IMF SURVEY SUPPLEMENT
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International Monetary Fund
VOLUME 28

September 1999

Contents

Financial markets recover

IMF adapts to changing global environment to meet member countries' needs

After a series of financial crises between mid-1997 and early 1999, which for a time raised fears of a global recession, there has recently been a marked improvement in financial market conditions and most of the economies that were affected by the crises have begun to recover. Although there are a number of remaining global downside risks, growth appears to have bottomed out at 2½ percent in 1998, in what appears to have been the mildest of the four world economic slowdowns of the past three decades.

In Southeast Asia, where the first crises occurred, the countries most directly affected—Korea, Indonesia, Malaysia, and Thailand—are all showing signs of recovery. In Russia, despite many difficulties, the government implemented policies that have helped stabilize the economy. In Latin America, Brazil took swift action to stem the crisis affecting its economy. In these and other areas, the IMF has been directly involved—providing policy advice to its 182 member countries, extending financial support for soundly formulated adjustment and reform programs, offering contingent financing to countries affected by financial contagion, granting low-cost assistance to the poorest and most indebted of its member countries, and taking steps to strengthen the international financial system, including by promoting transparency and good governance in its members.

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South Korean investors at a securities brokerage in Seoul react happily to rising stock prices. South Korea's economy has shown signs of recovery.

Despite the signs of progress, many challenges remain. Continuing recovery depends on sound policies at the national level and also on a healthy global economic environment. Globalization, characterized by increasingly integrated financial markets, accompanied by freer capital flows across national borders, is now accepted as a permanent and beneficial feature of the world economy. All participating countries can benefit—enjoying more investment and a better standard of living—although many have been left out of this progress.

The crises gave powerful impetus to proposals to strengthen the architecture of the international financial system and commanded much of the Executive Board's attention in 1998 and the first half of 1999. The proposals addressed, among other issues, transparency and accountability; internationally accepted standards of good practice in economic, financial, and business activities; capital market liberalization; the role of the private sector in forestalling and resolving crises; and improvements in financial market supervision. The IMF made considerable progress in these areas and also devoted much of its time to discussing ways to strengthen its support of member countries, particularly the poorest and most heavily indebted.

Developments in the world economy

World output growth slowed to 2½ percent in 1998 from 4¼ percent in 1997, largely as a result of the emerging market crises and the deepening recession in Japan. Global growth is projected to pick up moderately in 1999 and to be only slightly below its long-term average in 2000. (Please turn to the following page)

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(Please turn to the following page)

IMF adapts to global changes

Globalization is now accepted as a permanent and beneficial feature of the world economy.

(Continued from front page) Commodity prices fell across the board in 1998, with the price of oil declining more than 30 percent for the year as a whole, depressing growth in the oil-producing countries of Africa and the Middle East. The prices of other commodities weakened steadily and were partly responsible for a sharp slowdown in growth in Latin America in the second half of the year. Although the price declines lowered global inflation, they also reduced real incomes and domestic demand in many commodity-exporting developing countries. Oil prices began to recover in March 1999, partly in response to signs of economic recovery in Asia but also because of supply constraints by many producing countries.

Among the crisis-affected countries in Asia, output growth was negative for 1998 in Hong Kong SAR, Indonesia, Korea, Malaysia, and Thailand, but economic activity picked up toward the end of the year in Korea and Malaysia, and in early 1999 in Indonesia, Thailand, and Hong Kong SAR. The Philippines also experienced a slight drop in output in 1998, mainly because of the impact of bad weather on agricultural production. Real GDP grew by 7¾ percent in China in 1998, but economic activity was weak in Singapore, which was hard hit by the crisis.

In early 1999, the Russian economy began to recover from its low point of September 1998, with the rise in oil prices and macroeconomic policies helping to improve the fiscal position and balance of payments. Output declined by 4½ percent in 1998 as a whole, and inflation picked up somewhat in late 1998 and early 1999, with the ruble remaining under pressure. The Russian crisis spilled over to neighboring transition countries, depressing economic activity in many of these, but its impact on Central and Eastern European economies was limited and mostly temporary.

In the developing countries as a group, growth slowed to 3¼ percent in 1998 from 5¾ percent in 1997; growth increased slightly in Africa, to 3½ percent. Most Latin American countries, which had coped well with the financial pressures stemming from the Asian crisis, were more negatively affected by the Russian crisis. Brazil came under particularly heavy pressure because of concerns about its large fiscal deficit and the sustainability of its exchange rate peg. These led Brazil to adopt a flexible exchange rate regime in January 1999. Pressures did not abate until March 1999, when the government took steps to strengthen its fiscal and monetary policies under its IMF-supported program. This helped confidence to recover in Latin American countries generally. The economies of several Central American countries, especially Honduras and Nicaragua, were devastated by Hurricane Mitch in October 1998, prompting emergency support from the IMF.

Among the industrial countries, divergences in economic performance became more pronounced in 1998. Japan's economy contracted by 2¾ percent, largely because of weakness in private demand and in the emerging market economies of East Asia. In contrast, the U.S. economy continued to grow strongly, expanding by almost 4 percent for the second successive year in 1998. In Canada, growth slowed in 1998 as a whole, but picked up toward the end of the year. Unemployment in the United States reached a 29-year low of 4¼ percent in early 1999.

In Europe, the third stage of European Economic and Monetary Union began on January 1, 1999, when 11 countries adopted the euro as their currency. Growth in the euro area, which picked up in 1997, slowed significantly in late 1998, particularly in Germany and Italy, before beginning to recover in early 1999. Outside the euro area, growth in the U.K. economy slowed markedly during 1998, but showed signs of recovery by mid-1999. Inflation remained low in the advanced economies, partly reflecting low-cost imports from Asia and declining commodity prices.

IMF in 1998/99

In its 1998/99 fiscal year, ending on April 30, 1999, the IMF continued to deal with the fallout from the Asian crisis and the subsequent crises affecting Russia and Brazil and their repercussions, which presented the institution with additional challenges and underscored the risks of financial contagion. During August–October 1998, most emerging market economies temporarily lost access to private financing amid fears of a global credit crunch, before calm returned to financial markets by the end of the year. As a result of the ongoing financial market turbulence during the year, the demand for IMF financing continued to be heavy—amounting to $30 billion—and the IMF resorted to borrowing on two occasions (see page 23). Its resources subsequently dipped to a very low level in December 1998–January 1999, but were augmented by the increase in members' quotas that took effect in late January. The IMF was thus able to provide a high level of assistance to its member countries during the year.

The largest users of IMF resources in 1998/99 were Brazil and Russia, although a number of other countries also used relatively large amounts, including Bulgaria, Indonesia, Korea, Pakistan, the Philippines, Thailand, and Ukraine. As of April 30, 1999, 9 Stand-By Arrangements, 12 Extended Arrangements, and 35 Enhanced Structural Adjustment Facility Arrangements were in effect with member countries. In the face of continuing uncertainties in Russia, the IMF approved, on July 28, 1999, a 17-month Stand-By Arrangement for $4.5 billion to enable Russia to tackle the root causes of the crisis—including persistent fiscal imbalances, structural rigidities, and financial sector weaknesses.

Reform of the international financial architecture

The IMF has recently taken a number of initiatives that will enable it to assist members that have experienced difficulties over the past year and to better meet the challenges of a globalized economy. These initiatives (relating to governance, transparency, and crisis prevention) fall under the rubric of strengthening the international financial system. In late April 1999, the IMF created the Contingent Credit Lines to prevent crises by shoring up market confidence in countries that are pursuing strong economic policies but that may be vulnerable to balance of payments problems stemming from financial contagion.

To increase the transparency of its own operations as well as those of its members, the IMF has launched a pilot project—which will be reviewed after one year—under which the reports prepared by IMF staff at the conclusion of Article IV consultation discussions with individual members are released when the member country concerned agrees. In another move intended to increase public awareness of its activities—and to demonstrate its commitment to greater openness—the IMF released, for the first time in June 1999, a summary of the Executive Board's work program.

In April, the IMF and the World Bank reviewed the HIPC (Heavily Indebted Poor Countries) Initiative with a view to strengthening its framework so as to bring greater relief to this group of countries (see page 19). The Executive Board stressed the urgency of securing full financing for the HIPC Initiative, whose cost was projected to double, and for continuing the ESAF. The Executive Board also agreed to modify the policy on postconflict emergency financial assistance to take into account the special circumstances of postconflict countries. ■

Financial architecture

Strengthening the international financial system

The financial crises in East Asia in 1997–98, followed by those in Russia and Brazil in 1998–99, have underscored the need for changes in the global financial system that will reduce the risks posed by institutional weaknesses and volatile capital flows and extend the benefits of globalization to those countries that have not yet benefited from the new economic environment. Reforms that would strengthen the "architecture" of the international financial system were a major focus of the Executive Board's attention in 1998/99.

Promoting transparency, accountability

Greater transparency fosters better decision making and economic performance by member countries and international institutions and is thus an important pillar in a strengthened international financial system. In the past two years, the Executive Board has taken steps to improve the transparency of the IMF's activities and its members' policies. In March and April 1999, the Board approved additional initiatives to enhance transparency, including establishing a presumption that member countries would release documents that describe the polices they intend to implement in connection with their requests for financial support from the IMF (Letters of Intent and Memorandums of Economic and Financial Policies) as well as their economic objectives and policies (Policy Framework Papers).

Standards and codes of good practice

The IMF is seeking to foster the development, dissemination, and adoption of internationally accepted standards, or codes of practice, for economic, financial, and business activities. During 1998/99, the IMF made considerable progress in this area, including in strengthening the Special Data Dissemination Standard (see box, page 8), and in drafting a Code of Good Practices on Transparency in Monetary and Financial Policies, in collaboration with other international financial institutions, a representative group of central banks, and academics. In discussing the role of the IMF in relation to standards in March 1999, the Board recognized that the IMF has expertise that would allow it to assess members' observance of international standards in the four core areas of data dissemination, transparency of fiscal policy, transparency of monetary and financial policies, and—working with other organizations—banking supervision. It agreed to consider this issue further at a later date.

Strengthening financial systems

Strengthening financial systems, including through better financial market supervision and appropriate mechanisms for managing bank failures, is an essential element of the new architecture. To this end, the IMF, together with other international organizations, has stepped up its efforts to develop and disseminate international principles and good practices of sound financial systems. In September 1998, the IMF and the World Bank established the Financial Sector Liaison Committee to enhance their collaboration, which is seen as crucial in the effort to strengthen financial systems. The committee, whose objective is to ensure that the two institutions deliver high-quality, sound, and timely advice to countries, has developed guidelines and procedures for the IMF and the World Bank to share information and incorporate internationally recognized standards and sound practices in their work programs.

Capital account issues

Financial integration, including capital account liberalization, offers substantial benefits but also carries risks. In 1998/99, the Board discussed capital account liberalization on two occasions and in March 1999 reviewed members' experiences with the use of capital controls in the context of the recent financial crises. Directors noted that, in the countries most seriously affected by crisis, liberalization had been poorly sequenced or inadequately supported by economic policies, financial regulation, and oversight and that monetary and exchange rate policies had been inconsistent, leading to an accumulation of imbalances. Subsequently, these countries were vulnerable to external shocks or a loss of confidence.

While supporting a further liberalization of capital flows, Directors discussed the use and effectiveness of capital controls over outflows and inflows. They broadly recognized that controls over inflows, particularly those designed to influence their composition, might be justifiable, but only in countries with appropriate policies. Most Directors concluded that controls on capital outflows were not an effective policy instrument in a crisis. The IMF would continue to review countries' experiences with capital controls and with liberalizing different components of the capital account and draw conclusions for best practices.

Private sector involvement

Involving the private sector in crisis prevention and resolution is critical for bringing order to the adjustment process, limiting moral hazard, strengthening market discipline, and helping emerging market borrowers protect themselves against volatility and contagion. It is clear that measures to involve the private sector have to be in place to make it easier to resolve balance of payments pressures in an orderly way should a crisis occur.

In 1998/99, the Executive Board considered various proposals on private sector involvement and agreed that more had to be done to create market-based incentives and instruments to get the private sector involved. Possible approaches include modifying the terms of sovereign bond contracts to encourage collective action in addressing distressed debt, establishing forums for discussions between debtors and creditors, and formalizing contact with representatives of the private financial community to provide a forum to renegotiate debt, if needed.

Exchange rate issues

Since the establishment of the IMF, the international monetary and financial system has changed profoundly, raising broad systemic issues. In a preliminary discussion of IMF-supported programs in East Asia, one lesson that emerged was that the pegged exchange rates of the countries affected may have led borrowers and creditors to perceive that they were implicitly protected against losses stemming from currency risks. It was noted, however, that a more flexible exchange rate regime was not a panacea. Regardless of the regime, vulnerabilities would continue to exist, and standards for strengthened financial systems and improvements in transparency would continue to be necessary.

The Executive Board planned to discuss exchange rate issues before the 1999 Annual Meetings, focusing on the volatility of the exchange value of major currencies, the scope for measures to moderate such volatility, and the consequences for the exchange rate policies of emerging market economies. ■

Organization

Articles of Agreement shape IMF structure

IMF headquarters in Washington, D.C.

The IMF's organizational structure is set out in its Articles of Agreement, which entered into force in December 1945. The Articles provide for a Board of Governors, an Executive Board, a Managing Director, and a staff of international civil servants. Since the mid-1970s, the Executive Board has received ministerial guidance from the Interim Committee of the Board of Governors on the International Monetary System (the Interim Committee) and the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (the Development Committee).

Board of Governors. The highest authority of the IMF resides in its Board of Governors, which consists of one Governor and one Alternate Governor appointed by each member country. The Board of Governors, whose members are usually drawn from ministers of finance or heads of central banks, normally meets once a year, but may meet or vote by mail at other times.

Interim Committee. The Interim Committee provides ministerial guidance to the Executive Board. Composed of 24 IMF governors, ministers, or other officials of comparable rank, the Interim Committee meets twice a year and reports to the Board of Governors on the management and functioning of the international monetary system and on proposals to amend the Articles of Agreement.

Development Committee. The Development Committee, also composed of 24 members—finance ministers or other officials of comparable rank—advises and reports to the Boards of Governors of the World Bank and the IMF on development issues.

Executive Board. The Board of Governors has delegated many of its powers to the IMF's Executive Board, the IMF's permanent decision-making organ. The Executive Board, which generally meets three times a week at the IMF's headquarters in Washington, consists of 24 Executive Directors who are appointed or elected by member countries. It deals with a wide variety of policy, operational, and administrative matters, including surveillance of members' exchange rate policies, provision of IMF financial assistance to member countries, and discussion of systemic issues in the global economy.

Managing Director. Selected by the Executive Board, the IMF's Managing Director chairs the Executive Board and serves as head of the organization's staff. Under the direction of the Executive Board, the Managing Director is responsible for conducting the ordinary business of the IMF. The Managing Director serves a five-year term and may be reelected to successive terms.

