynamics, medium–term growth, and the consistency of the exchange rate regime with policies.**[6] The Executive Board also held a seminar to discuss the experience of emerging markets and developing countries that have adopted inflation targeting and to review the Fund's approach to surveillance, technical assistance and the design of program conditionality in such cases.[7] Capacity building also has a key role to play in crisis prevention, and the Fund has worked to meet emerging market demands for more effective technical assistance in core areas of expertise (see section VI). The Fund has also provided advice on improving debt structures and debt management, and has encouraged broader emerging market dialogue on these issues.

15. **The Fund has continued to aim for improved program design.** Revised operational guidance on conditionality has been issued to ensure that the lessons of the reviews conducted ahead of the 2005 Spring Meetings are being applied.[8] A review of ex post assessments and longer-term program engagement, to be conducted shortly, will consider the need for greater flexibility and tailoring of these assessments to individual country circumstances. The Fund will also undertake a combined ex post evaluation of an exceptional access arrangement (EPE)/ex post assessment for Argentina and an EPE for Brazil.

16. **Work has continued on promoting the orderly resolution of financial crises.** We have continued to analyze cross-country experience with debt restructuring and the policy issues raised by specific cases (Iraq and Grenada). We have continued to monitor the adoption of collective action clauses (CACs) in international sovereign bonds which are now the market standard, and recent discussions with market participants have confirmed that the inclusion of CACs has not affected the pricing of international sovereign bonds.[9] Over the next six months, we plan to review the Fund's lending into arrears policy in light of recent

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[6] *The Design of IMF-Supported Programs,* Occasional Paper No. 241, September 20, 2005.

[7] *IMF Executive Board Discusses Inflation Targeting and the IMF*, PIN/06/40, April 18, 2006.

[8] *Statement of the IMF Staff, Principles Underlying the Guidelines on Conditionality, Revised January 9, 2006*. As part of the review of conditionality and program design, the IEO and staff have recently examined the programs for Jordan. See *IMF Executive Board Concludes 2005 Article IV Consultation, Post-Program Monitoring Discussions, and Ex Post Assessment with Jordan*, PIN/06/02, January 5, 2006. See also the *IEO Report on the Evaluation of IMF Support to Jordan*, April 6, 2006.

[9] Since June 2005 only one country (Jamaica) issued an international sovereign bond without CACs. The share of outstanding bonds including CACs increased to 60 percent as of end-February 2006.

experience of debt restructurings. In other developments outside the Fund, progress has been made on a monitoring process for the *Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets* including the setting up of a Principles Consultative Group which has embarked on a collaborative dialogue on transparency and investor relations issues for a number of countries.

IV. ROLE OF THE FUND IN LOW-INCOME MEMBER COUNTRIES

17. **The Fund is supporting low-income member countries through focused advice on macroeconomic policies and related structural reforms, capacity building, and financial assistance.** Since the Annual Meetings, the Fund has adopted and started to implement the MDRI, and has established the PSI and the ESF. The rapid implementation of the MDRI was a milestone in helping low-income members reach the MDGs by increasing the financial resources available to them. If the MDGs are to be achieved, donor countries must follow through on their commitments to provide additional resources, and recipient countries strengthen their policies and implement structural reforms within a sustainable macroeconomic framework; aid coordination and harmonization must improve; and more progress must be made on the Doha Round.[10]

A. Debt Sustainability and Debt Relief

18. **The Heavily Indebted Poor Countries (HIPC) Initiative has moved forward.** A total of 18 countries have reached the completion point. One additional country has reached the decision point since the 2005 Annual Meetings, bringing the number of countries between decision and completion points to 11.[11] The Fund and World Bank Boards decided in 2004 to extend the HIPC Initiative sunset clause to 2006, while ring-fencing participation.[12] In this context, 11 countries have been identified that meet the HIPC Initiative income and indebtedness criteria at end-2004, and that might wish to be considered for debt relief under the Initiative.[13] Three additional countries were also found to meet these criteria but have indicated that they do not wish to avail themselves of the initiative. Grant resources will need to be mobilized to finance HIPC debt relief for the countries that have

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[10] See also *Global Monitoring Report 2006: Strengthening Mutual Accountability - Aid, Trade and Governance*, jointly prepared by World Bank and IMF staff.

[11] *Heavily Indebted Poor Countries Initiative-Statistical Update*, March 22, 2006.

[12] *Enhanced HIPC Initiative: Possible Options Regarding the Sunset Clause*, prepared by the staffs of the IMF and IDA, July 7, 2004 (http://www.imf.org/external/NP/hipc/2004/070704.htm).

[13] *IMF Executive Board Discusses the List of Ring-Fenced Countries That Meet the End-2004 Income and Indebtedness Criteria under the Enhanced HIPC Initiative and the Review of Financing of the Fund's Concessional Assistance and Debt Relief to Low-Income Member Countries*, PIN 06/41, April 18, 2006.

just become potentially eligible, including the three protracted arrears cases (Liberia, Somalia, and Sudan). With the forthcoming expiration of the sunset clause, some potentially HIPC eligible countries may not be able to establish a policy track record in time to benefit from the initiative. Options will be explored to allow these countries to do so.

