International Monetary Fund

Annual Report 1986

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INTERNATIONAL MONETARY FUND

ANNUAL REPORT

of the

Executive Board for the

Financial Year Ended April 30, 1986

WASHINGTON, D.C.

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The following symbols have been used throughout 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 (e.g., 1979–81 or January–June) to indicate the years or months covered, including the beginning and ending years or months:

/ between years (e.g., 1980/81) to indicate a crop or fiscal (financial) year.

"Billion" means a thousand million.

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

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* Alphabetical listing.

August 5, 1986

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Letter of Transmittal to the Board of Governors

August 15, 1986

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, 1986, 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 budget of the Fund approved by the Executive Board for the financial year ending April 30, 1987 is presented in Appendix VII and the audited financial statements of the General Department, the SDR Department, the Supplementary Financing Facility Subsidy Account, the Trust Fund, and the Staff Retirement Plan for the year ended April 30, 1986, together with the reports of the External Audit Committee thereon, are presented in Appendix VIII.

Yours sincerely,

/s/

J. DE LAROSIÈRE
Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

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Chapter 1

Developments in the World Economy

INTRODUCTION

The world economy during 1985 and the early part of 1986 presented a mixed picture. On the positive side, inflation receded further, world output increased at a moderate pace, and interest rates declined significantly. At the same time, the slowdown in industrial countries, particularly in the United States, was sharper than expected, world trade was sluggish, protectionist pressures intensified, real primary commodity prices declined steeply, and the developing world experienced a setback in its efforts to achieve growth with adjustment. By early 1986, several developments had combined to improve economic prospects. International interest rates in nominal terms had come down to their lowest level in eight years, a more sustainable pattern of exchange rates had been attained, and initiatives to coordinate policies and to strengthen the debt strategy had been launched.

The 3 percent rate of growth recorded for world output in 1985 represented a considerable slowdown from the 4½ percent rate of the previous year. While a moderation in the pace of expansion had been widely anticipated, the slowing of the U.S. economy from 6½ percent growth in 1984 to 2¾ percent in 1985 was much more marked than expected. Little further progress was made in reducing unemployment, and in most European countries joblessness increased from its already high level. The slowdown in the growth of industrial countries' output led to a marked deceleration in the growth of world trade and, in combination with plentiful supplies, a sharp fall in real primary product prices. As a result, the export earnings of developing countries stagnated and their debt ratios, which had begun to recede in 1984, rose again in 1985 to reach record levels. Reflecting the less favorable external environment, per capita output in developing countries, which, after several years of decline, had finally shown an increase in 1984, advanced only moderately.

A more positive development was the continuing reduction in inflation. In part because of declining prices for oil and other primary commodities, the average rate of increase in the GNP deflator in industrial countries declined to below 4 percent in 1985, and to an even lower rate in the early part of 1986. The majority of developing countries also had declining inflation, although some larger countries where price pressures were particularly strong recorded sizable increases. Several of these high-inflation countries, however, have now taken radical steps to deal with their inflation problem. Another positive development in 1985 was the convergence of growth rates, especially among industrial countries. As a result, shifts in current account balances were typically much less pronounced in 1985 than they had been in the previous three years. However, current account imbalances remained substantial, particularly among the three largest countries.

In the second half of 1985 and the first part of 1986, positive steps were taken to address these imbalances with a view to reducing the risks and uncertainties in global economic prospects. One of the first was the agreement among the Group of Five countries (France, the Federal Republic of Germany, Japan, the United Kingdom, and the United States) reached at a meeting at the Plaza Hotel in New York on September 22, 1985. The agreement, while recognizing the progress that had been made in promoting convergence of favorable economic performance among the participating countries, set forth the policy intentions of these countries to achieve increased and more balanced growth, as well as exchange rate relationships that better reflected underlying economic fundamentals. Following up on this agreement, several countries engaged in coordinated exchange market intervention and, in early 1986, undertook concerted interest rate reductions. The commitment to policy coordination was renewed and strengthened by the heads of state or government of the seven largest industrial countries at their economic summit in Tokyo in May 1986. Another important step was the adoption by the U.S. Congress of the Balanced Budget and Emergency Deficit Control Act (the so-called Gramm-Rudman-Hollings legislation) that significantly improved the prospects for the curtailment of the U.S. fiscal deficit. Together, these actions led to an improved pattern of exchange rates and a marked decline in interest rates. In the field of financing and debt, a major step was the initiative proposed by the United States to encourage financial flows to developing countries in support of growth-oriented economic adjustment.