Staff. The Articles of Agreement require that staff appointed to the IMF demonstrate the highest standards of efficiency and technical competence and reflect the organization's diverse membership. Of the organization's approximately 2,200 staff members, 123 nationalities are represented. ■

Photo Credits: Lee Jae-won for Reuters, page 1; Denio Zara and Padraic Hughes for the IMF, pages 4, 6, 14 and 32; Alexander Nemenov for AFP, page 9; Armando Babini for AFP, page 11; Stephanie Pilick for AFP, page 15; Orlondo Sierra for AFP, page 17; and AFP, page 19; IMF archive, pages 28, 29, 30, and 31.
Artwork: Massoud Etemadi for the IMF, pages 14 and 20.

IMF Executive Board
(as of September 1, 1999)

DIRECTOR
Alternate
Casting votes[1] of
(percent of IMF total)

KARIN LISSAKERS
Barry S. Newman
United States
(371,743–17.35 percent)

YUKIO YOSHIMURA
Masahiko Takeda
Japan
(133,378–6.23 percent)

BERND ESDAR
Wolf-Dieter Donecker
Germany
(130,332–6.08 percent)

JEAN-CLAUDE MILLERON
Gilles Bauche
France
(107,635–5.02 percent)

STEPHEN PICKFORD
Stephen Collins
United Kingdom
(107,635–5.02 percent)

WILLY KIEKENS (Belgium)
Johann Prader (Austria)
Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovak Republic, Slovenia, Turkey
(111,696–5.21 percent)

J. DE BEAUFORT WIJNHOLDS (Netherlands)
Yuriy G. Yakusha (Ukraine)
Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Macedonia, FYR of, Moldova, Netherlands, Romania, Ukraine
(105,412–4.92 percent)

AGUSTÍN CARSTENS (Mexico)
Hernán Oyazábal (Venezuela)
Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, Venezuela
(92,425–4.32 percent)

RICCARDO FAINI (Italy)
John Spraos (Greece)
Albania, Greece, Italy, Malta, Portugal, San Marino
(90,636–4.23 percent)

THOMAS A. BERNES (Canada)
Peter Charleton (Ireland)
Antigua and Barbuda, Bahamas, The, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines
(80,205–3.74 percent)

KAI AAEN HANSEN (Denmark)
Olli-Pekka Lehmussaari (Finland)
Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden
(76,276–3.56 percent)

GREGORY F. TAYLOR (Australia)
Okyu Kwon (Korea)
Australia, Kiribati, Korea, Marshall Islands, Micronesia, Fed. States of, Mongolia, New Zealand, Palau, Papua New Guinea, Philippines, Samoa, Seychelles, Solomon Islands, Vanuatu
(72,397–3.38 percent)

ABDULRAHMAN A. AL-TUWAIJRI
Sulaiman M. Al-Turki
Saudi Arabia
(70,105–3.27 percent)

KLEO-THONG HETRAKUL (Thailand)
Cyrillus Harinowo (Indonesia)
Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao PDR, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, Vietnam
(68,229–3.19 percent)

JOSÉ PEDRO DE MORAIS, JR. (Angola)
Cyrus Rustomjee (South Africa)
Angola, Botswana, Burundi, Eritrea, Ethiopia, Gambia, The, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe
(68,021–3.18 percent)

A. SHAKOUR SHAALAN (Egypt)
Adbelrazaq Faris Al-Faris (United Arab Emirates)
Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Yemen, Republic of
(61,242–2.87 percent)

ALEKSEI V. MOZHIN
Andrei Lushin
Russia
(59,704–2.79 percent)

ROBERTO F. CIPPA (Switzerland)
Wieslaw Szczuka (Poland)
Azerbaijan, Kyrgyz Republic, Poland, Switzerland, Tajikistan, Turkmenistan, Uzbekistan
(56,628–2.64 percent)

MURILO PORTUGAL (Brazil)
Olver L. Bernal (Colombia)
Brazil, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, Trinidad and Tobago
(53,422–2.49 percent)

VIJAY L. KELKAR (India)
A.G. Karunasena (Sri Lanka)
Bangladesh, Bhutan, India, Sri Lanka
(52,112–2.43 percent)

ABBAS MIRAKHOR (Islamic Republic of Iran)
Mohammed Daïri (Morocco)
Algeria, Ghana, Iran, Islamic Rep. of, Morocco, Pakistan, Tunisia
(51,793–2.42 percent)

WEI BENHUA
ZHANG Fengming
China
(47,122–2.20 percent)

NICOLÁS EYZAGUIRRE (Chile)
A. Guillermo Zoccali (Argentina)
Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay
(43,395–2.03 percent)

ALEXANDRE BARRO CHAMBRIER (Gabon)
Damian Ondo Mañe (Equatorial Guinea)
Benin, Burkina Faso, Cameroon, Cape Verde, Central African Rep., Chad, Comoros, Congo, Rep. of, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé and Príncipe, Senegal, Togo
(25,169–1.17 percent)

[1]As of September 1, 1999, members' votes totaled 2,148,188, and votes in the Executive Board amounted to 2,140,042. This total does not include the votes of the Islamic State of Afghanistan and Somalia, which did not participate in the 1998 Regular Election of Executive Directors. It also does not include the votes of the Democratic Republic of the Congo and Sudan, whose voting rights were suspended effective June 2, 1994, and August 9, 1993, respectively.

Capital base

Quotas define members' financial and organizational relations with IMF

On joining the IMF, each member country is assigned a quota, which represents its subscription of capital to the IMF and is expressed in SDRs. Members' quotas, in addition to providing the IMF with the financial resources it needs to lend to members in financial difficulty, serve several other functions. They determine members' representation on the Executive Board and their voting power in the IMF; each member has 250 basic votes plus 1 additional vote for each SDR 100,000 of quota. Quotas also determine how much balance of payments assistance members can normally obtain from the IMF and how much members receive from the IMF in any allocations of SDRs that may take place.

Palau Vice President and Minister of Administration Tommy E. Remengesau, Jr., signs the IMF's Articles of Agreement in Washington. Palau's quota is SDR 2.25 million (about $3 million). With Palau, the IMF now has 182 members.

Determination of initial quotas

The initial quotas of the original members of the IMF were determined at the Bretton Woods Conference in 1944. Those of subsequent members have been determined by the IMF's Board of Governors, on the basis of principles consistent with those applied to existing members. When a country applies for membership, the IMF analyzes data on its economy (GDP, current account transactions in its balance of payments, and official reserves) and calculates a quota range (calculated quota). The staff then recommends a quota for the country that is within the range of quotas of existing members whose economic size and characteristics are comparable.

A membership committee of the Executive Board considers the staff's recommendations on the quota and other terms and conditions of membership. The committee prepares a report for adoption by the Executive Board, which forwards a membership resolution to the Board of Governors for approval. The country becomes a member of the IMF when it signs the IMF's Articles of Agreement. It becomes eligible to use the IMF's resources when it has paid its quota subscription and has met all other requirements of the membership resolution.

Review and adjustment of quotas

Under the Articles of Agreement, the Board of Governors is required to conduct a general review of members' quotas at intervals of not more than five years. The review provides an opportunity to assess the adequacy of quotas in terms of both members' needs for balance of payments assistance and the ability of the IMF to finance those needs. A general review also allows for adjustments of members' quotas to reflect changes in their relative positions in the world economy. Thus, the main issues dealt with in general reviews have typically included both the size of an overall increase in quotas and the combination of equiproportional and selective adjustments within the overall increase. A member may request at any other time that the Board of Governors consider an adjustment of its quota. When quotas are increased, members normally pay 25 percent of their increase in SDRs, although the IMF may prescribe payment in whole, or in part, in other members' currencies, with their concurrence; members pay the balance of the quota increase in their own currency. A member's quota cannot be increased until the member has consented to and paid for the increase.

Eleventh General Review

The Eleventh General Review of Quotas was completed in January 1998 and took effect on January 22, 1999, when members whose quotas represented more than 85 percent of the total of IMF quotas on December 23, 1997 had consented to the increases. Under the Eleventh Review, total IMF quotas will rise to SDR 212.0 billion from SDR 145.6 billion when all members have completed payment of their quota increases.

The main considerations underlying the size of the overall increase in quotas were the growth of world trade and payments; the scale of potential payments imbalances, including those that might stem from sharp changes in private capital flows; the prospective demand for IMF resources in support of members' economic programs; the rapid globalization and liberalization of trade and payments, including the capital account, that had characterized the development of the world economy since the previous quota increase in 1990; and the weakening of the IMF's liquidity position as a consequence of the continued heavy demand for IMF resources. ■

IMF quotas
(million SDRs)

Member	April 30, 1998	July 31, 1999
Afghanistan, Islamic State of[1]	120.4	120.4
Albania	35.3	48.7
Algeria	914.4	1,254.7
Angola	207.3	286.3
Antigua and Barbuda	8.5	13.5
Argentina	1,537.1	2,117.1
Armenia	67.5	92.0
Australia	2,333.2	3,236.4
Austria	1,188.3	1,872.3
Azerbaijan	117.0	160.9
Bahamas, The[1]	94.9	94.9
Bahrain	82.8	135.0
Bangladesh	392.5	533.3
Barbados	48.9	67.5
Belarus	280.4	386.4
Belgium[1]	3,102.3	4,605.2
Belize	13.5	18.8
Benin	45.3	61.9
Bhutan	4.5	6.3
Bolivia	126.2	171.5
Bosnia and Herzegovina	121.2	169.1
Botswana	36.6	63.0
Brazil	2,170.8	3,036.1
Brunei Darussalam[1]	150.0	150.0
Bulgaria	464.9	640.2
Burkina Faso	44.2	60.2
Burundi	57.2	77.0
Cambodia	65.0	87.5
Cameroon	135.1	185.7
Canada	4,320.3	6,369.2
Cape Verde	7.0	9.6
Central African Rep.	41.2	55.7
Chad	41.3	56.0
Chile	621.7	856.1
China	3,385.2	4,687.2
Colombia	561.3	774.0
Comoros	6.5	8.9
Congo, Dem. Rep. of the[2]	291.0	291.0
Congo, Republic of	57.9	84.6
Costa Rica	119.0	164.1
Côte d'Ivoire	238.2	325.2
Croatia	261.6	365.1
Cyprus	100.0	139.6
Czech Republic	589.6	819.3
Denmark	1,069.9	1,642.8
Djibouti	11.5	15.9
Dominica[1]	6.0	6.0
Dominican Republic	158.8	218.9
Ecuador	219.2	302.3
Egypt	678.4	943.7
El Salvador	125.6	171.3
Equatorial Guinea	24.3	32.6
Eritrea	11.5	15.9
Estonia[1]	46.5	65.2
Ethiopia	98.3	133.7
Fiji	51.1	70.3
Finland	861.8	1,263.8
France	7,414.6	10,738.5
Gabon	110.3	154.3
Gambia, The	22.9	31.1
Georgia	111.0	150.3
Germany	8,241.5	13,008.2
Ghana	274.0	369.0
Greece	587.6	823.0
Grenada[1]	8.5	8.5
Guatemala[1]	153.8	153.8
Guinea	78.7	107.1
Guinea-Bissau	10.5	14.2
Guyana	67.2	90.9
Haiti[1]	60.7	60.7
Honduras	95.0	129.5
Hungary	754.8	1,038.4
Iceland	85.3	117.6
India	3,055.5	4,158.2
Indonesia	1,497.6	2,079.3
Iran, Islamic Rep. of	1,078.5	1,497.2
Iraq[2]	504.0	504.0
Ireland	525.0	838.4
Israel	666.2	928.2
Italy	4,590.7	7,055.5
Jamaica	200.9	273.5
Japan	8,241.5	13,312.8
Jordan	121.7	170.5
Kazakhstan	247.5	365.7
Kenya	199.4	271.4
Kiribati	4.0	5.6
Korea	799.6	1,633.6
Kuwait	995.2	1,381.1
Kyrgyz Rep.	64.5	88.8
Lao People's Dem. Rep[1]	39.1	39.1
Latvia	91.5	126.8
Lebanon[1]	146.0	146.0
Lesotho	23.9	34.9
Liberia[2]	71.3	71.3
Libya	817.6	1,123.7
Lithuania	103.5	144.2
Luxembourg[1]	135.5	135.5
Macedonia, FYR	49.6	68.9
Madagascar	90.4	122.2
Malawi	50.9	69.4
Malaysia	832.7	1,486.6
Maldives	5.5	8.2
Mali	68.9	93.3
Malta	67.5	102.0
Marshall Islands[1]	2.5	2.5
Mauritania	47.5	64.4
Mauritius	73.3	101.6
Mexico	1,753.3	2,585.8
Micronesia, Fed. States of[1]	3.5	3.5
Moldova	90.0	123.2
Mongolia	37.1	51.1
Morocco	427.7	588.2
Mozambique	84.0	113.6
Myanmar	184.9	258.4
Namibia[1]	99.6	136.5
Nepal	52.0	71.3
Netherlands	3,444.2	5,162.4
New Zealand	650.1	894.6
Nicaragua	96.1	130.0
Niger	48.3	65.8
Nigeria	1,281.6	1,753.2
Norway	1,104.6	1,671.7
Oman	119.4	194.0
Pakistan	758.2	1,033.7
Palau, Rep. of	2.3	3.1
Panama	149.6	206.6
Papua New Guinea	95.3	131.6
Paraguay	72.1	99.9
Peru	466.1	638.4
Philippines	633.4	879.9
Poland	988.5	1,369.0
Portugal	557.6	867.4
Qatar[1]	190.5	263.8
Romania	754.1	1,030.2
Russia	4,313.1	5,945.4
Rwanda	59.5	80.1
Samoa	8.5	11.6
San Marino[1]	10.0	10.0
São Tomé and Príncipe	5.5	7.4
Saudi Arabia	5,130.6	6,985.5
Senegal	118.9	161.8
Seychelles	6.0	8.8
Sierra Leone	77.2	103.7
Singapore	357.6	862.5
Slovak Republic	257.4	357.5
Slovenia	150.5	231.7
Solomon Islands	7.5	10.4
Somalia[2]	44.2	44.2
South Africa	1,365.4	1,868.5
Spain	1,935.4	3,048.9
Sri Lanka	303.6	413.4
St. Kitts and Nevis	6.5	8.9
St. Lucia	11.0	15.3
St. Vincent and the Grenadines[1]	6.0	6.0
Sudan[2]	169.7	169.7
Suriname	67.6	92.1
Swaziland	36.5	50.7
Sweden	1,614.0	2,395.5
Switzerland	2,470.4	3,458.5
Syrian Arab Rep.	209.9	293.6
Tajikistan	60.0	87.0
Tanzania	146.9	198.9
Thailand	573.9	1,081.9
Togo	54.3	73.4
Tonga	5.0	6.9
Trinidad and Tobago	246.8	335.6
Tunisia	206.0	286.5
Turkey	642.0	964.0
Turkmenistan[1]	48.0	48.0
Uganda	133.9	180.5
Ukraine	997.3	1,372.0
United Arab Emirates[1]	392.1	392.1
United Kingdom	7,414.6	10,738.5
United States	26,526.8	37,149.3
Uruguay[1]	225.3	306.5
Uzbekistan	199.5	275.6
Vanuatu	12.5	17.0
Venezuela	1,951.3	2,659.1
Vietnam	241.6	329.1
Yemen, Rep. of	176.5	243.5
Zambia	363.5	489.1
Zimbabwe	261.3	353.4

NOTE: Board of Governors Resolution No. 53-2, adopted January 30, 1998.
[1]Member has not completed payment of its quota increase.
[2]Member has overdue financial obligations to the General Resources Account and consequently cannot consent to its quota increase under Board of Governors Resolution No. 53-2.