19. **Following its adoption of the MDRI, the Fund moved rapidly to approve full debt relief for 19 countries, including two non-HIPCs.**[14] In approving the proposal, the Board adopted qualification criteria in the areas of macroeconomic performance, implementation of poverty reduction policies, and the quality of public expenditure management systems. On this basis, the Board determined that 19 members qualified for immediate debt relief from the Fund under the MDRI, and delivered SDR 2.3 billion in debt relief to these members.[15] An MDRI Progress Report was considered by the Board in early April.[16]

20. **The Executive Board also stressed the importance of ensuring that the Fund's financing capacity is preserved after the implementation of the MDRI.** It therefore welcomed the G-8's commitments to provide an additional subsidy contribution of SDR 100 million and to consider dealing with the potential additional costs of including the two non-HIPC countries. The Board also welcomed the commitment that donors would provide the resources necessary for debt cancellation for the three protracted arrears cases, and to cover the cost of debt relief for countries that may become eligible for the HIPC Initiative under the extended sunset clause.

21. **Directors discussed the Bank and Fund staffs' review of the experience with the Debt Sustainability Framework for low income countries (DSF) and the implications of MDRI, including for non-concessional borrowing**. [17] Directors noted that the DSF has become an effective tool for assessing and managing debt in the context of surveillance and Fund arrangements and that, while there is scope for improvement, no major changes are warranted at this stage. Excessive accumulation of debt, particularly nonconcessional, should be avoided in MDRI recipient countries. Directors agreed that, on balance, the indicative

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[14] *IMF Executive Board Agrees on Implementation Modalities for the Multilateral Debt Relief Initiative*, PIN 05/164, December 8, 2005.

[15] The 19 members include 17 HIPCs that have already reached the completion point under the HIPC Initiative and Cambodia and Tajikistan, the two non-HIPCs below the US$380 income threshold. See *IMF Executive Board Discusses the First Assessment of Eligible Countries under the Multilateral Debt Relief Initiative*, PIN 05/168, December 27, 2005.

[16] *The Multilateral Debt Relief Initiative-Progress Report on Implementation*, March 21, 2006.

[17] *Review of Low-Income Country Debt Sustainability Framework and Implications of MDRI*, March 27, 2006.

DSF debt thresholds should not be revised because of MDRI, and broadly supported a case-by-case approach to debt accumulation below the thresholds.

22. **In the coming months, work on debt relief and the refinement of policy advice to low-income countries will continue.** An important element of this effort will be strengthening Fund's analysis and policy advice to manage the macroeconomic impact of scaled-up aid flows necessary to meet the MDGs, including through better public expenditure and debt management. In parallel, MDRI debt relief will be provided to HIPC countries as they reach their completion point. Staff will also continue the analysis of the new financing landscape and the increasingly important role of non-Paris Club creditors. This work will complement joint Fund-Bank analysis of the issues raised in the DSF review.

B. Policy Support Instrument

23. **The Fund has established the PSI to monitor and endorse policies of members who do not need, or desire, the Fund's financial assistance, typically 'mature stabilizers'.**[18] The PSI is available to PRGF-eligible countries with a poverty reduction strategy and a policy framework appropriate for consolidating macroeconomic stability, debt sustainability, and growth. The PSI requires country policies to meet the standard of upper credit tranche conditionality, and PSI-endorsed programs will normally be subject to semi-annual reviews by the Board. So far, the Board has approved PSIs for Nigeria and Uganda.

C. Exogenous Shock Facility

24. **The Fund has established the ESF under the PRGF Trust.**[19] A member qualifies for the ESF if it has a balance of payments need that is caused primarily by a significant adverse shock that was beyond its control. Programs supported by the ESF can be up to two years, and should meet upper credit tranche conditionality standards, even though structural reform plans could be less ambitious than under a PRGF arrangement. At a minimum, an interim PRSP should be in place at the time of approval of the arrangement, or, in exceptional circumstances, at the time of the first review. While the ESF can be accessed on a stand-alone basis, it is designed to be complementary to the PSI: an on-track PSI could provide the basis for rapid access to ESF financing in the event of a shock, but access would not be automatic.

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[18] *IMF Executive Board Approves the Establishment of Policy Support Instruments for Aiding Low-Income Countries*, PIN 05/145, October 14, 2005; and *IMF Executive Board Discusses Policy Support and Signaling in Low-Income Countries*, PIN 05/144, October 14, 2005.

[19] *IMF Establishes an Exogenous Shocks Facility*, PIN 05/163, December 8, 2005.

D. Financing of MDRI, PRGF, and ESF

25. **We have reviewed the status of the Fund's concessional financing,** including under the PRGF-ESF and PRGF-HIPC Trusts, MDRI, and emergency assistance.[20] We have also reviewed possible demand for PRGF commitments in the coming years. With regard to the ESF, we have so far received total subsidy pledges of about SDR 210 million from eight countries—Canada, France, Japan, Norway, Oman, Russia, Saudi Arabia, and the U.K. However, we are still well short of our target of SDR 500 million (on an end-2005 NPV basis) to ensure that the Fund stands ready to provide timely concessional financing for our low-income members. Staff has also proposed some modifications (including raising the maximum borrowing limit) to the PRGF-ESF Trust Instrument to facilitate the mobilization of additional loan resources.

