ANNUAL REPORT

of the

Executive Board

for the Financial Year

Ended

April 30, 1997

Washington, D.C.

The following conventions have been used in this Report:

. . . to indicate that data are not available;

— to indicate that the figure is zero or less than half the final digit shown or that the item does not exist;

– between years or months (for example, 1996–97 or January–June) to indicate the years or months covered, including the beginning and ending years or months;

/ between years or months (for example, 1996/97) to indicate a fiscal or financial year.

"Billion" means a thousand million; "trillion" means a thousand billion.

"Basis points" refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to ¼ of 1 percentage point).

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

The 1996/97 financial year began May 1, 1996 and ended April 30, 1997.

All references to dollars are to U.S. dollars unless otherwise noted; as of April 30, 1997, the SDR/U.S. dollar exchange rate was US$1 = SDR 0.732318, and the U.S. dollar/SDR exchange rate was SDR 1 = US$1.36553.

During the 1996/97 financial year, Hong Kong was administered by the United Kingdom. It was returned to the People's Republic of China as of July 1, 1997, and became a Special Administrative Region of China.

The official name of Zaïre was changed to Democratic Republic of the Congo on May 17, 1997.

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

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Managing Director and Chairman of the Executive Board

Michel Camdessus

First Deputy Managing Director

Stanley Fischer

Deputy Managing Directors

Alassane D. Ouattara   Shigemitsu Sugisaki

Executive Directors	Alternate Executive Directors	Executive Directors	Alternate Executive Directors
Karin Lissakers	Barry S. Newman	Dinah Z. Guti	José Pedro de Morais, Jr.
Bernd Esdar	Wolf-Dieter Donecker	Ewen L. Waterman[1]	Jung-Ho Kang[2]
Yukio Yoshimura	Hideaki Ono	A. Shakour Shaalan	Yacoob Yousef Mohammed
Marc-Antoine Autheman	Ambroise Fayolle	ZAMANI Abdul Ghani	Subarjo Joyosumarto
Gus O'Donnell	Jon Shields	Aleksei V. Mozhin	Andrei Vernikov
Willy Kiekens	Johann Prader	Daniel Kaeser	Danuta Gotz-Kozierkiewicz
J. de Beaufort Wijnholds	Yuriy G. Yakusha	Abbas Mirakhor	Mohammed Daïri
Juan José Toribio	Javier Guzmán-Calafell	Alexandre Kafka	Vacant[3]
Enzo R. Grilli	Nikolaos Coumbis	M.R. Sivaraman	H.B. Disanayaka
Thomas A. Bernes	Charles X. O'Loghlin	ZHANG Zhixiang	HAN Mingzhi
Eva Srejber	Benny Andersen	A. Guillermo Zoccali	Nicolás Eyzaguirre
Abdulrahman A. Al-Tuwaijri	Sulaiman M. Al-Turki	Koffi Yao	Alexandre Barro Chambrier

Senior Officers

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Economic Counsellor

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Director, Administration Department

Evangelos A. Calamitsis
Director, African Department

Hubert Neiss
Director, Asia and Pacific Department

Michael C. Deppler
Director, European I Department

John Odling-Smee
Director, European II Department

Shailendra J. Anjaria
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Vito Tanzi
Director, Fiscal Affairs Department

Mohsin S. Khan
Director, IMF Institute

François P. Gianviti
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Michael Mussa
Director, Research Department

Reinhard Munzberg
Secretary, Secretary's Department

Carol S. Carson
Director, Statistics Department

David Williams
Treasurer, Treasurer's Department

Claudio M. Loser
Director, Western Hemisphere Department

Massimo Russo
Special Advisor to the Managing Director

Warren N. Minami
Director, Bureau of Computing Services

Patrice Guilmard
Acting Director, Bureau of Language Services

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Director, Office of Budget and Planning

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Kunio Saito
Director, Regional Office for Asia and the Pacific

Christian Brachet
Director, Office in Europe (Paris)

Alan A. Tait
Director and Special Trade Representative, Office in Geneva

J.B. Zulu
Director and Special Representative to the UN, Office at the United Nations

Ian S. McDonald
Chief Editor

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[1]Effective May 10, 1997, Gregory Taylor replaced Ewen L. Waterman.
[2]Effective May 1, 1997, Okyu Kwon replaced Jung-Ho Kang.
[3]Effective May 1, 1997, the vacancy was filled by Hamid O'Brien.