Broader framework

Surveillance helps members identify and correct problems quickly

Central to the IMF's purposes and operations is the mandate, under its Articles of Agreement, to oversee the international monetary system. To fulfill this function, the IMF is charged with exercising surveillance over the exchange rate policies of its members. It does this through analysis of the appropriateness of each country's economic and financial policies for achieving orderly economic growth and assessment of the implications of these policies for the global economy. The surveillance process is intended to identify issues and problems in a timely manner, so that members can implement suitable corrective measures more quickly.

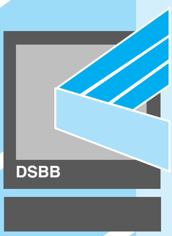
In recent years, fundamental shifts in the global economy—such as the rapid growth of private capital markets, increased regional and monetary integration, and the implementation of current account convertibility and market-oriented reform in many countries—have heightened the importance of effective and timely surveillance. These transformations are being mirrored in increased responsibilities for the IMF.

Traditionally, IMF surveillance has focused on encouraging countries to correct macroeconomic imbalances, reduce inflation, and institute key trade, exchange, and other market reforms. But increasingly, and depending on the situation in each country, much broader structural and institutional reforms have been seen as necessary for countries to establish and maintain private sector confidence and lay the groundwork for sustained growth. These areas include strengthening the efficiency of the financial sector, improving data collection and disclosure, making government budgets and monetary and financial policy more transparent, promoting the autonomy and operational independence of central banks, and promoting legal reforms and good governance.

Tools of surveillance

The IMF carries out its surveillance responsibilities primarily through regular consultations, called Article IV consultations, with individual member countries and through multilateral discussions held in the context of the Executive Board's World Economic Outlook reviews and its annual discussion of developments in international capital markets and financial systems. More recently, the IMF has conducted regional surveillance through its discussion of developments in the European Economic and Monetary Union (EMU) and in the West African Economic and Monetary Union (WAEMU).

Article IV consultations. Article IV consultations, the main form of collaboration between the IMF and its members, allow the IMF to systematically review each member's economic developments and policies. An IMF staff team visits the country, collects economic and financial information, and discusses with the authorities the economic developments since the last Article IV consultation, as well as the monetary, fiscal, and structural policies that the country is following. The staff's report forms the basis for an Executive Board discussion. Following the discussion, the Chairman of the



Strengthening the SDDS and improving access to debt data

On March 26, 1999, the IMF announced that it had strengthened the Special Data Dissemination Standard (SDDS), which it established in 1996 as a standard of good practices for countries to follow in providing economic and financial statistics to the public. It is intended primarily for countries that either have or seek access to international financial markets and signals their commitment to providing timely and comprehensive data. The importance of such data has been demonstrated by the recent international financial crises. Strengthening the SDDS is part of ongoing efforts to improve the architecture of the international financial system. As of September 1, 1999, 47 countries subscribe to the SDDS. The measures to strengthen the SDDS took the following forms:

- Countries reporting international reserve data should include detailed information on reserve assets and on reserve-related liabilities and other potential drains on reserves. They should disseminate these data monthly with a lag of no more than one month, but would continue to disseminate data on total reserve assets monthly with a lag of no more than one week. The IMF encourages countries to disseminate the full range of data on reserves weekly with a one-week lag.
- A separate category for external debt, with quarterly disaggregation by sector and maturity, was introduced. The transition period is to be determined after consultation with countries, users, and international organizations.
- The IMF established a three-year transition period for countries to disseminate data on their international investment position.
- IMF staff will monitor how well countries that subscribe to the SDDS observe key commitments as to coverage, periodicity, and timeliness of the data they release.
- By the end of 1999, hyperlinks are required between the IMF's Dissemination Standards Bulletin Board (DSBB) and national summary data pages on the Internet (http://dsbb.imf.org) to facilitate monitoring and help meet the needs of data users.

Board summarizes the views expressed in the meeting. This "summing up" is communicated to the country's authorities. The IMF may, if the country agrees, release a Public Information Notice (PIN) on the basis of the summing up.

In recent years, surveillance has taken more account of regional, social, industrial, labor market, income distribution, governance, and environmental issues, which may also affect a country's economic performance. With the increasing global integration of financial markets, the IMF is also taking more explicit account of capital account and financial and banking sector issues.

In March 1999, the Executive Board agreed to additional initiatives to enhance the transparency of its members' policies and of IMF policy advice to them, including procedures for the public release of PINs following Executive Board discussions of policy papers and a closed-end pilot project for the voluntary release of Article IV staff reports. In 1998/99, the IMF concluded 125 Article IV consultations, 91 of which resulted in the issuance of a PIN.

Multilateral surveillance. World Economic Outlook discussions provide the Executive Board with a framework for reviewing members' policies from a multilateral perspective, monitoring and analyzing the global economic situation, and assessing prospects for the international economy under various policy assumptions. The IMF's *International Capital Markets* report provides an opportunity for the Executive Board to review developments in financial markets and their implications for the world economy.

Other means of surveillance. Surveillance may also take the form of financial arrangements that are intended to be precautionary, informal staff-monitored programs, and enhanced surveillance.

- *Precautionary arrangements*: members agree to an IMF arrangement but do not intend to use the IMF's resources unless absolutely necessary; the purpose of the arrangement is to signal the IMF's endorsement of a member's policies, thereby boosting confidence in them.
- *Informal staff monitoring*: the staff monitors the member's economic program and meets regularly with the country's authorities to discuss the policies it is implementing. The IMF does not formally endorse the member's policies.
- *Enhanced surveillance*: this involves close and formal monitoring by the IMF, but does not constitute IMF endorsement of the member's economic policies. It was originally established in 1985 to facilitate debt-rescheduling arrangements with commercial banks.

Regional issues

In April 1998, the IMF welcomed the creation of European Economic and Monetary Union (EMU) as one of the most important international monetary developments in the post–Bretton Woods period. EMU was expected to have powerful implications for the international monetary system, based on the promise of a dynamic and integrated economy of 300 million people.

In September 1998, the Executive Board discussed the implications of EMU for IMF surveillance and noted that EMU, and particularly the adoption of a single monetary policy under the responsibility of an independent European Central Bank, had important implications for IMF surveillance. As economic policies of the euro area would have important effects on other countries, Directors agreed that the IMF's responsibility to conduct surveillance over members' external and exchange rate policies required intensifying discussions with European Union (EU) and euro-area institutions, especially the European Central Bank. It was therefore decided that discussions with the representatives of the relevant EU institutions would need to take place as part of Article IV consultations with individual euro-area countries.

In May 1998, the Executive Board discussed strengthening IMF surveillance of regional developments in

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Oil production provides a base for Azerbaijan's reform efforts, which are being supported by an ESAF Arrangement with the IMF.

IMF publishes information on financial and liquidity position

Since October 1998, in response to public interest and the desire of member countries for enhanced operational transparency, information about members' financial positions in the IMF has been made available on the IMF's website (www.imf.org). This site provides the latest end-of-month information on members' use of IMF credit; disbursements to, and repayments of IMF credit by, members; the current status of Stand-By, Extended, and Enhanced Structural Adjustment Facility Arrangements; and summary financial position reports.

In addition, the website provides the latest end-of-month information on the IMF's total resource position and on its usable resources, as well as on the ratio of net uncommitted usable resources to liquid liabilities—the IMF's liquidity ratio.

Africa by establishing a formal dialogue between the IMF and the regional institutions in the WAEMU area. Although the economic performance of WAEMU members has improved since the January 1994 devaluation of their common currency—the CFA franc—Directors felt that these countries would continue to perform well only by pursuing sound macroeconomic polices and intensifying their structural reforms.

The 1994 currency realignment improved the region's competitiveness and led to a strong increase in the growth of output and exports, but Directors agreed that the evolution of competitiveness indicators should be kept under close review. Directors also encouraged strong efforts to broaden convergence in the region, which they felt would promote stability and growth.

Finally, to enhance surveillance, they emphasized that it was essential to improve the timely availability of reliable data on the national accounts, domestic debt, and balance of payments.

Lessons from the Asian crisis

In March 1998, the Executive Board undertook its regular review of members' policies in the context of surveillance, this time focusing on the lessons from the Asian crisis. Directors noted that the IMF's performance in identifying emerging tensions in crisis-affected countries at an early stage had been mixed. With hindsight, it was clear that, in some of the affected countries, vulnerabilities had been underestimated, including by the markets. At the same time, some other emerging market economies had taken timely and sustained policy measures in the face of market pressures, including with IMF advice, and had been able to fend off spreading turmoil successfully. Some Directors stressed that it was unrealistic to expect IMF surveillance to detect all problems early and prevent all crises and that the contagion effects of the crisis, which first broke out in Thailand, were, to a large extent, unpredictable. Nevertheless, they encouraged the staff, in exercising surveillance, to place increased emphasis on the risks of contagion effects. ■

Conditionality

Members commit to reform in exchange for IMF financial support

No one reform model suits all members. Thus, each member country, in close collaboration with the IMF staff, designs its IMF-supported program.

When it provides financial support to a member country, the IMF must be sure the member is pursuing policies that will ameliorate or eliminate its external payments problem. The explicit policy commitment that members make to implement remedial measures in return for the IMF's support is known as "conditionality." This commitment also ensures that members are able to repay the IMF in a timely manner, which in turn allows the IMF's limited pool of financial resources to be made available to other members with a balance of payments problem. IMF financing, and the important role it plays in helping a country secure other financing, enables the country to adjust in an orderly way without resorting to measures that would harm its own or other countries' prosperity.

Conditions for IMF financial support may range from general commitments to cooperate with the IMF in setting policies, to the formulation of specific, quantified plans for financial policies. IMF financing from its general resources in the "upper credit tranches" (that is, where larger amounts are disbursed in return for implementation of remedial measures) is disbursed in stages. The IMF requires a "letter of intent," which outlines a government's policy intentions during the period of the adjustment program; the policy changes it must take before the arrangement can be approved; performance criteria, which are objective indicators for certain policies that must be satisfied on a quarterly, semiannual, or in some instances monthly basis for drawings to be made; and periodic reviews that allow the Executive Board to assess the consistency of policies with the objectives of the program.

Conditionality is flexible

Although IMF conditionality is linked to specific performance criteria, it does not rely on rigid operational rules. The Board's guidelines on conditionality

- encourage members to adopt corrective measures at an early stage;
- stress that the IMF should pay due regard to members' domestic social and political objectives, as well as their economic priorities and circumstances;
- permit flexibility in determining the number and content of performance criteria; and
- emphasize that IMF arrangements are decisions of the IMF that set out, in consultation with members, the conditions for its financial assistance.

How conditionality works

The IMF recognizes that no one reform model suits all members. Thus, each member country, in close collaboration with the IMF staff, designs its IMF-supported program. The process involves a comprehensive review of the member's economy, including the causes and nature of the balance of payments problems, and an analysis of the policies needed to achieve a sustainable balance between the demand for, and the availability of, resources.

IMF-supported programs emphasize certain key aggregate economic variables—domestic credit, the public sector deficit, international reserves, and external debt—and crucial elements of the pricing system—including the exchange rate, interest rates, and, in some cases, wages and commodity prices—that significantly affect the country's public finances and foreign trade and the economy's supply response.

During a Stand-By or an Extended Fund Facility Arrangement (EFF) or during an arrangement under the Enhanced Structural Adjustment Facility (ESAF), the IMF monitors a member's reform program through performance criteria selected according to the economic and institutional structure of the country, the availability of data, and the desirability of focusing on broad macroeconomic variables, among other considerations. Performance under IMF-supported reform programs is also monitored through periodic reviews by the IMF Executive Board.

Growth-oriented adjustment

Although macroeconomic policies designed to influence aggregate demand continue to play a key role in IMF-supported adjustment programs, it is widely recognized that measures to strengthen the supply side of the economy are frequently essential to bring about a sustained return of external viability and sound growth. Among the IMF-supported policy adjustments that member countries make to enhance the growth potential and flexibility of their economies are measures to

- remove distortions in the external trade and payments system and in domestic relative prices,
- improve the efficiency and soundness of the financial system, and
- foster greater efficiency in fiscal operations.

Structural reforms in these areas have been particularly important in programs under the EFF and the ESAF. Given the emphasis on structural reforms in IMF-supported programs, close collaboration with the World Bank has been important.

Social safety nets

For more than a decade, the IMF has addressed the social dimensions of economic policies in its discussions with members. The IMF has often advised members on social safety nets, the equity aspects of overall economic policy, and the composition of public spending—encouraging them to reallocate expenditure from unproductive to growth-enhancing outlays. The IMF's growing interest in social policy issues stems from its recognition that reform programs are more likely to be viable in the long run if they emphasize equity and human resource development. Most bilateral consultations with members now consider the implications of their policies on poverty, health, education, and employment.

IMF-supported programs with low-income members under the ESAF give significant attention to social issues. For example, countries entering into an ESAF Arrangement may be asked to tackle poverty by accelerating economic growth and improving the delivery of basic services to the neediest segments of their populations. To help cushion the poorest members of society against subsidy cuts, ESAF-supported programs often suggest protecting or even increasing spending on essential social services.

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Albanian children celebrate the opening of their school near Tirana. Through ESAF, the IMF provides support for social development.

Although other organizations, including the World Bank, have more of a mandate to address social issues, the IMF has sought to contribute to the task of improving equity by (1) ensuring that a social agenda is defined, (2) working with governments and other agencies to prepare a policy framework that ensures coherence among a country's economic and social objectives, and (3) encouraging the International Labor Organization's approach—involving representatives of workers and employers along with governments—in discussions of major changes in economic policy.

Recently, the IMF reviewed social spending in 31 low-income countries that had received support through the ESAF. The results for 1986–97 indicate that these countries, as a group, made good progress in raising public social expenditures and improving social indictors. Despite such progress, social policy implementation has been hindered in many countries by poor data, a lack of administrative ability, weak political commitment, vested interests, and limited foreign assistance. Ultimately, consideration of the human costs involved during reform is essential for the reform effort to succeed. ■

Financial facilities and policies

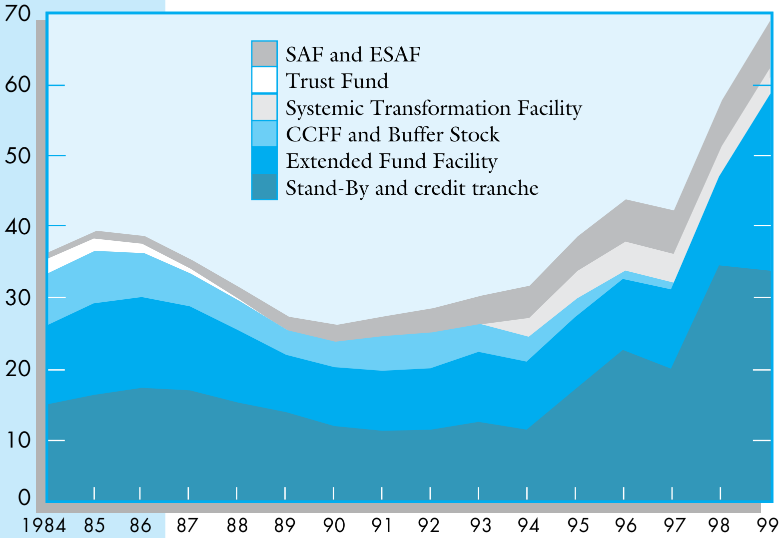
IMF financing helps members pursue sound policies

The IMF offers financial assistance to members to help them correct balance of payments problems and to soften the impact of reform. The IMF's financing is provided through both its general resources and its concessional financing facility (Enhanced Structural Adjustment Facility (ESAF)), which is administered separately. The extension of IMF credit is subject to Executive Board approval and, in most cases, to the member's commitment to take steps to address the causes of its payments imbalance. A member's access to IMF resources is set in proportion to its quota.