International economic prospects were also significantly affected by the decline in oil prices that occurred in the first half of 1986. The effects of this decline, which was of a magnitude comparable to the increases of 1979–80, are complex and are likely to vary considerably across sectors and countries. The decline in oil prices contributed to a further lowering of inflation and interest rates and should result in a significant firming of domestic demand growth in oil importing countries. Reflecting these prospects, financial markets in industrial countries exhibited considerable strength in the latter part of 1985 and early 1986. For oil exporting countries, on the other hand, the effects of the oil price decline are generally highly adverse, given the importance of oil income to them as a source of budgetary revenue and export receipts. The difficulties these countries already faced in 1985 have now been greatly exacerbated by the need to adjust spending to levels more in line with the reduced level of export earnings.

The remainder of this chapter of the Annual Report considers recent developments in the world economy in more detail. This review serves as a background for the discussion, in Chapter 2 of the report, of the policies and activities of the Fund.

DOMESTIC ACTIVITY AND POLICIES

INDUSTRIAL COUNTRIES

Policy Setting. The economic policies of industrial countries have for some time been directed toward re-establishing the conditions for sustained noninflationary growth. In pursuit of this objective, the major industrial countries have sought to bring about a gradual reduction in the growth rates of specified monetary aggregates and to limit the share of real and financial resources absorbed by the public sector. At the same time, efforts have also been directed toward improving the functioning of markets through a variety of structural reforms. This general strategy, which was initiated at the beginning of the 1980s, continued to characterize the policies of the industrial countries in 1985 and the early part of 1986.

The strategy has been most successful in the area of inflation control. In 1985, the average rate of increase in the GNP deflator in the industrial countries as a group declined for the fifth consecutive year and was under 4 percent for the first time since 1967. By early 1986, inflation by this measure had fallen even further. As for other key objectives, such as fiscal consolidation and structural economic reforms, results have been more mixed, often reflecting slippages in policy implementation. There have been significant differences among countries in both economic performance and financial conditions, which have at times led to potentially unsustainable exchange rate and balance of payments developments. Since the latter part of 1985, however, a number of important steps have been taken to reduce financial imbalances and to enhance the coordination and consistency of policies among countries. The improved pattern of exchange rates to which these policies contributed, together with the sharp decline in oil prices in the early part of 1986, has strengthened the prospects for balanced noninflationary growth in 1986 and beyond.

It is in the field of fiscal policy that developments have differed most among the major countries in recent years. On the basis of internationally comparable indicators, budgetary consolidation efforts have been most successful in the Federal Republic of Germany and Japan, which have succeeded in narrowing their fiscal deficits significantly since the beginning of the decade, despite unfavorable cyclical conditions (Table 1). In France and the United Kingdom budget deficits tended to stabilize in 1983–84 following some increases early in the decade, while in Canada, Italy, and the United States deficits widened substantially or remained high.

This general pattern continued in 1985, with the underlying fiscal position—as measured by the fiscal impulse (Table 1)—moving in the direction of larger deficits in the three last-mentioned countries, and toward smaller or unchanged deficits in the other large countries. Overall, the combined general government deficit of the major countries was unchanged in relation to GNP from its 1984 level of 3.5 percent. This pattern of year-on-year developments, however, obscures the effect of a number of developments that occurred during the course of 1985 and early in 1986, which have strengthened the likelihood of more effective budgetary consolidation efforts. Most important, the United States adopted a medium-term plan to eliminate its federal budget deficit. Canada proceeded with its program, announced in November 1984, to strengthen its budgetary performance and achieved a small reduction in its deficit in 1985. With France and the United Kingdom continuing to follow policies of budgetary restraint, and the Federal Republic of Germany having introduced a tax cut, some of the earlier divergences in the thrust of fiscal policies now seem to be in the process of being moderated or reversed.

A major factor underlying the divergent trends in fiscal positions in recent years has been the varying degrees of success countries have had in limiting the share of real resources absorbed by the public sector (Table 2). The share of general government expenditure, including transfers, in GNP has increased in most of the major countries over the period since 1979. Nevertheless, there are significant differences among countries. In Germany and Japan, the increasing relative size of the government sector has been wholly or partly reversed since 1983 and the shares in 1985 were much the same as in 1979. In the other five countries, the increases over the six-year period ranged from 3½ percentage points to 13 percentage points of GNP. In 1985, reflecting the taking hold of policies of fiscal restraint, most countries succeeded in diminishing the share of government spending, although there was a further increase in Italy and the United States.