Board of Governors, Executive Board, Interim Committee, and Development Committee

The *Board of Governors*, the highest decision-making body of the Fund, consists of one governor and one alternate governor for each member country. The governor is appointed by the member country and is usually the minister of finance or the governor of the central bank. All powers of the Fund are vested in the Board of Governors. The Board of Governors may delegate to the Executive Board all except certain reserved powers. The Board of Governors normally meets once a year.

The *Executive Board* (the Board) is responsible for conducting the day-to-day business of the Fund. It is composed of 24 Directors, who are appointed or elected by member countries or by groups of countries, and the Managing Director, who serves as its Chairman. The Board usually meets several times each week. The Executive Board carries out its work largely on the basis of papers prepared by Fund management and staff. In 1996/97, the Board spent more than half of its time on member country matters (Article IV consultations and reviews and approvals of arrangements) and most of its remaining time on policy issues (such as the world economic outlook, developments in international capital markets, the Fund's financial resources, surveillance, data issues, the debt situation, and issues related to Fund facilities and program design).

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

The *Development Committee* (the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries) is composed of 24 members—finance ministers or other officials of comparable rank—and generally meets at the same time as the Interim Committee. It advises and reports to the Boards of Governors of the World Bank and the Fund on all aspects of the transfer of real resources to developing countries.

Letter of Transmittal to the Board of Governors

July 9, 1997

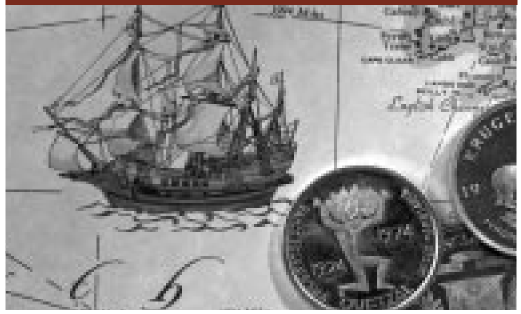
Dear Mr. Chairman:

I have the honor to present to the Board of Governors the Annual Report of the Executive Board for the financial year ended April 30, 1997, in accordance with Article XII, Section 7(*a*) of the Articles of Agreement of the International Monetary Fund and Section 10 of the Fund's By-Laws. In accordance with Section 20 of the By-Laws, the administrative and capital budgets of the Fund approved by the Executive Board for the financial year ending April 30, 1998 are presented in Appendix IX. The audited financial statements for the year ended April 30, 1997 of the General Department, the SDR Department, accounts administered by the Fund, and the Staff Retirement Plan and the Supplemental Retirement Benefit Plan, together with reports of the External Audit Committee thereon, are presented in Appendix X.

Yours sincerely,

Michel Camdessus
Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund



Against Background of Increasing Globalization, Fund Acts to Review Surveillance Operations, Consider Adding Capital Account Liberalization as a Goal, Address Problems of Heavily Indebted Countries

The operations of the International Monetary Fund in 1996/97 took place against the background of a recovery in world economic growth. This reflected the progress made by many industrial and developing countries and transition economies within the context of an increasingly close integration of markets for goods, services, and capital. The growing economic interdependence of countries worldwide—known as globalization—presented both new opportunities and new challenges, accentuating the benefits of good policies and the costs of bad policies.

In light of the challenges posed by growing economic integration, the Fund acted to review further its surveillance operations, including in the areas of banking soundness, data dissemination, and good governance; to adapt its financial instruments and procedures; and to examine the adequacy of its quota resources, while augmenting its capacity to borrow in special circumstances. In addition, the Executive Board[1] took new steps to address the problems facing the low-income countries, by endorsing the continuation of Enhanced Structural Adjustment Facility (ESAF) operations and, in conjunction with the World Bank, developing an Initiative to help resolve the pressing problems of the heavily indebted poor countries (HIPCs). In a further significant development, the Interim Committee of the Fund's Board of Governors, meeting in April 1997, endorsed the concept of an amendment to the Articles of Agreement that would make the promotion of capital account liberalization one of the purposes of the Fund and give the Fund appropriate jurisdiction over capital movements. The Board also made further progress toward an amendment to the Articles to ensure that all members receive an equitable share of cumulative SDR allocations through a special one-time allocation of SDRs.