Members using the IMF's general resources "purchase" (or draw) SDRs or other members' currencies by paying an equivalent amount of their own currency. The IMF levies charges on these drawings and requires that, within a specified time, members "repurchase" (or buy back) their own currency from the IMF using other members' currencies or SDRs. Concessional financing under the ESAF is provided in the form of low-interest loans and under the Initiative for Heavily Indebted Poor Countries (HIPC) (see page 19) in the form of grants.

Total IMF credit outstanding to members[1]

(Billion SDRs; end of period)



[1]The IMF's financial year begins on May 1 and ends on April 30.

Data: IMF, *Annual Report* 1999

Credit tranche policies

The most basic form of IMF financial support is provided under the credit tranche policy. A country experiencing balance of payments difficulties can draw an amount equivalent to the first 25 percent of its quota (or "first credit tranche") by demonstrating that it is taking reasonable steps to overcome its balance of payments problems. Financing under the second, third, and fourth credit tranches ("upper credit tranches") is normally associated with a Stand-By or an Extended Arrangement with the IMF.

Regular facilities

Stand-By Arrangements. Under a Stand-By Arrangement, a country implements, usually for one to two years, a program that includes macroeconomic policy changes to resolve its balance of payments problems. The country, in consultation with the IMF staff, designs the program to achieve its goals. To receive the financing, the member must meet performance criteria that mark its successful implementation of the program. These criteria—which allow both the member and the IMF to assess progress and may signal the need for further corrective policies—generally cover ceilings on government budget deficits, credit, and external debt, as well as targets for reserves. The country repays the money it has borrowed over 3¼–5 years.

In 1998/99, the IMF approved commitments under seven Stand-By Arrangements totaling SDR 14.3 billion. The largest new Stand-By Arrangement, SDR 13.0 billion for Brazil, included SDR 9.1 billion available until December 1999 under the Supplemental Reserve Facility (see page 14). New Stand-By Arrangements were also approved for Bosnia and Herzegovina (SDR 61 million), El Salvador (SDR 38 million), Uruguay (SDR 70 million), and Zimbabwe (SDR 131 million). The Stand-By Arrangement for Indonesia was augmented by SDR 1.0 billion. As of April 30, 1999, nine countries had Stand-By Arrangements from the IMF, with total commitments of SDR 32.7 billion and undrawn balances of SDR 8.6 billion.

Extended Fund Facility (EFF). The IMF provides financial support to its members for longer periods and in generally larger amounts under the Extended Fund Facility. Extended Arrangements, which normally run for three years but can be extended for a fourth, are designed to correct balance of payments problems that stem largely from structural problems and take longer to correct. The repayment period is 4½–10 years.

In 1998/99, the IMF approved commitments under five Extended Arrangements totaling SDR 14.1 billion. The largest new Extended Arrangement was SDR 4.7 billion for Indonesia; it was later augmented by SDR 0.7 billion. Extended Arrangements were also approved for Bulgaria (SDR 0.6 billion), Jordan (SDR 0.1 billion), and Ukraine

(SDR 1.6 billion). The Extended Arrangement for Russia was augmented by SDR 6.3 billion, but was subsequently canceled in March 1999. As of April 30, 1999, 12 countries had Extended Arrangements, with commitments of SDR 11.4 billion and undrawn balances of SDR 7.3 billion.

In 1998/99, new commitments of IMF resources under Stand-By and Extended Arrangements amounted to SDR 28.4 billion, of which nearly one-half was approved for Brazil and about one-fifth each for Indonesia and Russia.

Special facilities

Buffer Stock Financing Facility. Under this facility, the IMF helps members that are heavily dependent on commodity exports to meet their financial commitments under international agreements designed to smooth volatile commodity prices. No drawings have been made under this facility for the past 15 years.

Compensatory and Contingency Financing Facility (CCFF). The compensatory element of the CCFF provides timely financing to members experiencing temporary shortfalls in export earnings or an excess in cereal import costs, attributable to circumstances largely beyond their control. This element of the facility has been used particularly by commodity exporters. The contingency element helps members with IMF arrangements keep their adjustment programs on track when they are faced with unexpected adverse external disruptions, such as declines in export prices and increases in import prices or in international interest rates. Receipts from tourism and workers' remittances may also be covered if they are a significant component of the member's current account.

During 1998/99, four countries—Azerbaijan, Jordan, Pakistan, and Russia—drew a total of SDR 2.6 billion under the CCFF.

Access limits govern use of resources

The rules governing access to the IMF's general resources apply uniformly to all members. Access is determined primarily by a member's balance of payments need, the strength of its adjustment policies, and its ability to repay the IMF. With the exception of access under the Supplemental Reserve Facility (SRF) and the Contingent Credit Lines (CCL), annual and cumulative access limits under other facilities and policies are set in proportion to members' quotas. The Executive Board reviews the access limits annually in light of, among other considerations, the extent of members' payments problems and developments in the IMF's liquidity.

The IMF's current policies on access reflect the Board's decision in 1994 to raise, for three years, the annual access limit in the credit tranches and under the Extended Fund Facility (EFF) to 100 percent of quota from 68 percent and to keep the cumulative access limit the same at 300 percent of quota. In January 1999, in connection with the quota increase under the Eleventh General Review, the Board decided that the annual and cumulative limits under the credit tranches and the EFF would remain unchanged in percent of quota, effectively raising them by about 45 percent in SDR terms. When the quota increase took effect, access to additional resources under Stand-By or Extended Arrangements in support of operations to reduce debt and debt service was reduced to 20 percent from 30 percent of quota. The amount that could be set aside under a Stand-By or an Extended Arrangement for the same purpose was reduced to 15 percent from about 25 percent of actual access under the arrangement. These limits may be exceeded in exceptional cases.

At the same time, the Board reexamined the access limits under the Compensatory and Contingency Financing Facility (CCFF), the Buffer Stock Financing Facility (BSFF), and the Enhanced Structural Adjustment Facility (ESAF). Pending a more thorough review, the Board decided to reduce the access limits under these three facilities in percent of quota to keep them broadly constant in SDR terms. The current overall access limit is 65 percent of a member's quota under the CCFF and 25 percent of quota under the BSFF. Under the ESAF, an eligible member may borrow up to 140 percent of its quota under a three-year arrangement, although this limit may be increased, under exceptional circumstances, to 185 percent.

Drawings under the SRF are made in the context of a Stand-By or an Extended Arrangement, but are not subject to a specific access limit. Drawings under the CCL are made in the context of a Stand-By Arrangement and are also not subject to a specific access limit, but are expected to be in the range of 300–500 percent of quota.

Access Limits
(percent of member's quota)

Stand-By and Extended Arrangements[1]	
Annual	100
Cumulative	300
Special Facilities	
Buffer Stock Financing Facility	none
Compensatory and Contingency Financing Facility	
Export earnings shortfall[2]	20
Excess cereal import costs[2]	10
Contingency financing	20
Optional tranche	15
Buffer Stock Financing Facility	25
Enhanced Structural Adjustment Facility[1]	
Three-year access	
Regular	140
Exceptional	185

[1]Under exceptional circumstances, these limits may be exceeded.
[2]When a member has a satisfactory balance of payments position except for the effect of an export earnings shortfall or an excess in cereal import costs, a limit of 45 percent of quota applies to either the export earnings shortfall or the excess cereal import costs, with a joint limit of 55 percent.

Supplemental Reserve Facility (SRF). In December 1997, the Executive Board established the Supplemental Reserve Facility in response to the unprecedented demand for IMF resources resulting from the Asian crisis. The SRF is intended to help member countries experiencing exceptional balance of payments problems created by a large short-term financing need. Such a need may result from a sudden and disruptive loss of market confidence and take the form of pressure on the member's capital account and reserves. Assistance is available when there is a reasonable expectation that strong adjustment policies and adequate financial support will enable a country to correct its balance of payments difficulties in a short time.

Pedro Malan, Finance Minister of Brazil, and IMF First Deputy Managing Director Stanley Fischer confer at the 1998 Annual Meetings.

The SRF is likely to be used when a country's outflows are large enough to create a risk of contagion that could potentially threaten the international monetary system. In approving a request for the use of resources under the SRF, the IMF takes into account the financing provided by other creditors. To minimize moral hazard, a member using resources under the SRF is encouraged to maintain the participation of both official and private creditors until the pressure on its balance of payments eases.

Financing under the SRF, available in the form of additional resources under a Stand-By or an Extended Arrangement, is committed for up to one year and is generally available in two or more drawings. The first drawing is available when financing is approved, normally at the same time the corresponding arrangement is approved. Countries drawing under the SRF are expected to repay within 1–1½ years of the date of each purchase. The Board may, however, extend this repayment period by up to one year. For the first year, members are subject to a surcharge of 300 basis points above the regular rate of charge on IMF loans. This surcharge is increased by 50 basis points at the end of that period and every six months thereafter until it reaches 500 basis points.

The IMF first activated the SRF in December 1997, committing SDR 9.95 billion to Korea as part of its Stand-By Arrangement. In July 1998, the IMF committed SDR 4 billion to Russia under the SRF as part of the augmentation of its Extended Arrangement, and in December 1998, SDR 9.1 billion was committed to Brazil under the SRF as part of its Stand-By Arrangement.

Contingent Credit Lines. In April 1999, the Board endorsed the creation of Contingent Credit Lines as a precautionary line of defense to help members with fundamentally sound and well-managed economies

Euro launch has operational implications

The euro, a common currency for the 11 countries that participate in European Economic and Monetary Union, was launched on January 1, 1999. The IMF has designated the euro a "freely usable" currency that is expected to play an important role in international financial transactions once euros replace countries' national currencies. In addition to the euro—which replaces the deutsche mark and the French franc—the other currencies the IMF considers to be freely usable are the Japanese yen, the pound sterling, and the U.S. dollar.

The IMF's Articles of Agreement define a freely usable currency as "a member's currency that the IMF determines (i) is, in fact, widely used to make payments for international transactions, and (ii) is widely traded in the principal exchange markets." This designation has implications for financial operations and transactions between the IMF and its members. When a member engages in a transaction with the IMF involving a freely usable currency, it may obtain that currency from the issuing member or other sources, such as the commercial market. The country issuing the freely usable currency, if approached, undertakes to provide its currency to the buyer, but the exchange rate is not guaranteed.

The IMF, after consulting with the 11 euro-area members, determined that the same representative exchange rate definition for the euro would apply to all of them. This rate is the rate for the euro against the U.S. dollar as published daily by the European Central Bank. As of January 1, 1999, the IMF redenominated its holdings of the currencies of euro-area members to euros from the existing national currencies. Before these changes took effect, the IMF informed all its members of the procedures for the exchange of the euro and that it would conduct in euros all financial transactions involving the currencies of the euro-area members.

that may be threatened by balance of payments problems arising from a sudden and disruptive loss of market confidence caused by contagion (see box, page 16).

Concessional Facility

Enhanced Structural Adjustment Facility (ESAF). This facility was established in 1987 as a successor to the Structural Adjustment Facility (SAF), created in 1986, and was extended and enlarged in February 1994. Through the ESAF, the IMF provides concessional financial support for low-income member countries with persistent balance of payments problems.

ESAF resources are intended to support strong medium-term structural adjustment programs. Eligible members seeking ESAF resources must develop, with the assistance of the staffs of the IMF and the World Bank, a policy framework paper (PFP) outlining a three-year adjustment program. The PFP, which is a document of the national authorities, is updated annually; it describes the authorities' economic objectives, strategies for achieving those objectives, and associated external financing needs and major sources of financing. The PFP is intended to ensure a consistent framework for economic policies and to attract financial and technical assistance in support of the adjustment program.

Adjustment measures under ESAF-supported programs are expected to strengthen a country's balance of payments position substantially and foster growth during the three-year period. Monitoring under ESAF Arrangements is conducted through quarterly financial and structural benchmarks. In 1998, the structure of ESAF Arrangements was modified to allow closer monitoring through semiannual or quarterly performance criteria, reviews, and disbursements. ESAF loans are usually disbursed semiannually, initially upon approval of an arrangement and subsequently based on the observance of performance criteria and after the completion of a review. ESAF loans are repaid in 10 equal semiannual installments, beginning 5½ years and ending 10 years after the date of each disbursement. The interest rate on ESAF loans is 0.5 percent a year.

In 1998/99, the IMF approved 10 new ESAF Arrangements with commitments totaling SDR 0.9 billion—for Albania, Bolivia, the Central African Republic, The Gambia, Guyana, Honduras, the Kyrgyz Republic, Rwanda, Tajikistan, and Zambia. Six ESAF Arrangements were augmented by a total of SDR 0.1 billion. As of April 30, 1999, 35 ESAF Arrangements were in effect. Cumulative commitments under all SAF and ESAF Arrangements approved since 1986 (excluding undisbursed amounts under expired and canceled arrangements) totaled SDR 11.1 billion as of April 30, 1999, compared with SDR 10.3 billion a year earlier. Total ESAF disbursements in 1998/99 amounted to SDR 0.8 billion, compared with SDR 1.0 billion in 1997/98, bringing cumulative SAF and ESAF disbursements through April 30, 1999, to SDR 9.0 billion. Since April 30, 1999, four new ESAF Arrangements have been approved: for Ghana (SDR 155 million), Mali (SDR 46.7 million), Mauritania (SDR 42.5 million), and Mozambique (SDR 58.8 million). The current ESAF Arrangement for Albania was also augmented by SDR 10 million and that for Georgia, by SDR 5.6 million.

Financing the ESAF Trust. The resources to finance lending in support of ESAF Arrangements are kept separate from the general resources of the IMF and are admin-

IMF grants observer status to European Central Bank

In connection with the launch of the euro, the Executive Board granted observer status at the IMF to the European Central Bank (ECB) effective January 1, 1999. The ECB was invited to send a representative to attend Board discussions on the following topics:

- IMF surveillance under Article IV over the common monetary and exchange rate policies of the euro area,
- IMF surveillance under Article IV over the policies of individual euro-area member countries,
- the role of the euro in the international monetary system,
- the world economic outlook,
- international capital markets reports, and
- world economic and market developments.

The ECB was also invited to send a representative to Board meetings on the agenda items recognized by the ECB and the IMF to be of mutual interest in fulfilling their mandates.