E. Doha Round and Aid for Trade

26. **The successful conclusion of the Doha Round remains a priority for promoting economic growth and poverty reduction, and the achievement of the MDGs.** Both developed and developing countries must play a role in removing the remaining impediments to trade. The Executive Board has broadly endorsed joint Fund-World Bank staff proposals to provide stronger support for trade-related assistance ("aid for trade"). [21] The vehicles of the Fund's provision of aid for trade include the Trade Integration Mechanism, analysis and policy dialogue on trade-related issues, technical assistance for customs administration, and the Integrated Framework for Trade-Related Technical Assistance (IF). An increase in donor financing for technical assistance financed through an IF-supported trust fund was broadly supported by the Board, as were an examination of the adequacy of mechanisms to address regional or cross-country aid for trade, and a firm Fund and Bank commitment to assist countries facing adjustment needs using all the available instruments.

V. Building Institutions and Capacity

27. **Further efforts have been made to align technical assistance priorities with the needs of surveillance.** To that end, more work has been done in the monetary and financial area on refining TA on inflation targeting and the development of financial markets, and on financial soundness indicators. In the fiscal area, efforts have focused on the improvement of

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[20] *IMF Executive Board Discusses the List of Ring-Fenced Countries That Meet the End-2004 Income and Indebtedness Criteria under the Enhanced HIPC Initiative and the Review of Financing of the Fund's Concessional Assistance and Debt Relief to Low-Income Member Countries*, PIN 06/41, April 18, 2006.

[21] *IMF Executive Board Discusses Doha Development Agenda and Aid for Trade* , PIN 05/169, December 27, 2005.

TA on debt management, fiscal decentralization, and the fiscal risks arising from public-private partnerships.

28. **Work has progressed on TA planning, tracking, and ex post evaluation, and on country ownership.**[22] In particular, pilot Technical Assistance Strategy Notes have been prepared, and staff has formulated measures to increase the authorities' participation and the resident representatives' involvement in TA planning and execution. As a follow up to the Board review of the Fund's Regional Technical Assistance Centers, staff has proposed a set of guidelines and operational arrangements to strengthen the centers' operational structure and operations. The Fund will open a third AFRITAC in Libreville, Gabon, in early 2007.

29. **The Board has moved to strengthen the Fund's work on standards and codes.** The recommendations made by the 2005 Review of the Data Standards Initiative are being implemented.[23] Staff is also putting into effect the recommendations of the 2005 Review of the Standards and Codes, including, in particular, greater clarity in the presentation of the findings of Reports on the Observance of Standards and Codes. The Fiscal Transparency code and manual are also being revised.

30. **Work on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) continues,** in collaboration with the World Bank, the Financial Action Task Force (FATF), and FATF-style regional bodies. The work on assessments, TA, and policy development is progressing well, but many countries (including industrial countries) are facing serious challenges in implementing the revised FATF standard, because of its complexity and extensive coverage. The recent unification of all AML/CFT work in the Legal Department should strengthen our work in this area.

VI. Quotas and Voice

31. **Fair weight and voice are crucial to the Fund's effectiveness and legitimacy.** Imbalances in representation at the Fund must be corrected, and the strategic review has given an impetus to tackling quotas and voice issues. It is now widely accepted that the Fund's membership should aim for a significant step toward dealing with these issues by the time of the Annual Meetings in Singapore. At the Board discussion of the implementation of the Fund's medium-term strategy, there was broad recognition that a two-stage approach may offer the best hope for forward movement, with ad hoc quota increases for the most underrepresented members as the centerpiece of the first stage. A broader consensus needs to be reached ahead of the Singapore Annual Meetings on how best to address the other

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[22] *IMF Concludes Review of the Fund's Regional Technical Assistance Centers*, PIN 05/114, August 12, 2005.

[23] *IMF Executive Board Reviews Data Standards Initiatives*, PIN 05/155, November 11, 2005/

elements, including basic votes, the quota formula, and the size and composition of the Executive Board.

VII. Managing an Effective Institution

32. **The Fund is committed to following best international practices for internal governance and is determined to ensure the effective use of resources.** In this context we are strengthening the Fund's budget framework and risk management; the employment, compensation and benefits system has been reviewed thoroughly; and we are evaluating the options to place the Fund's income on a sounder financial footing. We are also re-examining the division of labor with the World Bank.

33. **A new medium-term budgetary framework is being developed in line with the strategic priorities.** The framework will include the phased introduction of performance indicators, and the monitoring of the delivery of the budget will be improved with further reporting to both Management and the Board.

34. **We have reached agreement on a comprehensive reform of the Fund's employment conditions, compensation system, and benefits (ECBR).** This reform is necessary to attract and retain an international staff of the highest quality with a mix of skills and experience that will enable the Fund to fulfill its evolving mandate; and to manage staff efficiently and effectively, in an environment that rewards excellence, fosters teamwork, and promotes cohesiveness, fairness, and diversity—including geographic diversity. Key elements of the package of reforms are to be introduced with effect from May 1, 2006. Additional work will be undertaken in a number of areas, including the costs and benefits of functional paylines and possible changes to the Staff Retirement Plan.