[1]In this Report, "Board" refers to the Executive Board of the Fund; references to the Board of Governors are stated fully.

Largely because of the successful policy reforms adopted by many countries—including a number of countries that had earlier made substantial use of the Fund's resources—new financial commitments from the Fund fell from the exceptionally high levels of the two previous financial years. At the same time, the Fund continued to provide financial support under a number of major adjustment programs approved earlier for members.

* * *

Surveillance over the exchange rate policies of members, a responsibility at the core of the Fund's work, remained a subject high on the Board's agenda in 1996/97. The Board's deliberations encompassed several aspects of the subject, including a number of evolving issues.

• In September 1996 the Board reviewed the broad policy framework for surveillance laid out in the *Madrid Declaration on Cooperation to Strengthen the Global Expansion* (*Annual Report, 1995,* pages 207–208). While it agreed that the global strategy to sustain and extend economic growth embodied in the declaration remained valid, it recommended that the Interim Committee take account of the changing needs of the global economy, so as to prepare it to meet new challenges, and to strengthen members' policy implementation in several areas. Later that month, the Interim Committee incorporated these conclusions in its *Declaration on Partnership for Sustainable Global Growth* (see Box 3 in Chapter 4), which set out a broad range of policy principles. The declaration's principles emphasized the complementarity and mutually reinforcing roles of macroeconomic and structural policies, and in particular the need to:

— implement sound macroeconomic policies that consolidate success in reducing inflation, strengthen fiscal discipline, enhance budgetary transparency, and improve the quality of fiscal adjustment;
— foster financial and exchange rate stability and avoid currency misalignments;
— maintain the impetus toward trade liberalization and current account convertibility;
— improve the composition of fiscal adjustment, including through the reduction of unproductive expenditure and the adequate provision for health and education;
— tackle labor and product market reforms more boldly;
— ensure the soundness of banking systems; and
— promote good governance in all its aspects.

• In March 1997 the Board conducted its *biennial review of the underlying principles and procedures of surveillance.* Directors noted the number of initiatives taken since the Mexican financial crisis to increase the effectiveness of Fund surveillance, especially in detecting emerging financial crises at an early stage. In particular, they welcomed the increased focus on financial and banking sector issues, capital account developments, provision of information to the Fund, and the dissemination of data to the general public.

• In an effort to enhance transparency, the Board agreed in April 1997 to the issuance, on a voluntary basis, of Press Information Notices following the conclusion of members' Article IV consultations with the Fund, for those members seeking to make the Fund's views known to the public.

• During the year, the Board twice discussed issues relating to *banking soundness* in member countries and their implications for the Fund's surveillance work. Directors focused on the relations between systemic bank restructuring and macroeconomic policy, and on the efforts made to develop a framework for banking soundness. The Board agreed that the Fund should pay more attention to both these issues—within its surveillance role and in cooperation with other international institutions and bodies—since it was uniquely placed to alert members to weaknesses in their banking systems or regulatory regimes, and to promote sound banking principles and practices worldwide.

• In a November 1996 review of the *provision of information* to the Fund by members, the Board noted that the quality and integrity of data had a major bearing on the Fund's ability to conduct effective surveillance. Directors welcomed the increased effort to provide comprehensive and candid assessments of data issues in the context of Article IV consultations. They suggested that future consultation reports should identify data deficiencies, address the reasons for these, and outline the steps necessary to overcome them. They also suggested that the implementation of the recommendations of technical assistance should be monitored and any shortcomings noted in staff reports.

• Work continued on the development of standards to guide member countries in the *dissemination of economic and financial statistics* to the public.

— In September 1996, the Fund opened the electronic bulletin board for the Special Data Dissemination Standard (SDDS) to public access on the Internet's World Wide Web. This standard is designed to enhance the availability of timely and comprehensive statistics for members having or seeking access to capital markets.

— In March 1997, the Board endorsed the framework for the General Data Dissemination System (GDDS). This system will provide broad guidance for all members for publishing data that will be less prescriptive than that for the SDDS.