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European Central Bank headquarters in Frankfurt, Germany istered by the IMF as Trustee of the ESAF Trust. ESAF operations are conducted through three accounts with separate functions. The ESAF Trust borrows resources through the Loan Account for onlending to eligible members under ESAF Arrangements, with the maturity of drawings on lenders coinciding with the maturity of loans to ESAF borrowers. Lenders have extended loans to the ESAF Trust on different interest rate terms: market rates in most cases, free of interest in one case, and highly concessional rates in some others. Most lenders making loans at market-related interest rates have made separate contributions to reduce the interest rate charged to borrowers.

Subsidy contributions (including a contribution from the IMF's Special Disbursement Account in 1994) are channeled through the Subsidy Account and have taken the form of direct grants or deposits at concessional interest rates. These funds are invested by the Trust, with the subsidy contribution on the latter being equal to the interest rate differential. Resources are set aside in the Reserve Account to provide security for lenders' claims on the Trust against the risk of nonpayment by borrowers. The resources in the Reserve Account result mainly from repayments of SAF loans and the part of ESAF loans financed with SAF resources that ultimately originated from the profits of gold sales undertaken by the IMF in 1976–81.

Making the ESAF self-sustaining. Based on the broad agreement that the ESAF is, and will remain, the center-

IMF Contingent Credit Lines protect countries from financial contagion

At the end of April 1999, the Executive Board agreed to provide Contingent Credit Lines (CCL) as a precautionary line of defense for member countries that are implementing sound economic policies, but that may be vulnerable to the effects of crises elsewhere (contagion effect). The IMF's approval of financing under the CCL would send the message that the IMF has confidence in the member's economic policies as well as in its determination to adjust them if the country should be affected by contagion. The CCL is intended to serve as an instrument of crisis prevention by

• creating further incentives for members to adopt strong policies, notably debt management and sustainable exchange rate policies, and to adhere to internationally accepted standards;

• encouraging the private sector to remain involved in countries that are in danger of being affected by crises in other countries, thereby containing the risks of financial market contagion; and

• signaling the IMF's willingness to provide financing to a member struck by contagion.

The CCL provides short-term financing to help members overcome the exceptional balance of payments financing needs that can arise if, through contagion, they suffer a sudden and disruptive loss of market confidence. Such circumstances must be largely beyond the member's control and stem primarily from adverse developments in international capital markets caused by events in other countries. The CCL represents an extension of the existing Supplemental Reserve Facility (SRF). Whereas the SRF is intended for members already in the throes of a crisis, the CCL is intended as a preventive measure for members concerned about their vulnerability to contagion but not facing a crisis at the time of commitment.

The IMF has established the following criteria for access to the CCL:

• When the Board approves a commitment of resources, the member must be implementing policies that make it unlikely it will need to use the resources and it must not already be facing balance of payments difficulties as a result of contagion.

• The member's economic performance should have received a positive assessment in the most recent IMF Article IV consultation and thereafter. The assessment should take into account the member's progress in adhering to relevant internationally accepted standards; in particular, the member should have subscribed to the Special Data Dissemination Standard and be making satisfactory progress toward meeting its requirements.

• The member should be maintaining constructive relations with private creditors, with a view to facilitating appropriate private sector involvement, and should have made satisfactory progress in limiting its vulnerability to external developments by prudently managing its external debt and international reserves.

• The member should submit a satisfactory economic and financial program, including a quantified framework, which the member is prepared to adjust as needed.

Financing under a CCL will be committed and provided under a Stand-By Arrangement. Upon approval of the arrangement, a small purchase of credit tranche resources is immediately available to the member. When a member requests actual use of CCL resources, the Board will conduct a special "activation" review in which it must ascertain that the member has successfully implemented its program to date but is still severely affected by a crisis that stems from contagion and is prepared to adjust its policies as needed. The IMF commits resources under the CCL for up to one year. When it conducts the activation review, it decides how much of the resources to release immediately, how the balance should be disbursed, and what conditions should be attached to the line of credit.

The CCL is not subject to general IMF access limits, but commitments under the CCL would generally be in the range of 300–500 percent of the member's quota in the IMF.

Countries drawing under the CCL are expected to repay within 1–1½ years of the date of each disbursement, although this repayment period may be extended by up to one year. The rate of charge on purchases under the CCL includes a surcharge of 300 basis points over the rate that applies to purchases under the credit tranches and the Extended Fund Facility. The surcharge will be raised by 50 basis points at the end of the first year and every six months thereafter until it reaches 500 basis points. The IMF established the CCL for a two-year period and will review it after one year.

piece of the IMF's support for the poorest countries, including in the context of the HIPC Initiative, the Executive Board in 1996 agreed on a framework for the continuation of ESAF operations. Under current projections, available ESAF resources are expected to be fully committed by end-2000. A self-sustained ESAF, with a commitment capacity of about SDR 0.8 billion a year, would begin in the year 2005, or perhaps earlier, financed from the IMF-owned resources set aside in the Reserve Account, which will become available as ESAF lenders are repaid. This leaves an interim period of about four years during which financing of an estimated SDR 1.4 billion "as needed" would have to be mobilized to cover interest subsidies. In addition, financing needs for special ESAF operations under the proposed enhanced HIPC Initiative are estimated to be SDR 2.6 billion, "as needed."

Other IMF policies and procedures

In specific circumstances that cannot be adequately addressed under its regular and special facilities, the IMF extends financing to member countries under several special mechanisms. These include the Emergency Financing Mechanism, support for currency stabilization funds, and emergency assistance to members facing balance of payments difficulties arising from sudden and unforeseeable natural disasters or following civil conflicts.

Emergency Financing Mechanism (EFM). The EFM consists of procedures that allow for quick Executive Board approval of IMF financial support while ensuring the conditionality necessary to warrant such support. It is to be used in rare circumstances representing, or threatening, a crisis in a member's external accounts that requires an immediate IMF response. The EFM was established in September 1995 and was used in 1997 for the Philippines, Thailand, Indonesia, and Korea and in July 1998 for Russia.

Support for currency stabilization funds. In September 1995, the IMF decided to make available financial support for the establishment of currency stabilization funds to help bolster confidence in countries' exchange-rate-based stabilization strategies—preferably, an exchange rate peg with relatively narrow margins or a preannounced crawl. So far, however, the IMF has not provided this type of assistance to any member country. For a currency stabilization fund to play its intended role, economic policies must be tight enough for inflation to be compatible with the targeted exchange rate anchor; thus, little use of the currency stabilization fund for exchange market intervention is to be expected.

IMF support for a currency stabilization fund would be conditional on

• fiscal adjustment and credit creation consistent with targeted inflation,

• appropriate measures to deal with backward-looking automatic wage and other indexation schemes,

• a high degree of current account convertibility and an open trade regime and other measures to encourage the return of flight capital,

• contingency plans to deal with large capital account outflows or inflows,

• integrated management of foreign exchange reserves and intervention policy, and

• other structural and institutional elements designed to reduce inflation sharply.

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Honduran First Lady Mary de Flores shows IMF Managing Director Michel Camdessus the devastation caused by Hurricane Mitch in October 1998.

Emergency assistance. The IMF can provide emergency financial assistance to a member facing balance of payments difficulties caused by a natural disaster. Emergency assistance is available through outright purchases, usually limited to 25 percent of quota, provided that the member is cooperating with the IMF to find a solution to its payments problems.

In 1995, the policy on emergency assistance was expanded to cover countries emerging from political turmoil, civil unrest, or armed international conflict that are unable to implement regular IMF-supported programs because of damage to their institutional and administrative capacity. In addition to the quick-disbursing emergency financial assistance, the IMF also provides macroeconomic policy advice and technical assistance designed to restore the country's ability to implement policy.

In April 1999, the Executive Board discussed ways to enhance assistance to postconflict countries and agreed on steps to improve the terms of emergency financial assistance to postconflict countries. It also agreed that the IMF, in implementing its strategy on overdue financial obligations, would take into account the special difficulties faced by postconflict countries in arrears.

During 1998/99, the IMF provided emergency postconflict assistance totaling SDR 19 million to the Republic of Congo and Sierra Leone, and emergency assistance totaling SDR 202 million to help Bangladesh, the Dominican Republic, Haiti, Honduras, and St. Kitts and Nevis cope with natural disasters. ■

Debt strategy

IMF involvement emphasizes policy guidance and adequate financial support

The IMF has played a central role, through its policy guidance and financial support, in helping member countries cope with external debt problems. The IMF's ultimate objective is to ensure that debtor countries achieve sustainable growth and balance of payments viability and establish normal relations with creditors, including access to international financial markets. While the instruments used have evolved over time, the basic elements of the IMF's debt strategy remain the same:

- promotion of growth-oriented adjustment and structural reform in debtor countries,
- maintenance of a favorable global economic environment, and
- assurance of adequate financial support from official (bilateral and multilateral) and private sources.

Commercial bank debt operations

The IMF continues, on a case-by-case basis, to support operations to reduce the debt and debt service owed to commercial banks. It evaluates proposed packages in light of the strength of the member's economic policies, the likelihood that the country would regain access to credit markets and attain external viability with growth, and the assurance that the package represents an efficient use of scarce resources.

The IMF takes into account the appropriate balance between reducing debt and reducing debt service in bank debt packages. It considers whether the resulting debt-service profile on restructured debt is consistent with the country's likely ability to service its debt; whether the package is cost-effective; whether it would imply continued commercial bank involvement, where appropriate, and could facilitate a return to normal commercial financing; and whether the menu of options is balanced and broad enough to ensure a high rate of participation in the package.

Official bilateral debt rescheduling

Member countries seeking to reschedule their official bilateral debt normally approach the Paris Club. This is an informal arrangement that provides a forum for indebted countries and their official bilateral creditors to work out agreements. The agreements generally provide for the rescheduling of arrears and current maturities of eligible debt service falling due during the consolidation period (generally the period of the IMF arrangement), with a repayment period stretching over many years. To ensure that such relief helps restore balance of payments viability and achieve sustainable economic growth, the Paris Club links debt relief to the formulation of an economic program endorsed by the IMF. In deciding on the coverage and terms of individual rescheduling agreements, Paris Club creditors also draw upon the IMF's analysis and assessment of countries' balance of payments and debt situations.

Among the 30 middle-income countries that have rescheduled with Paris Club creditors during the last two decades, 24 have graduated from rescheduling, and a number of others are expected to graduate at the end of their current consolidation periods. Their exit from rescheduling reflects the significant progress made by many middle-income countries in macroeconomic stabilization and structural reform, which has improved their access to private foreign financing. In contrast, fewer than one-fourth of the 37 low-income rescheduling countries have graduated from the rescheduling process, partly because of the severity of their debt burdens and, in many of them, partly because of the uneven pace of macroeconomic stabilization and structural reform.

Since December 1994, Paris Club creditors have provided concessional reschedulings for low-income countries on "Naples terms," under which debt service on eligible debt is reduced by up to 67 percent in net-present-value terms. Creditors have also provided exit reschedulings on the stock of eligible debt on Naples terms for low-income countries that have demonstrated a good track record under rescheduling agreements and IMF-supported programs.

An agreement was reached in September 1997 on Russia's participation as a creditor in Paris Club reschedulings. It provides for up-front discounts on Russian claims on rescheduling countries to make them comparable to claims of traditional Paris Club creditors. This agreement has already facilitated the regularization of Russian claims on developing countries and the implementation of the Heavily Indebted Poor Countries (HIPC) Initiative for countries with large debts to Russia.

HIPC Initiative

The IMF and the World Bank jointly developed a program of action—the HIPC Initiative—designed to resolve the debt problems of poor countries that follow sound policies but for which traditional debt-relief mechanisms are not sufficient to reduce their external debt to sustainable levels. For these countries, the burden of external debt is jeopardizing their adjustment and growth. The HIPC Initiative, adopted in September 1996, provides exceptional assistance to eligible countries to reduce their external debt burden to levels that they can service through export earnings, aid, and capital inflows. This exceptional assistance entails a reduction in the net present value of all claims on the indebted country.

Eligibility. The HIPC Initiative is open to all heavily indebted poor countries that are eligible for funding under the IMF's Enhanced Structural Adjustment Facility (ESAF) and the World Bank's International Development Association. It is a comprehensive, integrated, and coordinated approach to external debt that requires the participation of all creditors—bilateral, multilateral, and commercial. It is consistent with past approaches and, indeed, reinforces them. To qualify for debt relief from the international community, the debtor country must adopt appropriate policies to help ensure that this relief is put to effective use. Central to the initiative, therefore, are the country's continued efforts toward macroeconomic adjustment and its implementation of structural and social policy reforms.

Developments. By June 1999, the IMF and the World Bank had considered 12 countries for eligibility under the HIPC Initiative and had agreed to assist 7 of them. In April 1998, Uganda became the first country to reach the completion point under the initiative, and, since then, three other countries have reached their completion points: Bolivia (September 1998), Guyana (May 1999), and Mozambique (June 1999). Total assistance granted to these four countries under the initiative amounts to about $7 billion is nominal terms.

In addition, three countries have reached their decision points and have received commitments of assistance: Burkina Faso, Côte d'Ivoire, and Mali. These three countries are scheduled to reach their completion points under the initiative at various dates between now and 2001.

Proposals to enhance the HIPC Initiative

At a June 1999 summit held in Cologne, Germany, the heads of state or government of the Group of Eight industrial countries noted that the HIPC Initiative had yielded positive results since it was launched in 1996—particularly in bringing together the different creditors in a comprehensive framework for debt relief. However, given the continued difficulties of many heavily indebted poor countries, the leaders suggested enhancing the HIPC Initiative. They endorsed a pro-

HIPC Initiative is reviewed

Concern has been widespread that the HIPC Initiative has not enabled poor countries to escape fully the burden of their foreign debts. In 1998/99, the issues of debt relief and possible changes to strengthen the HIPC Initiative attracted widespread attention from nongovernmental organizations, religious groups, the media, international organizations, and governments.

The IMF and the World Bank launched a comprehensive two-stage review of the HIPC Initiative in early 1999 that began with extensive public consultations. The first stage addressed possible modifications to the framework of the initiative; the second focused on strengthening the link between debt relief and poverty reduction. The Boards of the IMF and the World Bank have provisionally endorsed, contingent on the availability of the necessary funding, a number of far-reaching proposals to enhance the initiative by providing for deeper, faster, and broader debt relief. These proposals build on the comments offered by civil society, governments, and multilateral institutions, as well as the proposals made by the Group of Seven finance ministers and endorsed at the summit held in Cologne, Germany, in June 1999.

At the same time, the IMF, together with the World Bank, has proposed a nationally led, enhanced framework for poverty reduction. The underlying premise is that the best way to ensure a strong link between debt relief and poverty reduction is to make HIPC debt relief an integral part of countries' broader efforts to implement strategies to reduce poverty using all resources available to them. Such a framework, which would provide a base for ESAF-supported programs, would ensure consistency between a country's macroeconomic, structural, and social policies and the goals of poverty reduction and social development.

If these proposals are endorsed at the 1999 Annual Meetings of the IMF and the World Bank, and if financing is secured, the two institutions intend to implement the enhanced initiative as rapidly as possible, particularly for countries that have already reached their decision points.

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Ugandan workers rebuild the main highway to Kampala. Uganda is the first country to receive debt relief under the HIPC Initiative.

posal to offer faster, deeper, and broader debt relief for those countries demonstrating a commitment to reform and poverty alleviation. Under the proposed enhanced initiative, the debt stock of qualifying countries would be reduced substantially, lowering interest payments and freeing resources for priority social spending, particularly in health and education. They also proposed that the HIPC Initiative be strengthened to provide an enhanced framework for poverty reduction.