35. **The sharp decline in outstanding Fund credit to its lowest level in twenty-five years presents a major challenge.** While the decline in credit outstanding is a welcome sign of global economic stability, it erodes the Fund's income base. In an environment where the Fund's focus has shifted towards crisis prevention, it is questionable whether the income base should be so heavily reliant on Fund credit. Lending is only one aspect of what the Fund does to promote global stability, and the Fund needs a stable and durable medium-term revenue framework in place to support its operations. Directors held a preliminary round of discussions on the Fund's income outlook and agreed on a two-pronged strategy that will first involve immediate steps to address a projected income shortfall in fiscal year 2007, and then lead to the development and assessment of the full range of options available to place the Fund's income position on a sustainable long-term footing.[24] As immediate steps, the Board endorsed the establishment of an Investment Account (IA) and agreed to a temporary

[24] *IMF Executive Board Conducts Preliminary Discussion on Fund's Medium-Term Income Outlook and Encourages Further Staff Analysis*, PR/06/43, March 7, 2006.

suspension of reserve accumulation in fiscal year 2007. The staff is preparing papers on the modalities for the establishment of an IA and specific proposals for the projected income position for next year. These proposals will be considered by the Board in late April, in conjunction with a proposed medium-term administrative budget.

36. **The report of the Task Force on the Fund's Risk Management has proposed ways to strengthen the Fund's risk management environment.** The Task Force indicated that the Fund's overall internal control environment displays many of the pre-requisites for a sound risk management system. Nevertheless, the present environment could be strengthened and made more explicit, especially through a better integration of risk management activities and increased periodic and systematic assessments. Modalities are being developed for a new system that will entail annual reporting under a framework to systematically assess the different categories of risk. Once developed, the modalities—including those for the involvement of the Board in risk management—will be discussed by Directors.

37. **A fresh look at the collaboration between the Bretton Woods institution is needed.** The demarcation between macroeconomic and development issues that underlie the division of labor between the Fund and the Bank needs reconsideration to reduce unnecessary overlaps and eliminate any gaps in coverage. Fund and Bank managements have set up an External Review Committee, made up of six external members and high-level Bank and Fund staffs, that will review areas of primary responsibility; the "lead agency" concept; and collaboration on thematic work, such as FSAPs and debt sustainability analyses in low-income countries. The report from the Committee will be the basis for a revised Concordat that will be examined by Bank and Fund boards.

Table 1. Participation in Transparency, FSAP, and Standards and Codes Initiatives 1/ 2/
(As of March 31, 2006)

	(1) Africa	(2) Developing Asia	(3) Central and Eastern Europe	(4) CIS and Mongolia	(5) Western Hemisphere	(6) Middle East	(7) Advanced Economies	(8) Total IMF Members
Number of Members	51	29	17	13	32	14	28	184
Initiatives:								
SDDS Subscriber 3/								
Number of subscribers	3	5	12	6	10	1	25	62
GDDS Participant 4/								
Number of members	40	11	3	4	19	7	0	84
PIN Published								
Number of members 5/	50	28	17	12	31	14	28	180
Percentage	98%	97%	100%	92%	97%	100%	100%	98%
Article IV Staff Report Published								
Number of members	49	23	17	11	28	9	28	165
Percentage	96%	79%	100%	85%	88%	64%	100%	90%
FSAPs Completed								
Number of members	18	5	15	9	22	10	21	100
Percentage	35%	17%	88%	69%	69%	71%	75%	54%
ROSC Modules Completed								
Number of members 6/	27	13	17	11	24	10	28	130
Percentage	53%	45%	100%	85%	75%	71%	100%	71%
ROSC Modules Completed								
Number of modules 7/	123	55	150	71	114	51	160	724
Percentage of total modules	17%	8%	21%	10%	16%	7%	22%	100%
ROSC Modules Published								
Number of members	26	12	17	11	23	8	27	124
Percentage	51%	41%	100%	85%	72%	57%	96%	67%
ROSC Modules Published								
Number of modules 7/	85	32	138	49	64	22	149	539
Percentage of completed modules	69%	58%	92%	69%	56%	43%	93%	74%

Source: IMF and World Bank staff estimates.

1/ This table does not include territories, special administrative regions (SARs), and monetary unions except for SDDS and ROSCs. SDDS subscribers include Hong Kong SAR, and ROSC figures include fourteen completed and published modules for Hong Kong SAR, the Euro Area, and the ECCB.

2/ The regional groupings are based on the composition of World Economic Outlook (WEO) groups.

3/ The SDDS was established in 1996 to guide countries that have, or might seek, access to international capital markets in the dissemination of economic and financial data to the public. Table includes subscribers in full observance only.

4/ The GDDS was established in 1997 to encourage members to improve data quality, provide a framework for evaluating needs for data improvement and setting priorities in this respect, and guide members in the dissemination to the public of comprehensive, timely, accessible, and reliable economic, financial, and socio-demographic statistics.