• At a preliminary discussion of the issue in January 1997, there was a strong consensus in the Board on the vital importance of *good governance* for economic efficiency and growth. Directors emphasized that sound economic performance depended on the efficient use of public resources, the creation of an environment conducive to private sector activity, and public support for economic reforms. It was also recognized that greater transparency in macroeconomic policy could contribute to private sector confidence in government policies and that external financing—both official and private—was tied closely to governance issues.

* * *

Against the background of the very rapid growth and increased integration of international capital markets, in early 1997 the Board twice discussed the issue of *capital account convertibility*. The Board emphasized that, for the Fund to exercise effective surveillance over international capital flows, which have an increased importance for the stability of the international monetary system, there should be an appropriate amendment to the Fund's Articles. The central role of the Fund in promoting the orderly liberalization of capital movements was endorsed by the Interim Committee at its April 1997 meeting, which called on the Board to continue its work on this topic with a view to making specific recommendations on key elements of an amendment to the Articles by the Committee's next meeting in September 1997.

* * *

The Board gave considerable attention during 1996 / 97 to two important means of providing support to the Fund's poorest members: the continuation of the ESAF as the centerpiece of the Fund's support for the poorest of its members, and the Initiative to assist the HIPCs.

- The Board endorsed the *continuation of the ESAF* beyond the year 2000, when current ESAF resources are expected to be fully committed. There is to be an interim period of operations from 2001 to 2004, with an expected commitment level of SDR 1 billion a year for which new financing would be mobilized. This would be followed in 2005, or earlier, by a self-sustained ESAF with commitments of about SDR 0.8 billion a year.
- The key features of the *HIPC Initiative* were outlined by the Fund's Managing Director and the President of the World Bank in a report endorsed by the Interim Committee in September 1996. This Initiative is designed to ensure that HIPCs with a sound track record of economic adjustment can attain a sustainable debt situation over the medium term. Subsequently, in proceeding with implementation, the Board took the following actions.
  - In February 1997, it set up the ESAF-HIPC Trust to finance special ESAF operations in the form of grants, or highly concessional loans, to countries assisted under the HIPC Initiative and to subsidize the interest rate on interim ESAF operations.
  - In April 1997, it gave its first approval of a country's eligibility for assistance under the HIPC Initiative in the case of Uganda.
  - Also in April 1997, it gave preliminary consideration of HIPC assistance in the cases of three other countries—Bolivia, Burkina Faso, and Côte d'Ivoire.

The Board's actions to implement the Fund's participation in the joint Fund–World Bank HIPC Initiative were welcomed by the Interim Committee at its April 1997 meeting. The Committee urged members to work to secure the resources necessary to complete the funding of the Fund's participation in the Initiative as well as of the continuation of ESAF.

* * *

The Board addressed a number of equity issues regarding the present *SDR system*. These derive from the fact that some recent members of the Fund have never received an allocation of SDRs; other members have not participated in every SDR allocation; and changes in the relative quotas of members that have participated in every allocation have led to substantial differences in ratios of cumulative allocations of SDRs to quotas of individual members. The Board's proposal to remedy the situation by a special onetime allocation of SDRs through an amendment to the Articles was endorsed by the Interim Committee in September 1996. Thereafter the Board made substantial progress on a proposed amendment. The Interim Committee in April 1997 requested the Board to finalize its work as soon as possible and report to the Committee in September 1997.

* * *

During 1996/97, *the Fund approved 28 new Stand-By, Extended, and ESAF arrangements,* totaling SDR 5.3 billion (more than $7.1 billion) in new commitments. This represented a moderation in the demand for Fund resources compared with commitments of SDR 19.7 billion (almost $27 billion) in 1995/96 and SDR 16.6 billion (about $23 billion) in 1994/95. Many Fund-supported arrangements approved in those previous years, however, remained in effect in 1996/97, including the three-year Extended Arrangement with Russia totaling SDR 6.9 billion approved in March 1996, the largest such Extended Arrangement in the history of the Fund. During the year, the Board held monthly reviews of the Russian economy under this arrangement.