The Boards of the IMF and the Bank are considering proposals to enhance the HIPC Initiative, to strengthen the links between debt relief and poverty reduction, and to finance the large cost increases faced by the IMF and the International Development Association. (See box on the review of the HIPC Initiative, page 19.) The Interim and Development Committees are expected to discuss these issues immediately prior to the 1999 annual meetings. ■

A detailed explanation of the HIPC Initiative, as well as a description of the review process, appears on the IMF's website (www.imf.org).

Conference explores social dimensions of reform

Reflecting its concern with the social implications of economic reform, as well as with the quality of macroeconomic adjustment and reform, the IMF held a conference in June 1998 on economic policy and equity that brought together academics, senior policymakers, labor representatives, and religious leaders. The IMF is concerned with the equity considerations in the programs it supports to give all members of society the opportunity to share in the benefits of economic growth and because economic reform programs that are equitable are more likely to be successful over the long run.

For a number of years, the IMF has helped countries incorporate social safety nets into their IMF-supported programs and curb unproductive expenditure, such as excessive military expenditure. The IMF has also encouraged countries to increase their public expenditure on basic needs, such as health care and primary education. Increasingly, the IMF is emphasizing "second-generation" reforms—such as strengthening the rule of law, dismantling monopolies, and reforming labor markets—so that the benefits of growth are widely distributed. In collaboration with the World Bank, the IMF staff has studied poverty and income distribution in specific countries, with the idea of integrating the findings into the IMF's policy advice. The staff is improving the collection of data on social expenditure in member countries, and the findings of the external evaluation of the social aspects of ESAF programs are being incorporated into the IMF's operational work.

A number of ideas were put forward during the conference that the IMF could take into consideration in its operational work to promote income equity in the context of its macroeconomic mandate.

- Sound macroeconomic policies are necessary to promote equity over the medium and long term. The pursuit of equity need not hamper economic growth and may actually reinforce it.
- Equity is a multidimensional concept that includes equitable distribution of opportunity, wealth, productive assets, and consumption, as well as availability of employment opportunities.
- Policymakers should focus on improving the prospects of the least fortunate by reducing poverty and social exclusion through improved access to education, health services, credit, and justice. Social safety nets are essential to protect the most vulnerable members of society.
- Governments should strive to improve public services to enhance equity and build wider ownership of, and support for, reforms.
- Debt forgiveness would give heavily indebted poor countries more resources for education, health, and infrastructure.
- Governments should involve civil society in the design and implementation of policies that improve equity. Communication should be improved, for example, within government, between ministries, and between the IMF, the World Bank, and other international institutions.
- The IMF should continue to address equity issues when it conducts its core activities.

The proceedings of the conference have been published by the IMF. Copies of the volume, *Economic Policy and Equity*, edited by Vito Tanzi, Ke-young Chu, and Sanjeev Gupta, are available for $27 each from IMF Publication Services, Box XS900, IMF, Washington, DC 20431, U.S.A. Telephone: (202) 623-7430; fax: (202) 623-7201; e-mail: publications@imf.org.

Technical assistance complements surveillance and financing

The expansion of the IMF's membership and the adoption of market-oriented reforms by a large number of countries worldwide fueled a rapid growth of IMF technical assistance activity during 1990–94. Since then, owing to budgetary and staffing constraints, the quantity of technical assistance and training delivered by the IMF has leveled off to about 300 years of staff and expert time, plus some $10 million a year for scholarships and training. Technical assistance activities represent approximately 15 percent of the IMF's total administrative expenditures.

An emerging consensus on the elements required for sustainable growth, macroeconomic stability, market reform, a liberalized trade and exchange regime, and accountable government has facilitated the development of a more productive and synergistic relationship between macroeconomic policy and technical assistance objectives. Member countries and the IMF have become increasingly convinced that the timely provision of effective technical assistance is a key ingredient in supporting governments' efforts to sustain policy and institutional reform.

Setting priorities

Demand for the IMF's technical assistance exceeds its capacity, which calls for rigorous prioritization and allocation of technical assistance resources among member countries and regions. As part of this process, the IMF's area (regional) departments play a major role in helping to identify and prioritize countries' technical assistance needs, often in consultation with other donors. The allocation of resources and determination of the IMF's technical assistance policies and procedures are facilitated by the Technical Assistance Committee, an interdepartmental committee of senior IMF staff.

The IMF's Executive Board has paid increasing attention to technical assistance matters in recent years. In addition to commenting on the importance of technical assistance in individual country cases, the Board has provided guidance on evaluation of technical assistance, financing arrangements, and areas of priority. There is a growing consensus that a careful blending of policy and institution-building technical assistance in support of governments' macroeconomic objectives is critical for creating and maintaining sustainable growth. Indeed, technical assistance is viewed as one of the three legs of the IMF stool, along with surveillance and program design and financing.

Types of technical assistance

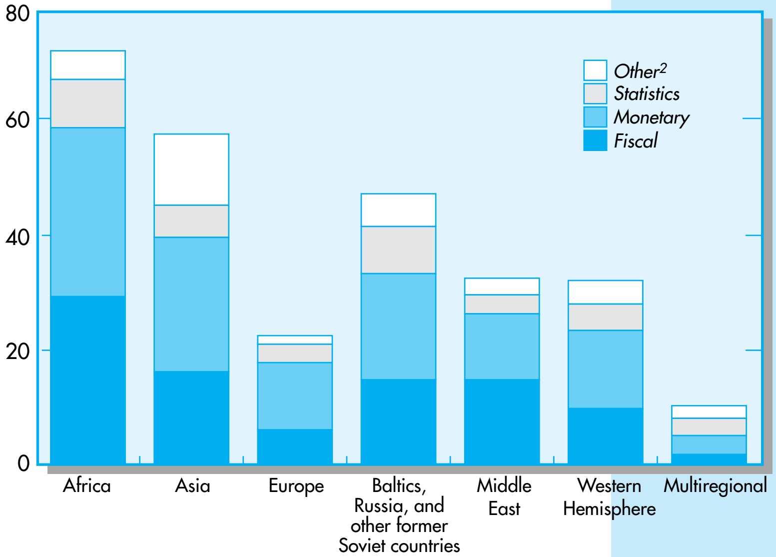
The IMF provides technical assistance and training in four broad areas: designing and implementing fiscal and monetary policies; institution building (such as the development of central banks, treasuries, and tax and customs administration); collecting and refining statistical data; and drafting and reviewing financial legislation. The IMF provides technical assistance through several of its departments.

The *Monetary and Exchange Affairs Department* (MAE) focuses its assistance on central banking and exchange system issues and on designing or improving monetary policy instruments. MAE's assistance covers banking regulation, supervision, and restructuring; foreign exchange management and operations; central bank organization and management; central banking accounting; clearing and settlement systems for payments; monetary operations and money market development; and monetary analysis and research.

The *Fiscal Affairs Department* is chiefly responsible for providing policy advice on tax and customs administration, public expenditure management and budgeting, tax policy issues, pension reform and social safety net design, and public expenditure reviews.

The *Statistics Department* helps members comply with internationally accepted standards of statistical reporting. The agreement on the Special Data

IMF technical assistance: 1998/99
(Effective person years)[1]



Note: IMF technical assistance is conducted under the IMF's own grant resources through financing arrangements with the United Nations Development Program, the World Bank, the European Union, the Japanese government, and other donors.
[1]An effective person year of technical assistance is 260 days.
[2]Including legal and computer services.

Data: IMF Technical Assistance Committee

Technical assistance activities represent approximately 15 percent of the IMF's total administrative expenditures.

Dissemination Standard has already prompted an increase in the demand for its technical assistance, which covers monetary, balance of payments, real sector, and government finance statistics and includes a substantial training element through regional and local seminars.

The *IMF Institute* provides training for officials at IMF headquarters, the Joint Vienna Institute, and national and regional centers. Courses and seminars cover a range of topics, including financial programming and policy, financial analysis, public finance, external sector policies, statistics, banking supervision, and monetary exchange operations. The IMF Institute also manages scholarship programs for economists from Asia funded by Japan and Australia in Japan and Australia and at North American universities. To meet the growing demand for training in the future, training opportunities will be expanded through distance learning, increased collaboration with other regional training institutions, and the introduction of specialized courses for high-level officials.

The *Legal Department* provides assistance to members in drafting legislation and educating senior government lawyers, mainly in the law of central banking, commercial banking, foreign exchange, and fiscal affairs. This assistance is provided in coordination with other IMF departments and with legal departments of other international financial institutions, such as the World Bank.

The *Policy Development and Review Department* provides advice on debt policy and management and on the design and implementation of trade policy reforms.

The *Treasurer's Department* provides technical assistance in the IMF's financial organization and operations, the establishment and maintenance of IMF accounts, accounting for IMF transactions and positions by members, and other matters related to members' transactions with the IMF.

The *Bureau of Computing Services* has assisted in the modernization of computer systems in central banks, finance ministries, and statistical offices.

Delivering technical assistance

Advisory missions provide an important component of assistance. They offer advice on monetary, fiscal, and statistical problems that often lie at the heart of the macroeconomic imbalances that countries wish to address. In addition, the IMF places experts in the field for periods ranging from six months to two years to assist in the implementation of policy reform recommendations.

Traditionally, IMF technical assistance has a single, well-focused objective and a relatively short time span. In recent years, technical assistance projects have grown both larger and more complex. Time horizons have lengthened, and multiple sources of financing have been needed to underwrite costs. Large projects now often involve more than one IMF department and more than one donor.

External cooperation and coordination

Beginning in 1989, the IMF took formal steps to coordinate its technical assistance policies and cooperate with other multilateral and bilateral agencies to minimize conflicting advice and redundant activities. It also began to explore ways of complementing its own resources through various financing arrangements with other technical assistance suppliers. This cooperation has led to a more integrated approach to the planning and implementation of technical assistance, particularly at the country level, where comprehensive, multiyear programs of technical assistance are being implemented.

Coordination has also progressed at the global level through specialized technical steering committees and working groups. The IMF continues to participate in international forums, such as the Development Assistance Committee of the Organization for Economic Cooperation and Development, which reviews and coordinates technical assistance policies and procedures. In the central banking area, coordination has led to operational cooperation between the IMF and 24 central banks in providing technical assistance and training to the countries of the former Soviet Union. The IMF coordinates this arrangement with support from the Bank for International Settlements.

The Japanese government has continued its generous annual contribution to IMF technical assistance and the scholarship program. In addition, the IMF has general technical assistance agreements with the United Nations Development Program (UNDP), as well as several individual country agreements with the World Bank and the European Union. A number of bilateral contributors have supported IMF-administered technical assistance by making cash contributions to UNDP-IMF projects. To accommodate the growing interest of other potential contributors in supporting IMF technical assistance, the Executive Board authorized the establishment of a Technical Assistance Framework Account in April 1995. Under the Framework Account, separate subaccounts are created for individual contributors to support IMF technical assistance activities. The most recent contributors are Switzerland and Denmark. Subaccounts can be established easily and quickly and can be used to finance a variety of short- or long-term technical assistance and training activities that a contributor may wish to support through the IMF. ■

Borrowing supplements IMF's ordinary resources

The IMF's ordinary resources derive from its members' quota subscriptions. When its resources are low relative to member countries' demand for their use, the IMF is authorized to borrow to supplement those resources. To date, the IMF has borrowed only from official sources, such as governments, central banks, and the Bank for International Settlements, but it is also authorized to borrow from private sources. The borrowing agreements in place are the General Arrangements to Borrow (GAB), established in 1962, and the New Arrangements to Borrow (NAB), which took effect in November 1998.

Under the GAB, 11 industrial countries or their central banks are prepared to lend to the IMF specified amounts of currencies under special circumstances at market-related rates of interest. Established amid concerns about the adequacy of official sources of international liquidity and the disruptive effects of short-term capital movements, the GAB have been revised and renewed several times, most recently for the five years beginning December 26, 1998. The GAB participants are Belgium, Canada, the Deutsche Bundesbank, France, Italy, Japan, the Netherlands, the Sveriges Riksbank, the Swiss National Bank, the United Kingdom, and the United States. The IMF also has an associated arrangement with Saudi Arabia with similar terms. The potential amount of credit available to the IMF under the GAB currently totals SDR 17 billion, with an additional SDR 1.5 billion available under the arrangement with Saudi Arabia.

Loans are made available to the IMF to help finance purchases by GAB participants when such financing is needed to "forestall or cope with an impairment of the international monetary system." Stricter criteria are in place for nonparticipants: drawings must be in connection with an IMF-supported adjustment program under a Stand-By or an Extended Arrangement (or an upper credit tranche drawing), and the IMF must be deemed to have inadequate resources to meet actual and expected requests for financing. In July 1998, the GAB participants agreed to lend the IMF SDR 6.3 billion to provide additional support for Russia's adjustment program. This was the first activation of the GAB in 20 years and the first time it had been used for a nonparticipant.

Following the Mexican financial crisis in December 1994, it became clear that substantially more resources might be needed to prevent or cope with future financial emergencies. By approving the New Arrangements to Borrow, an agreement between the IMF and 25 member countries and institutions, the Executive Board strengthened the IMF's ability to borrow. The new arrangements do not replace the GAB; all GAB participants are also participants in the NAB. NAB credit lines are available through the IMF to NAB participants and nonparticipants under circumstances similar to those under the GAB. The facility of first and principal recourse is the NAB unless a GAB participant requests the use of IMF resources, in which case either facility may be called upon. The total amount of resources available to the IMF under the two arrangements combined is SDR 34 billion (about $46 billion). In December 1998, the NAB participants agreed to lend the IMF SDR 9.1 billion to help finance a Stand-By Arrangement for Brazil. As of April 30, 1999, the outstanding amounts under the GAB and the NAB had been repaid, and the activations for financing the arrangements for Russia and Brazil were canceled. ■

Operational budget

The IMF makes its resources available to member countries through its quarterly operational budget, which specifies the amounts of SDRs and currencies the IMF expects to use in its financial operations and transactions during the relevant budget period. The selection of currencies included in the budget is determined by the strength of members' balance of payments and reserve positions. Thus, "strong" members make foreign exchange available to members with weak balance of payments positions in need of external financing. The IMF may draw on the currencies of a wide range of members—advanced, developing, and transition—which underscores the IMF's cooperative character and the revolving nature of its resources. In return for the use of their currencies, members receive a liquid claim on the IMF, which earns a market-related rate of return.

The Executive Board establishes guidelines for the preparation and implementation of the operational budget. In November 1998, it reviewed the guidelines governing which currencies would be used in transfers (drawings) and receipts (repayments) under the operational budget. Following the review, the Board decided that currencies should be allocated on the basis of IMF quotas rather than gross international reserves, which had played a central role in the allocation system since the 1960s.