5/ The number of members that published at least one such document.

6/ The number of members for which at least one ROSC module has been completed. ROSC modules not derived from an FSAP are considered completed once they have been circulated to Directors, and in the case of Bank-led modules, sent in their final form to the authorities. ROSC modules derived from an FSAP are considered completed only after the FSSA has been discussed by the Executive Board.

7/ Shows the total number of completed modules. A member can have more than one full assessment for the same standard. Includes fourteen completed and published modules for Hong Kong SAR, the Euro Area, and the ECCB.

Table 2. FSAP Participation
(As of March 31, 2006)

Countries Completed 1/		Countries Under Way	Future Participation Confirmed
Albania	Kuwait	Australia	Botswana
Algeria	Kyrgyz Republic	Argentina 3/	Brunei Dasrussalam
Antigua and Barbuda	Latvia	Bosnia and Herzegovina	Burkina Faso
Armenia	Lebanon 2/	CEMAC	Cape Verde
Austria	Lithuania	Cote d'Ivoire 3/	Central African Republic
Azerbaijan	Luxembourg	Denmark	Fiji
Bahrain	Macedonia, FYR	Guyana	Malawi
Bangladesh	Malta	Madagascar	Mali
Barbados	Mauritius	Mauritania	Montenegro
Belarus	Mexico	Paraguay	Qatar
Belgium	Moldova	Portugal	San Marino
Bolivia	Morocco	Sierra Leone	Tajikistan
Brazil	Mozambique	Spain	Thailand
Bulgaria	Namibia	Turkey	
Cameroon 2/	Netherlands	Uruguay	
Canada 2/	New Zealand		
Chile	Nicaragua		
Colombia 2/	Nigeria		
Costa Rica	Norway		
Croatia	Oman		
Czech Republic	Pakistan		
Dominica	Peru		
Dominican Republic	Philippines		
Ecuador	Poland		
Egypt	Romania		
El Salvador 2/	Russia		
Estonia 2/	Rwanda		
Finland	Saudi Arabia		
France	Senegal		
Gabon	Serbia		
Georgia	Singapore		
Germany	Slovak Republic		
Greece	Slovenia		
Ghana	South Africa 2/		
Grenada	Sri Lanka		
Guatemala	St. Kitts and Nevis		
Honduras	St. Lucia		
Hong Kong SAR	St. Vincent and the Grenadines		
Hungary 2/	Sudan		
Iceland	Sweden		
India 2/	Switzerland		
Iran 2/	Tanzania		
Ireland 2/	Tunisia		
Israel	Trinidad and Tobago		
Italy	Uganda		
Jamaica	Ukraine		
Japan	United Arab Emirates		
Jordan	United Kingdom		
Kazakhstan 2/	Yemen		
Kenya	Zambia		
Korea			

1/ Defined as cases where the FSSA has been discussed by the Fund's Executive Board.
2/ The initial assessment was a part of the pilot program.
3/ Completion postponed.

Table 3. HIPC Initiative: Committed Debt Relief and Outlook 1/
(In millions of US dollars, in NPV terms in the year of the decision point; as of March 31, 2006)

	Reduction in NPV Terms			Nominal Debt Service Relief			
	Original HIPC Initiative	Enhanced HIPC Initiative	Total	Original HIPC Initiative	Enhanced HIPC Initiative	Total	Completion / Decision Point Date
Countries that have reached their Completion Points (18)							
TOTAL	**3,118**	**19,020**	**22,138**	**6,364**	**31,252**	**37,616**	
Benin	0	265	265	0	460	460	Mar-03
Bolivia	448	854	1,302	760	1,300	2,060	Jun-01
Burkina Faso 2/	229	324	553	400	530	930	Apr-02
Ethiopia 2/	0	1,982	1,982	0	3,275	3,275	Apr-04
Guyana	256	335	591	634	719	1,353	Dec-03
Ghana	0	2,186	2,186	0	3,500	3,500	Jul-04
Honduras	0	556	556	0	1,053	1,053	Apr-05
Madagascar	0	836	836	0	1,900	1,900	Oct-04
Mali	121	417	539	220	675	895	Mar-03
Mauritania	0	622	622	0	1,100	1,100	Jun-02
Mozambique	1,717	306	2,023	3,700	600	4,300	Sep-01
Nicaragua	0	3,308	3,308	0	4,500	4,500	Jan-04
Niger 2/	0	664	664	0	1,190	1,190	Apr-04
Rwanda 2/	0	696	696	0	1,400	1,400	Apr-05
Senegal	0	488	488	0	850	850	Apr-04
Tanzania	0	2,026	2,026	0	3,000	3,000	Nov-01
Uganda	347	656	1,003	650	1,300	1,950	May-00
Zambia	0	2,499	2,499	0	3,900	3,900	Apr-05
Countries that have reached their Decision Points (11)							
TOTAL	**0**	**12,613**	**12,613**	**0**	**21,632**	**21,632**	
Burundi	0	826	826	0	1,472	1,472	Jul-05
Cameroon	0	1,260	1,260	0	2,800	2,800	Oct-00
Chad	0	170	170	0	260	260	May-01
Congo, Dem. Rep. of the	0	6,311	6,311	0	10,389	10,389	Jul-03
Congo, Rep of	0	1,679	1,679	0	2,881	2,881	Mar-06
Gambia, The	0	67	67	0	90	90	Dec-00
Guinea	0	545	545	0	800	800	Dec-00
Guinea-Bissau	0	416	416	0	790	790	Dec-00
Malawi	0	643	643	0	1,000	1,000	Dec-00
São Tomé and Príncipe	0	97	97	0	200	200	Dec-00
Togo	…	…	…	…	…	…	
Memorandum item:							
Debt relief committed	**3,118**	**31,633**	**34,750**	**6,364**	**52,884**	**59,248**	

Sources: HIPC country documents; and World Bank and IMF staff estimates.