Monetary conditions in the industrial countries eased significantly during 1985 and early in 1986, reflecting a combination of lower inflation, the cyclical slowdown of growth in the United States, and the increasing confidence of market participants that the U.S. federal budget deficit would be curtailed. In addition, as monetary authorities have acquired greater credibility in their commitment to control inflation, they have been able to respond to slower output growth by a somewhat more

Table 1.

Major Industrial Countries: Fiscal Balances and Impulses, 1981–85[1]

(In percent of GDP/GNP)

	Central Government[2]					General Government[3]				
	1981	1982	1983	1984	1985	1981	1982	1983	1984	1985
Fiscal balance (+ surplus, − deficit)										
Canada	−2.2	−5.3	−6.2	−7.0	−6.9	−1.6	−5.0	−6.2	−6.3	−6.1
United States	−2.4	−4.1	−5.6	−4.9	−5.1	−1.0	−3.5	−3.8	−2.9	−3.5
Japan	−5.9	−5.9	−5.6	−5.0	−4.4	−3.5	−3.6	−3.7	−2.2	−1.6
France	−2.6	−2.8	−3.3	−3.4	−3.3	−1.8	−2.7	−3.1	−2.9	−2.6
Germany, Fed. Rep. of	−2.1	−2.1	−2.0	−1.8	−1.1	−3.7	−3.3	−2.5	−1.9	−1.1
Italy	−12.8	−15.1	−16.4	−15.5	−16.3	−11.9	−12.6	−11.7	−13.0	−14.0
United Kingdom	−2.9	−2.7	−3.2	−3.4	−2.5	−2.8	−2.4	−3.7	−4.2	−3.1
Seven major countries above	−3.6	−4.6	−5.4	−5.0	−5.0	−2.6	−3.9	−4.1	−3.4	−3.5
Seven major countries except the United States	−4.5	−5.0	−5.3	−5.2	−4.8	−3.8	−4.2	−4.4	−4.0	−3.5
Fiscal impulse (+ expansionary, − contractionary)										
Canada	−1.1	0.8	0.9	1.6	0.4	−0.7	−0.4	1.4	1.5	0.7
United States	—	0.3	1.6	0.4	0.2	−0.5	0.5	0.6	0.6	0.5
Japan	−0.5	−0.3	−0.5	−0.3	−0.5	−1.2	−0.1	−0.2	−1.2	−0.5
France	1.1	—	0.1	−0.1	−0.3	0.6	0.3	−0.5	−0.6	−0.8
Germany, Fed. Rep. of	−0.8	−1.3	−0.1	0.5	−0.5	−0.9	−2.1	−0.8	0.4	−0.6
Italy	0.7	0.6	—	−1.0	0.8	2.2	−1.1	−2.4	1.0	1.0
United Kingdom	−1.5	−0.6	0.8	0.2	−0.4	−2.9	−0.9	1.7	0.6	−0.6
Seven major countries above	−0.2	—	0.8	0.2	—	−0.6	−0.2	0.2	0.2	0.1
Seven major countries except the United States	−0.3	−0.3	—	0.1	−0.3	−0.6	−0.7	−0.2	−0.1	−0.3

[1] The fiscal impulse is a measure of the thrust of budgetary changes. In general, the impulse points to an expansionary thrust to the extent that, relative to the previous year, revenues increase less rapidly than actual GNP and/or expenditures increase more rapidly than potential GNP. For a detailed description of the fiscal impulse measure, see *World Economic Outlook: A Survey by the Staff of the International Monetary Fund* (Washington: International Monetary Fund, April 1986), pp.121–23. Composites for the country groups are weighted averages of the individual national ratios for each year, with weights proportionate to the U.S. dollar value of the respective GDPs/GNPs in the preceding three years.

[2] Data for Canada and the United Kingdom are on a national income accounts basis. Data for Japan cover the consolidated operations of the general account, certain special accounts, social security transactions, and disbursements of the fiscal investment and loan program (FILP) except those to financial institutions. Japanese data other than FILP transactions are based on national income accounts. Data for France are on an administrative basis and do not include social security transactions. Data for Italy refer to the state sector and cover the transactions of the state budget as well as those of several autonomous entities operating at the state level. They also include the deficit, but not the gross transactions, of social security institutions, and part of that of local authorities.