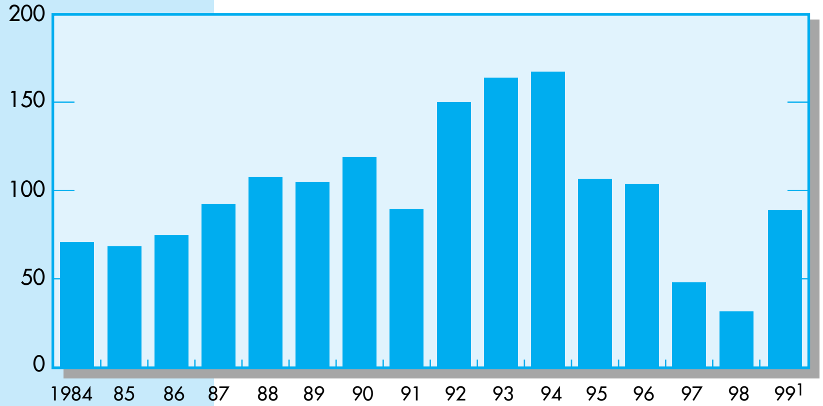
The sharp expansion of IMF credit over the previous 18 months had strained the reserve-based system, leading to wide differences in members' contributions to the financing of IMF operations. In shifting to a quota-based system, the Board was guided by the need for a criterion that would be objective and uniform across countries. Thus, currencies for transfers would be allocated on the basis of members' quotas and, for receipts, would be based on the ratio of members' positions in the IMF to their quotas. The latter change would bring the ratio of each member's position in the IMF to its quota close to the average ratio for all members included in the operational budget.

Liquidity position

Demand for use of IMF resources remains heavy

As the Asian crisis continued to unfold during 1998/99, market pressures spread, first to Russia in mid-1998 and then to Brazil toward the end of the year, heightening the demand for IMF resources. The IMF's liquidity position weakened, and the IMF resorted to borrowing: in July 1998 under the General Arrangements to Borrow and again in December 1998 under the New Arrangements to Borrow. It repaid these borrowings in March 1999 after the quota increase under the Eleventh General Review took effect, which substantially increased the IMF's own resources for lending. During December 1998–January 1999, the IMF's liquidity ratio fell to less than 30 percent, about the minimum level needed to enable the IMF to meet potential requests from members. However, by the end of the financial year, the IMF's liquidity ratio had risen to the highest level since November 1997.

IMF Liquidity Ratio
(Percent; end of period)



[1]Figure for 1999 is as of April 30.

Total purchases (drawings) in 1998/99 under arrangements and special facilities rose to SDR 21.4 billion. Net of repurchases (repayments) by members, including SDR 4.5 billion by Korea under the Supplemental Reserve Facility, IMF credit outstanding in the General Resources Account rose by SDR 11.0 billion to SDR 60.7 billion at the end of 1998/99.

The liquid resources of the IMF consist of usable currencies and SDRs held in the General Resources Account. Usable currencies, the largest component of liquid resources, are those of members whose balance of payments and reserve positions the IMF considers strong enough to warrant the use of their currencies in financing IMF operations and transactions.

The IMF's usable resources increased sharply toward the end of the financial year as members made quota payments, under the Eleventh General Review, amounting to SDR 46.0 billion. Moreover, three additional members were included on the list of countries whose currencies are considered usable, adding SDR 1.7 billion to the IMF's usable resources. The net effect was that, although drawings exceeded repayments by SDR 11.0 billion during the year, the IMF's usable resources increased to SDR 83.7 billion at the end of April 1999 from SDR 47.3 billion a year earlier.

The formula for assessing the adequacy of the IMF's liquidity consists in reducing the stock of usable currencies and SDRs by the amount of resources committed under current arrangements and expected to be drawn. A further reduction is made to take account of the need to maintain adequate working balances of usable currencies. After these adjustments, the IMF's net uncommitted resources totaled SDR 56.7 billion as of April 30, 1999, compared with SDR 22.6 billion a year earlier.

The IMF's liquid liabilities at the end of April 1999, consisting entirely of reserve tranche positions, amounted to SDR 63.6 billion compared with 50.3 billion a year earlier. The ratio of the IMF's net uncommitted usable resources to its liquid liabilities, called the liquidity ratio, increased to 89.2 percent at the end of April 1999 from 44.8 percent a year earlier. ■

Income and charges

IMF adds annual net income to its reserves

At the beginning of each financial year, the IMF sets the rate of charge on the use of its resources so as to achieve a target amount of net income. After remunerating its creditor positions and covering its administrative expenses, the IMF adds its net income to its reserves. The rate of charge on the use of IMF resources is linked to the SDR interest rate, which changes weekly, while the rate of remuneration on creditor positions is equal to the SDR interest rate. This mechanism ensures that the IMF's operational income closely reflects its operational costs and minimizes the likelihood that the rate of charge will need to be increased during the financial year. The IMF also levies surcharges on the use of credit under the Supplemental Reserve Facility (SRF), established in December 1997, and under the Contingent Credit Lines (CCL), established in April 1999 (see box, page 16).

In April 1998, the IMF set the rate of charge on the use of its resources for 1998/99, other than those provided under the SRF, at 107 percent of the SDR interest rate to achieve a net income target of SDR 107 million, or 5 percent of its reserves at the beginning of the financial year. Any income in excess of the targeted amount, excluding income generated from the use of resources under the SRF, would be used retroactively to reduce the rate of charge for the year.

At the end of the financial year, actual income exceeded the target by SDR 2 million, and this amount was returned to members that had paid charges during the year, retroactively reducing the proportion of the rate of charge to the SDR interest rate to 106.9 percent for 1998/99. Net income generated from the use of resources under the SRF during 1998/99, after meeting the expenses of administering the ESAF Trust, amounted to SDR 329 million, which was added to the IMF's reserves. The IMF's General Resources Account was not reimbursed for the expenses of administering the ESAF Trust in 1998/99; instead, an equivalent amount was transferred from the ESAF Trust Reserve Account to the ESAF-HIPC Trust.

To strengthen its financial position against the consequences of overdue obligations, the IMF has adopted "burden-sharing" measures to accumulate additional precautionary balances and to distribute the financial burden of overdue obligations between debtor and creditor members. As part of this mechanism, adjustments are made to the rate of charge and the rate of remuneration. The resources so generated are refundable, under certain conditions, to the members that have paid additional charges or received reduced remuneration. For 1998/99, the adjustments under burden sharing resulted in an average rate of charge of 4.22 percent and an average rate of remuneration of 3.67 percent. After the retroactive reduction of the rate of charge, SDR 0.5 billion was added to the IMF's reserves. Total reserves increased to SDR 2.6 billion as of April 30, 1999, from SDR 2.1 billion a year earlier.

For 1999/2000, the Executive Board agreed to set the proportion of the rate of charge to the SDR interest rate at 113.7 percent to achieve a net income target of SDR 128 million, in addition to the net income generated under the SRF and the CCL. As in 1998/99, any income in excess of the targeted amount would be used retroactively to reduce the rate of charge for the year. ■

Overdue payments

IMF strategy stresses prevention, cooperation

To maintain the cooperative nature and protect the monetary character of the IMF and to keep other sources of official and private credit open to them, members must meet their financial obligations to the IMF on time. Members that incur arrears are expected to settle them as quickly as possible.

Strategy

The IMF's strengthened cooperative strategy, introduced in 1990, helps prevent new cases of arrears from emerging and existing arrears from becoming protracted (overdue by six months or more). The three elements of the strategy—prevention, intensified collaboration, and remedial measures—continued to be applied in 1998/99. The strategy entails close collaboration among the IMF, the World Bank, and other international financial organizations in encouraging member countries to resolve their arrears problems.

Prevention. To prevent new cases of arrears from emerging, the IMF applies conditionality on the use of its resources, assesses borrowers' medium-term external viability and ability to repay, cooperates with donors and other official creditors to ensure that IMF-supported adjustment programs are adequately financed, and provides technical assistance to help members formulate and implement reforms.

Strengthened surveillance has reinforced the IMF's ability to assess a member's ability to repay, as have debt sustainability analyses prepared jointly by the IMF and World Bank staffs and the country authorities for the heavily indebted poor countries (HIPCs) in the context of the HIPC Initiative.

Intensified collaboration and the rights approach. Intensified collaboration helps members design and implement economic and structural policies to resolve their balance of payments and arrears problems. It also provides a framework for members in arrears to establish a track record of policy and payments performance, mobilize resources from international creditors and donors, and become current in their obligations to the IMF and other creditors. In some cases, a country's economic policies are formulated in the context of a "rights-accumulation program." A rights-accumulation program shares many of the features of a regular IMF-supported macroeconomic stabilization and structural reform program. It allows a country in protracted arrears to accumulate rights to future drawings of IMF resources through its adjustment and reform efforts. Future drawings are made only after satisfactory completion of the rights program and are conditional on clearance of the member's arrears and IMF approval of a successor arrangement or arrangements.

The rights approach is limited to the 11 countries that were in protracted arrears to the IMF at the end of 1989. Five of the original 11 eligible countries —Cambodia, Guyana, Honduras, Panama, and

Vietnam—cleared their arrears to the IMF without recourse to the rights approach. Peru, Sierra Leone, and Zambia adopted rights-accumulation programs and successfully completed those programs and cleared their arrears. Liberia, Somalia, and Sudan remain in arrears to the IMF.

Remedial measures. The arrears strategy includes a timetable of remedial measures of increasing intensity to be applied when members do not actively cooperate with the IMF in resolving their arrears problems. The steps can range from a temporary limit on the member's use of IMF resources (on the basis of a complaint issued to the Executive Board) to compulsory withdrawal.

In view of Sudan's progress since February 1997 in implementing macroeconomic and structural policies, on August 27, 1999, the Executive Board lifted the declaration of noncooperation that had been in place since September 14, 1990. The Board also decided that it could consider lifting the suspension of Sudan's voting and related rights if the country's policy performance and record of payments to the IMF were satisfactory for 12 months from the date of the Board decision. The Board decision is the first step in scaling back the remedial measures that the IMF had applied earlier to Sudan.

Developments

Total overdue financial obligations to the IMF increased slightly in 1998/99, to SDR 2.30 billion from SDR 2.26 billion in 1997/98, with the number of countries in protracted arrears remaining at seven. As of August 31, 1999, four countries were subject to declarations of ineligibility to use the IMF's general resources; declarations of noncooperation remained in effect for two of them; two had their voting and related rights in the IMF suspended; and for one, there was an outstanding complaint with respect to compulsory withdrawal from the IMF. Following its annual review of the arrears strategy in March 1999, the Board decided to extend again the deadline for entry into a rights-accumulation program until the spring 2000 meeting of the Interim Committee. ■

International reserve asset

SDR supplements existing reserves

The SDR (special drawing right) is an international reserve asset created by the IMF in 1969 and allocated to its members to supplement existing reserve assets. The IMF has allocated a total of SDR 21.4 billion since 1970. IMF member countries—all of which are participants in the SDR Department—are the largest holders of SDRs. They may use SDRs in operations and transactions among themselves, with 15 "prescribed institutional holders," and with the IMF itself. The balance of SDRs is held in the IMF's General Resources Account and by the prescribed holders, which do not receive SDR allocations but can acquire and use SDRs in operations and transactions under the same terms and conditions as participants.

The SDR is the unit of account for IMF operations and transactions. It is also used as a unit of account, or the basis for a unit of account, by a number of other international and regional organizations and international conventions and has been used to denominate private financial instruments. As of April 30, 1999, the currencies of four member countries were pegged to the SDR.

The value of the SDR—determined daily on the basis of a basket of currencies—tends to be more stable than that of any single currency in the basket. Movements in the exchange rate of any one component currency will tend to be partly or fully offset by movements in the exchange rates of the other currencies.

The composition of the basket is reviewed every five years to ensure that the currencies included in it are representative of those used in international transactions and that the weights assigned to the currencies reflect their relative importance in the world's trading and financial systems. Since 1981, the currencies of five countries—France, Germany, Japan, the United Kingdom, and the United States—have been included in the basket because successive reviews have determined that these are the five countries with the largest exports of goods and services. The reviews also specify the initial weights of the currencies in the basket, reflecting their relative importance in international trade and reserves as measured by the value of exports of goods and services of the countries issuing them and the balances of the currencies held as reserves by members of the IMF.

With the introduction of the euro on January 1, 1999, the currency amounts of the deutsche mark and the French franc in the SDR basket were replaced with equivalent amounts of euros, based on the fixed conversion rates between the euro and the deutsche mark and the French franc announced by the European Council on December 31, 1998.

The SDR interest rate, which is adjusted weekly, is a weighted average of interest rates on selected short-term instruments in the five countries whose currencies are included in the valuation basket. Since January 1, 1991, these rates and instruments have been the market yield on three-month treasury bills for France, the United Kingdom, and the United States; the three-month interbank deposit rate for Germany; and the three-month rate on certificates of deposit for Japan. These rates and instruments were not changed with the introduction of the euro on January 1, 1999, but the French and German instruments have since been expressed in euros.

The next revision of the SDR valuation and interest rate baskets will take place no later than 2000, with any changes to take effect on January 1, 2001.

SDR allocations

One of the IMF's principal goals is to facilitate the expansion and balanced growth of international trade, which requires adequate levels of reserves. If the IMF identifies a long-term global need for reserves, it can supplement existing assets through an SDR allocation, whose size and timing are determined by the Board of Governors. The IMF has the authority to create unconditional liquidity by allocating SDRs to all member countries in proportion to their quotas. The most recent allocation was on January 1, 1981, when SDR 4.1 billion was allocated to the IMF's then 141 member countries.

More than one-fifth of the IMF's 182 member countries have never received an SDR allocation because they joined the IMF after 1981. In addition, other members have not participated in every allocation. To ensure that all participants in the SDR Department receive an equitable share of cumulative SDR allocations and following a broad review of the role and functions of the SDR in the light of changes in the world financial system, the Board of Governors adopted a resolution in September 1997 proposing a Fourth Amendment to the IMF's Articles of Agreement.

If approved by the membership, the amendment would provide for a special onetime allocation of SDR 21.4 billion, which would double the current level of cumulative SDR allocations and raise all participants' ratios of cumulative SDR allocations to quota under the Ninth General Review of Quotas to a common benchmark ratio of about 29.32 percent. The proposed amendment, which will become effective when approved by three-fifths of the members having 85 percent of the total voting power, also provides for future participants to receive a special allocation following the date of their participation or the effective date of the Fourth Amendment, whichever is later. It will not affect the IMF's existing power to allocate SDRs based on a finding of a long-term global need to supplement reserves as and when that need arises.

SDR operations and transactions

IMF members may use SDRs in a variety of voluntary transfers, including in transactions "by agreement," in which SDRs are exchanged for currencies. Transactions by agreement increased to SDR 13.8 billion in 1998/99 from SDR 8.6 billion in 1997/98. In addition, SDRs may be used in certain other operations: in forward purchases and sales and in swaps, to settle financial obligations, to make loans and donations, and as security for the performance of financial obligations.

Transactions in SDRs are facilitated by arrangements between the IMF and 12 members that are prepared to buy or sell SDRs for one or more freely usable currencies as long as their SDR holdings remain within certain limits. These "two-way" arrangements have helped ensure the liquidity of the SDR system. The volume of SDR transactions rose to a record SDR 49 billion in 1998/99, boosted primarily by flows associated with the quota increase under the Eleventh General Review.