1/ Committed debt relief under the assumption of full participation of creditors.
2/ The assistance under the enhanced HIPC Initiative includes topping up with the NPV calculated in the year of the completion point.

Table 4. HIPC Initiative: Status of Commitments by the IMF
(In millions of SDRs; as of March 31, 2006)

Member	Decision Point	Completion Point	Amount Committed	Amount Disbursed 1/
Under the Original HIPC Initiative				
Bolivia	Sep. 1997	Sep. 1998	21.2	21.2
Burkina Faso	Sep. 1997	Jul. 2000	16.3	16.3
Cote d'Ivoire 2/	Mar. 1998	--	16.7	--
Guyana	Dec. 1997	May. 1999	25.6	25.6
Mali	Sep. 1998	Sep. 2000	10.8	10.8
Mozambique	Apr. 1998	Jun. 1999	93.2	93.2
Uganda	Apr. 1997	Apr. 1998	51.5	51.5
Total Original HIPC			**235.3**	**218.6**
Under the Enhanced HIPC Initiative				
Benin	Jul. 2000	Mar. 2003	18.4	20.1
Bolivia	Feb. 2000	Jun. 2001	41.1	44.2
Burkina Faso	Jul. 2000	Apr. 2002	27.7	29.7
Burundi	Aug. 2005	Floating	19.3	0.1
Cameroon	Oct. 2000	Floating	28.5	11.3
Chad	May. 2001	Floating	14.3	8.6
Congo, Dem. Rep. of 3/	Jul. 2003	Floating	228.3	3.4
Congo, Rep of	Mar. 2006	Floating	5.6	--
Ethiopia	Nov. 2001	Apr. 2004	45.1	46.7
Gambia, The	Dec. 2000	Floating	1.8	0.1
Ghana	Feb. 2002	Jul. 2004	90.1	94.3
Guinea	Dec. 2000	Floating	24.2	5.2
Guinea-Bissau	Dec. 2000	Floating	9.2	0.5
Guyana	Nov. 2000	Dec. 2003	31.1	34.0
Honduras	Jun. 2000	Apr. 2005	22.7	26.4
Madagascar	Dec. 2000	Oct. 2004	14.7	16.4
Malawi	Dec. 2000	Floating	23.1	11.6
Mali	Sep. 2000	Mar. 2003	34.7	38.5
Mauritania	Feb. 2000	Jun. 2002	34.8	38.4
Mozambique	Apr. 2000	Sep. 2001	13.7	14.8
Nicaragua	Dec. 2000	Jan. 2004	63.5	71.2
Niger	Dec. 2000	Apr. 2004	31.2	34.0
Rwanda	Dec. 2000	Apr. 2005	46.8	50.6
São Tomé and Príncipe 4/	Dec. 2000	Floating	--	--
Senegal	Jun. 2000	Apr. 2004	33.8	38.4
Sierra Leone	Mar. 2002	Floating	98.5	66.0
Tanzania	Apr. 2000	Nov. 2001	89.0	96.4
Uganda	Feb. 2000	May. 2000	68.1	70.2
Zambia	Dec. 2000	Apr. 2005	468.8	508.3
Total Enhanced HIPC			**1,628.1**	**1,379.1**
Grand Total			**1,863.4**	**1,597.7**

1/ Includes interest on amounts committed under the Enhanced HIPC Initiative.
2/ Equivalent to the committed amount of US $22.5 million at decision point exchange rates (3/17/98).
3/ Amount committed is equivalent to the remaining balance of the total IMF HIPC assistance of SDR 337.9 million, after deducting SDR 109.6 million representing the concessional element associated with the disbursement of a PRGF loan following the DRC's clearance of arrears to the IMF on June 12 2002.
4/ At the time of its decision point, São Tomé and Príncipe did not have any eligible debt to the IMF.

Table 5. Multilateral Debt Relief Initiative: Debt Relief Delivered by the Fund 1/
(In millions of U.S. dollars; as of March 31, 2006)

Member 2/	**Amount of debt relief delivered 3/**	**Average debt service savings 4/**
Benin	49.3	5.5
Bolivia	223.7	39.6
Burkina Faso	82.4	9.3
Cambodia 5/	82.1	10.4
Ethiopia	115.1	13.2
Ghana	317.9	36.1
Guyana	45.6	5.3
Honduras	141.9	16.0
Madagascar	185.6	20.9
Mali	90.2	10.2
Mozambique	120.0	13.8
Nicaragua	132.6	15.3
Niger	86.4	9.9
Rwanda	29.2	3.4
Senegal	136.9	15.3
Tajikistan 5/	100.1	11.2
Tanzania	299.1	33.8
Uganda	109.6	12.4
Zambia	575.7	65.4
Total	**2923.5**	...
Average	**153.9**	**18.3**

Sources: IMF Finance Department; and Fund staff estimates.