[3] Data are on a national income accounts basis.

Table 2.

Major Industrial Countries: General Government Expenditure, 1979–85

(In percent of GDP/GNP)

	1979	1983	1984	1985[1]
Canada	40.2	47.9	48.9	48.7
United States	30.6	35.0	33.9	35.2
Japan	31.0	33.4	32.4	32.1
France	42.9	49.2	50.0	49.7
Germany, Fed. Rep. of	48.0	48.8	48.4	47.6
Italy	45.6	57.7	58.2	59.2
United Kingdom	41.8	45.8	46.4	45.4

[1] Preliminary estimates.

accommodative monetary stance, even where this has involved exceeding monetary growth targets. Narrow money (M1) in the seven major countries increased by 10 percent in 1985, 2½ percentage points faster than in 1984; the acceleration in the growth of narrow money was even more pronounced on a fourth-quarter-to-fourth-quarter basis (Table 3). The growth of broad money also accelerated, from 7.9 percent in 1984 to 9.0 percent in 1985 on a year-on-year basis. By comparison, nominal GNP growth slowed, from 9.0 percent in 1984 to 6.6 percent in 1985.

The decline in short-term interest rates was particularly significant in the United States (Chart 1). By the end of 1985, U.S. interest rates had come down by 3½ percentage points from their 1984 peak; the decline continued in the opening months of 1986. Reflecting the

Table 3.

Major Industrial Countries: Monetary Aggregates, 1983–85[1]

(Annual changes, in percent)

	1983	1984	1985	Fourth Quarter[2] 1984	Fourth Quarter[2] 1985
Narrow money (M1)[3]					
Canada	10.1	3.3	4.2	0.3	9.4
United States	11.2	7.0	9.1	5.4	11.9
Japan	3.6	2.8	5.0	6.9	10.0
France	11.3	11.9	8.7	10.8	6.1
Germany, Fed. Rep. of	10.2	3.3	4.7	5.7	5.3
Italy	15.1	12.3	13.8	12.4	11.5
United Kingdom	12.8	14.7	16.7	18.7	18.0
Seven major countries above	10.3	7.5	9.9	8.2	12.1
Broad money[4]					
Canada	5.7	4.4	9.5	7.2	10.7
United States	12.5	8.0	9.1	8.0	8.6
Japan	7.4	7.8	8.4	7.8	8.0
France	11.5	10.4	8.4	9.4	5.5
Germany, Fed. Rep. of	6.6	3.9	4.9	4.7	5.1
Italy	16.5	12.3	13.9	12.1	11.2
United Kingdom	10.5	9.2	12.9	9.5	15.2
Seven major countries above	10.7	7.9	9.0	8.0	8.6

[1] Composites for the country groups are averages of percentage changes for individual countries weighted by the average U.S. dollar value of their respective GNPs over the preceding three years.

[2] From fourth quarter of preceding year.

[3] M1 is generally currency in circulation plus private demand deposits. In addition, Canada excludes private sector float; the United States includes traveler's checks of nonbanks and other checkable deposits and excludes private sector float and demand deposits of banks; the Federal Republic of Germany includes demand deposits at fixed interest rates; and Japan includes government demand deposits and excludes float.

[4] M1 plus quasi-money—generally M2, except for the United Kingdom, Japan and the Federal Republic of Germany, for which the data are based on sterling M3, M2 + CD (certificates of deposit), and M3, respectively. Quasi-money is essentially private term deposits and other notice deposits. The United States also includes money market mutual fund balances, money market deposit accounts, overnight repurchase agreements, and overnight Eurodollars issued to U.S. residents by foreign branches of U.S. banks. France also includes government savings bonds. Sterling M3 is M1 plus private sterling time deposits. For Japan, M2 + CD is currency in circulation plus total private and public sector deposits and installments of Sogo Banks plus certificates of deposit. For the Federal Republic of Germany, M3 is M1 plus private time deposits with maturities of less than four years plus savings deposits at statutory notice.