• Altogether, as of April 30, 1997, 60 Fund-supported programs with member countries were in effect (14 Stand-By Arrangements, 11 Extended Fund Facility arrangements, and 35 ESAF arrangements). In addition, in April 1997, a drawing of SDR 9 million was made by Rwanda under the Fund's policy of emergency assistance to postconflict countries. Total Fund credit outstanding at the end of the year was SDR 40.5 billion ($55.3 billion), a slight decline from the level of SDR 42.0 billion a year previously.

• Members' drawings from the Fund during the year totaled SDR 5.6 billion, including purchases of SDR 2.1 billion by Russia under its Extended Arrangement, and sizable purchases by Algeria (SDR 512 million), Argentina (SDR 321 million), Ukraine (SDR 598 million), and Venezuela (SDR 350 million). Repayments were SDR 7.2 billion, including voluntary advance repurchases of SDR 2.6 billion by Mexico and SDR 140 million by Hungary.

• The *liquidity ratio*—the ratio between the Fund's uncommitted usable resources and its liquid liabilities—rose to 121 percent at the end of April 1997, compared with a level of 90 percent a year earlier. This reflected the more moderate use of Fund financing and an increase in the pool of currencies used by the Fund to finance members' purchases.

* * *

Even though Fund credit outstanding declined slightly during the year, it remained high in historical terms. The Board continued to work on actions to strengthen the Fund's resources.

• The Board's consideration of the *Eleventh General Review of Quotas* focused on the size and distribution of an increase in quotas, as well as on the size of ad hoc increases for countries whose quotas are most out of line with their relative positions in the world economy.

• In January 1997, the Board adopted a decision on the *New Arrangements to Borrow* (NAB), under which the Fund may borrow up to SDR 34 billion when it needs additional resources to forestall or cope with an impairment of the international monetary system or to deal with an exceptional situation that poses a threat to the stability of the system. The NAB will come into force once a set number of potential participants have adhered to the decision. It will not replace the existing General Arrangements to Borrow but, if needed, will serve as the facility of first and principal recourse.

* * *

To broaden Directors' understanding of the economic problems and policies in individual member countries, a trial program of *group travel by Board members* was initiated in 1996/97. Two separate groups of Directors traveled to three countries of the Middle East and to three transition economies in eastern Europe and the former Soviet Union.

* * *

With the challenges posed by increasing globalization and the widespread transition to market-based economic systems, member countries' demand for the Fund's *technical assistance and training* services remained strong. The main focus of assistance was on the monetary and fiscal aspects of macroeconomic management, but related areas of statistics, financial law, Fund financial organization and operations, and information technology were also covered. Total technical assistance by both Fund staff and the assignment of short- and long-term advisors amounted to 277 person-years in 1996/97, or some 14 percent of the Fund's administrative budget.

* * *

Although its activities have increased markedly in recent years, the Fund's *medium-term budget strategy*, which was endorsed by the Board in January 1997, reflects a commitment to keeping the authorized staffing level at current or slightly lower levels and keeping administrative expenses relatively flat in real terms. In line with this policy, resources are being redeployed to strengthen surveillance and the ongoing work associated with the use of Fund financing. At the same time, steps have been taken to broaden the scope of the evaluation function through the establishment at the beginning of the year of the Office of Internal

Audit and Inspection and the formation of a group of Executive Directors to coordinate external evaluation. Complementing the long-standing process of internal review and evaluation, an evaluation of technical assistance provided by the Monetary and Exchange Affairs Department was completed by outside experts in early 1996 and reviewed by the Board in May 1996. Also, an external evaluation of certain issues related to the ESAF was launched, which is being coordinated by a group of Executive Directors on behalf of the Board; the conclusions are to be reported around the end of 1997.

To strengthen relations with member countries in Asia, in March 1997 the Fund announced the establishment of a new Regional Office for Asia and the Pacific, located in Tokyo, which was to begin operations in the fall of 1997. As a further measure to enhance efficiency in the Fund's relations with its Asian members, a single Asia and Pacific Department was established in January 1997, through amalgamating the former Central Asia and Southeast Asia and Pacific Departments.

* * *

The *membership of the Fund* remained constant at 181 countries during 1996/97. The Republic of Palau applied for membership in late December 1996. The Federal Republic of Yugoslavia (Serbia/Montenegro) has yet to complete arrangements for succession to membership. The Board decided in December 1996 to extend the period within which the country should complete such arrangements.