1/ Only reflects the portion of debt relief falling under the MDRI.
2/ All countries qualified for debt relief under the MDRI in January 2006.
3/ Reflecting the US $/SDR exchange rate prevailing on the date of transaction.
4/ Averages computed over the period of maturity of all loans subject to cancellation.
5/ Non-HIPC countries.

Table 6. Access Under Fund Arrangements by Year of Approval, 1996–2006 1/
(In percent of quota, unless otherwise indicated; as of March 31, 2006) 2/

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 Jan-Mar
Number of arrangements approved											
All arrangements	33	21	21	20	23	21	20	21	13	14	2
Non-exceptional arrangements	31	18	19	19	22	20	18	19	13	12	2
Commitments (on approval)											
In percent of total quota	9	20	17	6	6	7	18	7	1	4	0
In billions of SDRs	13	29	24	14	12	15	39	15	2	9	0
GRA Resources											
Average annual access											
SBA											
Non-exceptional 3/	39	36	44	43	46	34	39	55	21	44	...
Exceptional and SRF	27	27	42	21	40	30	30	55	17	33	...
Precautionary	...	329	200	100	...	320	510	156	...	157	...
EFF											
Non-exceptional	37	28	50	46	12	...	46	12	...	...	6
Exceptional and SRF	...	...	45	21	...	...	...	...	...	...	...
Precautionary	53	...	144	...	58	...	...	...	...	...	...
SBA and EFF											
Non-exceptional 3/	38	33	46	42	43	34	40	50	21	44	...
Exceptional and SRF	27	27	43	21	40	30	30	55	17	33	...
Precautionary	53	329	172	100	58	320	510	156	...	157	...
Range of average annual access											
SBA											
Non-exceptional 3/	18-80	24-69	20-81	20-85	18-85	16-57	19-97	25-100	7-42	25-86	...
Exceptional and SRF	...	163-646	200	100	...	320	456-564	141-170	...	83-230	...
EFF											
Non-exceptional	17-55	20-45	45-55	21-84	12	...	46	12	...	...	6
Exceptional and SRF	53	...	144	...	58	...	...	...	...	...	...
Projected use of Fund credit outstanding at start of arrangement, including all GRA and PRGF facilities											
SBA	71	47	41	84	52	47	76	111	47	262	...
EFF	145	78	217	94	224	...	68	53	...	...	0
Projected use of Fund credit outstanding at end of arrangement, including all GRA and PRGF facilities											
SBA	103	365	116	133	103	113	109	184	47	203	...
EFF	230	189	317	181	237	...	163	118	...	...	18
Concessional Resources											
Average annual access											
SAF	...	...	...	...	...	...	...	...	...	...	...
ESAF/PRGF	35	35	25	24	22	25	21	16	16	8	6
Range of average annual access											
SAF	...	...	...	...	...	...	...	...	...	...	...
ESAF/PRGF	20-50	25-50	27-53	14-40	5-33	17-42	2-36	3-31	3-30	3-22	6
Projected use of Fund credit outstanding at start of arrangement, including all GRA and PRGF facilities											
SAF	...	...	...	...	...	...	...	...	...	...	...
ESAF/PRGF	87	96	94	103	78	98	74	71	84	102	130
Projected use of Fund credit outstanding at end of arrangement, including all GRA and PRGF facilities											
SAF	...	...	...	...	...	...	...	...	...	...	...
ESAF/PRGF	166	183	169	134	122	123	109	90	85	86	108

Sources: Executive Board documents, and information provided by the Finance Department.

1/ Reflects amounts and duration at the time arrangements were approved; excludes potential access under external contingency mechanisms and other augmentations and reductions.
2/ Access expressed in terms of quotas of: Ninth General Review of Quotas through January 1999; 11th General Review of Quotas through January 2003, and 12th Review of Quotas thereafter. From November 1992 to October 1994, annual access limits were set at 68 percent of Ninth General Review quotas, and since then the access limit of 100 percent of quota has been in effect.
3/ Including first credit tranche and precautionary arrangements.

Table 7. Current Financial Arrangements (GRA)
(In millions of SDRs; as of March 31, 2006)

Member	Date of Approval	Date of Expiration	Amount Agreed	Undrawn Balance	IMF Credit Outstanding
Stand-by Arrangements					
Bulgaria	8/6/04	9/5/06	100	100	301
Colombia	5/2/05	11/2/06	405	405	--
Croatia	8/4/04	11/15/06	99	99	--
Dominican Republic	1/31/05	5/31/07	438	289	269
Iraq	12/23/05	3/22/07	475	475	297
Macedonia, FYR	8/31/05	8/30/08	52	41	31
Peru	6/9/04	8/16/06	287	287	27
Romania	7/7/04	7/6/06	250	250	152
Turkey	5/11/05	5/10/08	6,662	4,997	9,115
Uruguay	6/8/05	6/7/08	766	588	1,261
10 Arrangements			9,534	7,531	11,453
Extended Arrangements					
Albania	2/1/06	1/31/09	9	7	1
Sri Lanka	4/18/03	4/17/06	144	124	191
2 Arrangements			153	131	192
Total 12 STBY and EFF			9,687	7,662	11,645

Source: IMF Finance Department; also available at www.imf.org/external/fin.htm, updated on a weekly basis.