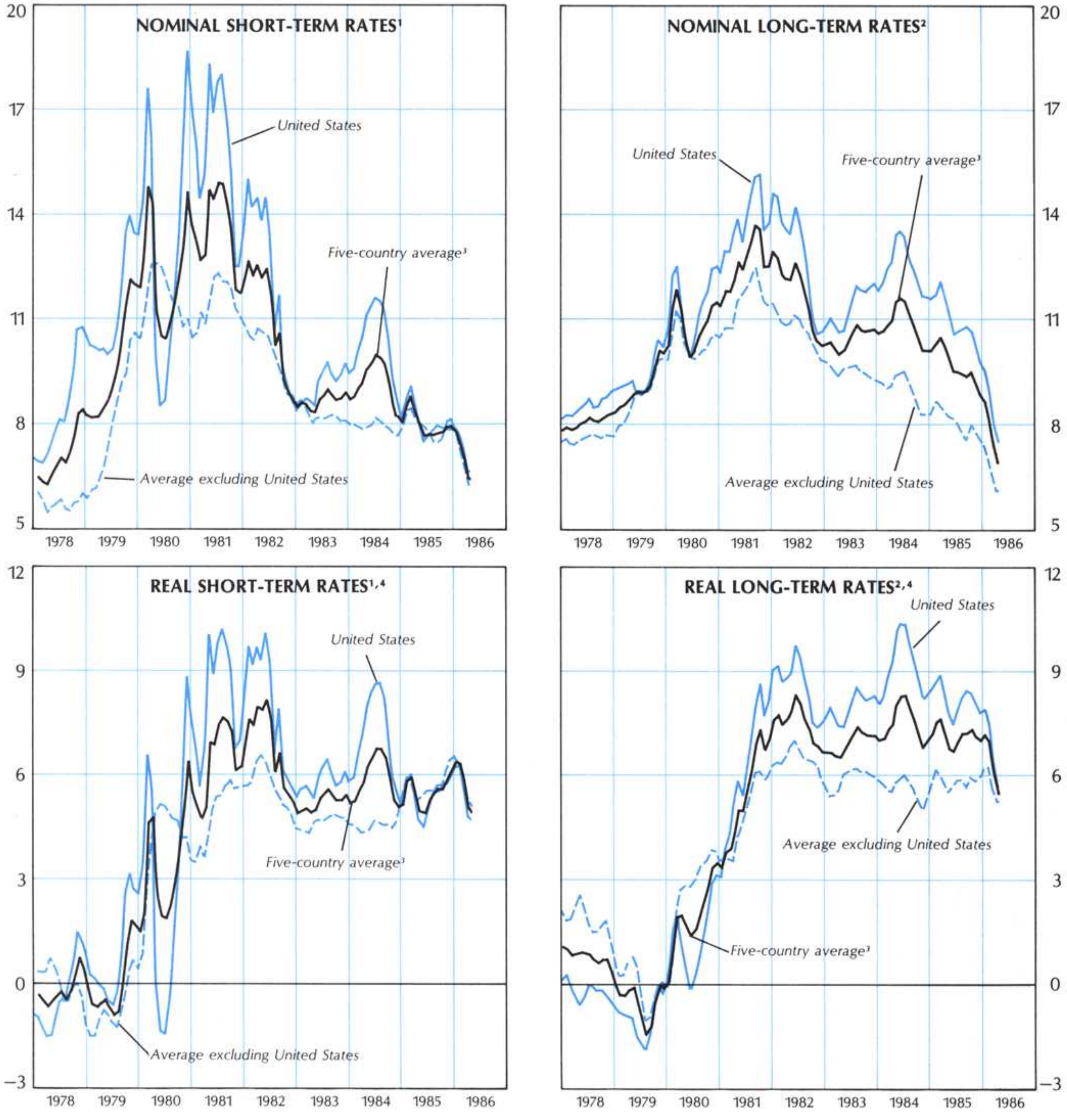
emphasis on exchange rate considerations in the implementation of monetary policy, short-term interest rates in the other major countries initially fell by less than in the United States, or even firmed somewhat. There was thus a pronounced narrowing, or in some cases a reversal, of short-term interest rate differentials during 1985. The decline in long-term interest rates during 1985 and the early part of 1986 was even more pronounced than that in short-term rates. As a result, there was a notable flattening of the yield curve in most countries, particularly in the United States. This development seems to indicate a marked change in inflationary expectations, reflecting the absence of inflationary pressures in most countries together with the increased confidence of financial investors that efforts to bring down budget deficits in the United States and in the other major industrial countries will be more successful than in the past.