SDR valuation on August 31, 1999

Currency	Currency amount[1]	Exchange rate on August 31[2]	U.S. dollar equivalent[3]
Euro (Germany)	0.2280	1.05450	0.240426
Euro (France)	0.1239	1.05450	0.130653
Japanese yen	27.2000	109.55000	0.248288
Pound sterling	0.1050	1.60370	0.168389
U.S. dollar	0.5821	1.00000	0.582100
		Total	1.369856

SDR 1 = US$1.36986
US$1 = SDR 0.730004[4]

[1]The currency components of the SDR basket.
[2]Exchange rates in terms of currency units per U.S. dollar, except for the euro and the pound sterling, which are expressed in U.S. dollars per currency unit.
[3]The U.S. dollar equivalents of the currency amounts.
[4]The official SDR value of the U.S. dollar, which is the reciprocal of the total of the U.S. dollar equivalents—that is, 1÷1.36986, rounded to six significant digits.

Data: IMF Treasurer's Department

Members also use SDRs in discharging their financial obligations to the IMF in the General Resources Account. These obligations mainly take the form of charges levied on members' use of IMF resources, repurchases (repayments), and quota subscriptions. The IMF transfers SDRs from the General Resources Account to members, primarily for purchases (drawings); remuneration on members' creditor positions; and repayments of, and interest payments on, IMF borrowing. In addition, SDRs may be used in operations under the Enhanced Structural Adjustment Facility; these operations require the intermediation of prescribed holders because the IMF's Special Disbursement Account and administered accounts may not hold SDRs directly.

The IMF's Articles of Agreement provide for a designation mechanism, under which the IMF designates members with strong balance of payments and gross reserve positions to provide freely usable currencies to members with a balance of payments need in exchange for SDRs. No transactions with designation have taken place since September 1987 because it has been possible to accommodate all desired exchanges of SDRs for currencies through transactions by agreement. ■

IMF chronology

IMF evolves in response to over half a century of challenge and change

1944

July 1–22

IMF and World Bank Articles of Agreement are formulated at the International Monetary and Financial Conference, Bretton Woods, New Hampshire.

1945

December 27

Articles of Agreement enter into force upon signature by 29 governments, representing 80 percent of original quotas.

Mt. Washington Hotel, Bretton Woods, New Hampshire.

1946

March 8–18

Inaugural meeting of Board of Governors in Savannah, Georgia: by-laws are adopted, agreement is reached to locate IMF headquarters in Washington, and first Executive Directors are elected.

May 6

Twelve Executive Directors, five appointed and seven elected, hold inaugural meeting in Washington.

September 27–October 5

First Annual Meetings of Boards of Governors of IMF and World Bank are held in Washington.

1947

March 1

IMF begins operations.

May 8

First drawing from IMF (by France).

1952

August 13–14

Germany and Japan become members.

October 1

Executive Board approves proposals for standardized Stand-By Arrangements.

1962

January 5

Executive Board adopts terms and conditions of General Arrangements to Borrow (GAB).

1963

February 27

Compensatory Financing Facility is created.

1967

September 29

Board of Governors approves plan to establish special drawing rights (SDRs).

1969

June 25

Buffer Stock Financing Facility is established.

July 28

First Amendment to Articles of Agreement, establishing a facility based on the SDR, takes effect after acceptance by three-fifths of membership representing four-fifths of voting power.

1970

January 1

First allocation of SDRs.

1971

August 15

United States informs IMF it will no longer freely buy and sell gold to settle international transactions. Par values and convertibility of the dollar—two main features of the Bretton Woods system—cease to exist.

December 18

After four months of negotiations, Smithsonian Agreement provides for realignment of industrial country currencies and increase in price of gold. IMF establishes temporary regime of central rates and wider margins.

1972

July 26

Board of Governors adopts resolution establishing a Committee on Reform of the International Monetary System, known as the Committee of 20.

1973

March 19

"Generalized floating" begins as European Community countries introduce joint float for their currencies against U.S. dollar.

1974

June 12–13

Committee of 20 concludes work, agreeing on immediate program to help monetary system evolve. Executive Board establishes oil facility and adopts "Guidelines for the Management of Floating Exchange Rates" and new method of SDR valuation based on basket of 16 currencies.

September 13

IMF sets up Extended Fund Facility to give medium-term assistance to members with balance of payments problems resulting from structural economic changes.

October 3

Interim Committee holds inaugural meeting following its establishment on October 2.

1975

August 1

Executive Board establishes a Subsidy Account, funded by contributions, to assist the most seriously affected members using the oil facility.

1976

January 7–8

Interim Committee agrees on "interim reform" of monetary system, including amendment of Article IV and other issues.

May 5

Executive Board establishes a Trust Fund to provide balance of payments assistance to developing country members with profits from the sale of gold. The Board decides on policies and procedures for selling gold.

June 2

IMF holds first gold auction under Interim Committee understandings on disposition of one-third of IMF gold holdings. Proceeds of sales to go to Trust Fund to benefit developing countries.

1977

February 4

IMF makes first loan disbursements under Trust Fund.

August 29

Executive Board establishes Supplementary Financing Facility.

1978

April 1

Second Amendment of Articles of Agreement enters into force, establishing the right of members to adopt exchange rate arrangements of their choice.

September 24

Interim Committee approves 50 percent quota increase under Seventh Review, which, when accepted by all members, raises IMF general resources to SDR 58.6 billion; it also agrees on new allocations of SDR 4 billion each year for three years beginning January 1979.

Camille Gutt, from Belgium, served as the IMF's first Managing Director from 1946 to 1951.

1979

February 23

Supplementary Financing Facility enters into force.

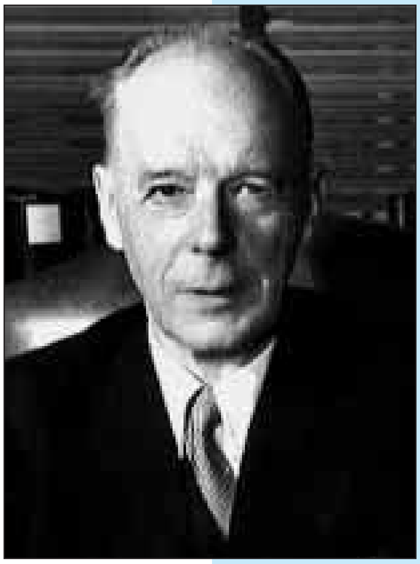
1980

April 25

Interim Committee agrees IMF should be ready to play growing role in adjustment and financing of payments imbalances by providing assistance over longer periods and in larger amounts.

September 17

IMF decides to unify and simplify, as of January 1, 1981, currency baskets determining value and interest rate on SDR. Unified basket to be composed of currencies of five members with largest exports of goods and services during 1975–79: U.S. dollar, deutsche mark, French franc, Japanese yen, and pound sterling.



Ivar Rooth, from Sweden, was Managing Director from 1951 to 1956.

December 1
IMF announces that 128 members have consented to quota increases under Seventh General Review, meeting the minimum participation requirement for quota increase, under which aggregate quotas would be raised to SDR 60 billion.

Per Jacobsson, from Sweden, was Managing Director from 1956 to 1963.

1981

January 1
IMF begins to use simplified basket of five currencies to determine daily valuation of SDR.

March 13
IMF decides to institute policy of enlarged access to its resources following full commitment of resources from Supplementary Financing Facility and until Eighth General Review of Quotas takes effect.

April 23
IMF announces decisions to enhance SDR's attractiveness as reserve asset. Measures include making interest rate more competitive and eliminating reconstitution requirement (allowing members to use SDRs permanently).

Pierre-Paul Schweitzer, from France, was Managing Director from 1963 to 1973.

May 7
IMF Managing Director de Larosière and Governor of Saudi Arabian Monetary Agency H.E. Sheikh Abdul Aziz Al-Quraishi sign loan agreement allowing the IMF to borrow up to SDR 8 billion to finance IMF's policy of enlarged access, which thus becomes operative.

May 13
IMF reaches agreement in principle with central banks or official agencies of 13 industrial countries, under which they will make available SDR 1.1 billion over two years to help finance the IMF's policy on enlarged access.

May 21
IMF extends financing to members encountering balance of payments difficulties produced by excesses in the cost of cereal imports. Assistance is integrated into the IMF's Compensatory Financing Facility.

1982

August 13
Mexico encounters serious problems servicing its foreign debt, marking onset of debt crisis. In following months, IMF supports major adjustment programs in Mexico and several other countries facing severe debt-servicing difficulties.

1983

February–March
Interim Committee agrees to increase IMF quotas under Eighth General Review. IMF Board of Governors adopts resolution on quota increase.

November 30
Increases in quotas under Eighth General Review take effect.

December 30
Ten participants in General Arrangements to Borrow (GAB) concur on plans to revise and enlarge the GAB.

1985

October 6–7
Interim Committee agrees that about SDR 2.7 billion in Trust Fund reflows to become available during 1985–91 will be used to provide concessional lending to low-income members.

December 2
IMF Managing Director de Larosière and World Bank President A. W. Clausen express broad support for the debt initiative proposed by U.S. Treasury Secretary James A. Baker. The initiative calls for comprehensive adjustment measures by debtors, increased and more effective structural lending by multilateral development banks, and expanded lending by commercial banks.

1986

March 27
IMF establishes Structural Adjustment Facility (SAF) to provide balance of payments assistance on concessional terms to low-income developing countries.

April 9–10
Interim Committee calls for enhanced policy coordination to improve functioning of floating exchange rate system.

1987

February 22

Finance ministers of six major nations meet; IMF Managing Director de Larosière participates. Ministers agree, in Louvre Accord, to intensify policy coordination and to cooperate closely to foster stability of exchange rates "around current levels."

December 29

IMF establishes Enhanced Structural Adjustment Facility (ESAF) to provide resources to low-income members undertaking strong three-year macroeconomic and structural programs to improve their balance of payments and foster growth.

1988

August 23

IMF Executive Board establishes Compensatory and Contingency Financing Facility to compensate members with shortfalls in export earnings because of circumstances beyond their control and to help maintain adjustment programs in the face of external shocks.

September 25–26

Interim Committee endorses intensified collaborative approach to arrears problem.

1989

May 23

Executive Board strengthens the strategy for dealing with developing country debt problem, based in part on proposals by U.S. Treasury Secretary Nicholas F. Brady. Countries with strong adjustment programs will gain access to IMF resources for debt- or debt-service reduction.

1990

May 7–8

Interim Committee agrees to 50 percent quota increase. Committee recommends Third Amendment to Articles of Agreement, providing for suspension of voting and other membership rights for members that do not fulfill financial obligations to IMF. Committee also approves rights-accumulation program, which permits members with protracted arrears to establish a track record on policies and payments performance and to accumulate rights for future drawings.

June 28

Executive Board proposes increasing total IMF quotas from SDR 90.1 billion to SDR 135.2 billion under Ninth General Review of Quotas.

November

Executive Board approves temporary expansion of IMF facilities to support countries affected by Middle East crisis.

1991

October 5

U.S.S.R. signs agreement with IMF providing for technical assistance, pending its application for full membership.

H. Johannes Witteveen, from the Netherlands, was Managing Director from 1973 to 1978.

1992

April–May

Executive Board approves membership of countries of the former Soviet Union.

August 5

IMF approves SDR 719 million Stand-By Arrangement for Russia.

November

Executive Board adopts Third Amendment of Articles of Agreement. Quota increases under Ninth General Review of Quotas take effect.

1993

April 16

Executive Board approves creation of Systemic Transformation Facility (STF) to assist countries facing balance of payments difficulties arising from the transformation from a planned to a market economy. It is to be in place through 1994.

Jacques de Larosière, from France, was Managing Director from 1978 to 1987.

May 13

Kyrgyz Republic is first member to use STF.

1994

February 23

Executive Board initiates operations under renewed and enlarged ESAF.

March–May

IMF approves arrangements for 13 countries of the CFA franc zone, following January realignment of CFA franc.

IMF SURVEY SUPPLEMENT

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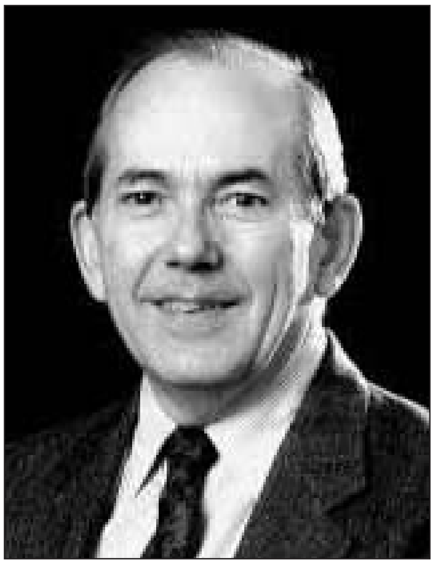
June 6
IMF announces creation of three Deputy Managing Director posts.

October 2
Interim Committee adopts the Madrid Declaration, calling on industrial countries to sustain growth, reduce unemployment, and prevent a resurgence of inflation; developing countries to extend growth; and transition economies to pursue bold stabilization and reform efforts.



Michel Camdessus, from France, has been Managing Director since 1987.

1995

February 1
Executive Board approves a Stand-By Arrangement of SDR 12.1 billion for Mexico, the largest financial commitment by the IMF up to this time.

1996

March 26
Executive Board approves an SDR 6.9 billion Extended Fund Facility for Russia, the largest EFF in IMF history.

April 16
IMF establishes voluntary Special Data Dissemination Standard for member countries having, or seeking, access to international capital markets. A General Data Dissemination System will be implemented later.

September
Interim and Development Committees endorse joint initiative for heavily indebted poor countries (HIPC Initiative).

1997

January 27
Executive Board approves New Arrangements to Borrow (NAB) as the first and principal recourse in the event of a need to provide supplementary resources to the IMF.

April 25
Executive Board approves issuance of Public Information Notices following conclusion of members' Article IV consultations with the IMF, at the request of the member, to make the IMF's views known to the public.

September 20
Executive Board reaches agreement on proposal to amend Articles of Agreement that will allow all members to receive an equitable share of cumulative SDR allocations.

December 4
Executive Board approves a Stand-By Arrangement of SDR 15.5 billion for Korea, the largest financial commitment in IMF history.

December 17
In the wake of the financial crisis in Asia, the IMF establishes the Supplemental Reserve Facility (SRF) to help members cope with sudden and disruptive loss of market confidence. The SRF is activated the next day to support the Stand-By Arrangement for Korea.

1998

April 8
Uganda becomes first member to receive debt relief (approximately $350 million in net-present-value terms) under the HIPC Initiative, to which IMF is to contribute about $160 million.

July 20
IMF activates General Arrangements to Borrow for first time in 20 years, and first time for a nonparticipant, to finance SDR 6.3 billion augmentation of Extended Arrangement for Russia.

December 2
IMF activates New Arrangements to Borrow for the first time to help finance a Stand-By Arrangement for Brazil.

1999

January 1
Eleven European member countries adopt a new common currency, the euro. The European Central Bank, which manages monetary policy for the euro area, is granted observer status in the IMF.

January 22
Quota increases under the Eleventh General Review take effect, raising total quotas to SDR 212 billion.

April 23
Executive Board expands the SRF to provide for Contingent Credit Lines for members that have strong economic policies but that might be affected by financial contagion from other countries.