Table 8. Current Financial Arrangements (PRGF)
(In millions of SDRs; as of March 31, 2006)

Member	Date of Approval	Date of Expiration	Amount Agreed	Undrawn Balance	IMF Credit Outstanding
Albania	2/1/2006	1/31/2009	9	7	64
Armenia	5/25/2005	5/24/2008	23	16	120
Bangladesh	6/20/2003	12/31/2006	400	117	283
Benin	8/5/2005	8/4/2008	6	5	1
Burkina Faso	6/11/2003	9/30/2006	24	3	14
Burundi	1/23/2004	1/22/2007	69	29	41
Cameroon	10/24/2005	10/23/2008	19	16	186
Chad	2/16/2005	2/15/2008	25	21	55
Congo, Rep. of	12/6/2004	12/5/2007	55	39	17
Dominica	12/29/2003	12/28/2006	8	2	5
Georgia	6/4/2004	6/3/2007	98	56	154
Ghana	5/9/2003	10/31/2006	185	79	26
Guyana	9/20/2002	9/12/2006	55	9	28
Honduras	2/27/2004	2/26/2007	71	31	20
Kenya	11/21/2003	11/20/2006	225	150	110
Kyrgyz Republic	3/15/2005	3/14/2008	9	6	118
Malawi	8/5/2005	8/4/2008	38	28	42
Mali	6/23/2004	6/22/2007	9	4	4
Mozambique	7/6/2004	7/5/2007	11	5	5
Nepal	11/19/2003	11/18/2006	50	36	14
Nicaragua	12/13/2002	12/12/2006	98	28	14
Niger	1/31/2005	1/30/2008	26	15	12
Rwanda	8/12/2002	6/11/2006	4	1	1
Sao Tome	8/1/2005	7/31/2008	3	2	3
Senegal	4/28/2003	4/27/2006	24	--	17
Sri Lanka	4/18/2003	4/17/2006	269	231	38
Tanzania	8/16/2003	8/15/2006	20	6	6
Zambia	6/16/2004	6/15/2007	220	33	22
28 Arrangements			2,053	973	1,422

Source: IMF Finance Department; also available at www.imf.org/external/fin.htm, updated on a weekly basis.

Table 9. IMF's Financial Resources and Liquidity Position, 2002-05 1/
(In billions of SDRs unless otherwise indicated; end-of-period; as of January 31, 2006)

		2002	2003	2004	2005	Jan 2006 SDRs	Jan 2006 US$
I.	Total resources	218.1	219.1	220.6	221.1	221.1	320
	Members' currencies	210.3	211.3	213.1	213.4	210.7	305
	SDR holdings	1.2	1.1	0.8	1.1	3.7	5
	Gold holdings	5.9	5.9	5.9	5.9	5.9	9
	Other assets	0.8	0.9	0.8	0.8	0.8	1
	Available under GAB/NAB activation	-	-	-		-	-
II.	Less:Non-usable resources	117.9	118.4	109.2	75.9	69.0	100
	Of which: Credit outstanding	63.6	65.0	55.4	28.4	21.5	31
III.	Equals:Usable resources	100.2	100.7	111.4	145.2	152.1	220
IV.	Less:Undrawn balances under GRA arrangements	31.9	22.8	19.5	12.7	7.8	11
V.	Equals:Uncommitted usable resources	68.3	77.9	91.9	132.5	144.3	209
VI.	Plus:Repurchases one-year forward	19.0	9.2	12.9	8.0	7.1	10
VII.	Less:Prudential balance	32.6	32.8	32.8	34.1	34.1	49
VIII.	Equals:One-year forward commitment capacity (FCC) 2/	**54.7**	**54.2**	**72**	**106.4**	**117.3**	**170**
	Memorandum items:						
	Potential GAB/NAB borrowing	34.0	34.0	34.0	34.0	34.0	49
	Quotas of members that finance IMF transactions	163.1	164.1	164.1	170.5	170.5	246
	Liquid liabilities	66.1	66.5	55.7	28.6	24.2	35
	Liquidity ratio (in percent)	83.8	104.2	149.5	411.3	532.3	...
	US$ per SDR	1.35952	1.48597	1.55301	1.42927	1.44540	

Source: IMF Finance Department; also available at www.imf.org/external/fin.htm, updated on a monthly basis.

1/ Figures may not add due to rounding.

2/ The FCC is defined as the Fund's stock of usable resources less undrawn balances under existing arrangements, plus projected repurchases during the coming 12 months, less a prudential balance intended to safeguard the liquidity of creditors' claims and to take account of any erosion of the Fund's resource base.