Structural policies have remained an important facet of the economic strategy. The aim of such policies is to improve the functioning of markets for labor, goods, and financial services, in order to encourage a better allocation of resources and to strengthen the responsiveness of supply. The methods that have been used in pursuit of these aims include deregulation, privatization of publicly owned firms, and specific measures to improve the functioning of labor markets. Structural policies have had a measure of success in some areas, notably the widespread liberalization of financial markets, deregulation of important segments of the transport and telecommunications industries in the United States, and the modification of wage indexation systems in several European countries. However, there have also been setbacks. In some countries, government subsidy expenditures have declined by less than had been hoped, and in much of Europe labor markets continue to be characterized by rigidities that retard a return to high-employment conditions.

Although the record of policy implementation in recent years has thus been a mixed one, a number of steps were taken in the second half of 1985 and early in 1986 that promise a significant improvement in the coordination and consistency of policies among the major countries. These steps constitute an important change in the economic setting and had already begun to have a favorable impact on the economic environment in the first half of 1986. They include the September 22, 1985 agreement among the Group of Five countries seeking to bring key exchange rates more in line with underlying fundamentals (the Plaza Agreement); the adoption by the U.S. Congress of the Gramm-Rudman-Hollings legislation in December 1985, which stipulates reductions in the federal deficit for each fiscal year from 1986 to 1991 so as to achieve a balanced budget in 1991; and the coordinated reduction of official interest rates in several of the major industrial countries in March and again in April 1986. In addition, the seven largest countries entered into a commitment at the Tokyo economic summit in May 1986 to strengthen economic policy coordination. Partly as a result of these developments, some of the major uncertainties that had threatened the prospects for sustained growth have diminished. In particular, the prospect that the fiscal and current account deficits of the United States would be brought under better control, together with the decline in oil prices, induced a further reduction in inflationary expectations. As a result both short-term and long-term interest rates declined further in early 1986. By April 1986, nominal short-term interest rates in the five major industrial countries had fallen to about 6.5

Chart 1. Five Major Industrial Countries: Interest Rates, 1978–April 1986

(In percent)



[1] Monthly averages of daily rates on money market instruments of about 90 days' maturity.

[2] Monthly averages of daily or weekly yields on government bonds, with maturities ranging from 7 years for Japan to 20 years for the United States and the United Kingdom.

[3] The United States, Japan, France, the Federal Republic of Germany, and the United Kingdom.

[4] Interest rates deflated by a weighted average of the increase in the private final domestic demand deflator in the current and the following two quarters; for the most recent periods, Fund staff projections of the deflator are used.

percent, their lowest level since 1972. In inflation-adjusted terms, both short-term and long-term interest rates had declined to their lowest levels since early 1981 (Chart 1).

Domestic Activity. The overall pace of economic activity in industrial countries moderated in 1985, after the strong expansion recorded in 1984. The slowing was largely attributable to a sharp deceleration of growth in the United States. The pace of expansion also dropped back slightly in Canada and Japan, while it remained little changed in Europe. Overall, real GNP in the industrial countries rose by 3 percent in 1985, roughly in line with the estimated rate of growth of potential output but significantly below the 4.7 percent growth recorded in 1984 (Table 4).

The slowdown of growth in the United States, from 6.4 percent in 1984 to only 2.7 percent in 1985, was principally accounted for by stockbuilding, which fell sharply as producers and retailers adjusted inventory levels to expectations of slower growth of final sales. However, the continuing deterioration in the net external balance, reflecting the strong dollar and the accumulated growth differential between the United States and its trading partners, also contributed. In contrast to the weak performance of stockbuilding and net exports, final domestic demand continued to grow at a relatively strong pace, reflecting a decline in the household saving ratio and the rapid growth of defense spending. Fixed investment also continued to expand, albeit at a slower pace than in 1984.

Growth in Japan and in Canada suffered only moderately from the slowdown of growth in the United States. In both countries, real GNP increased by 4½ percent in 1985, only slightly less than in the previous year (5 percent). In Japan, the contribution of the foreign sector declined during the course of 1985, and economic growth became increasingly dependent on stronger expansion in domestic demand, particularly business investment. In Canada, the strong growth of

Table 4.

Industrial Countries: Changes in Output and Prices, 1968–85[1]

(In percent)

	Average 1968–77[2]	From Preceding Year							
		1978	1979	1980	1981	1982	1983	1984	1985
Real GNP									
Canada	4.7	3.6	3.2	1.1	3.3	−4.4	3.3	5.0	4.5
United States	2.7	5.3	2.5	−0.2	1.9	−2.5	3.6	6.4	2.7
Japan	6.5	5.2	5.3	4.3	3.7	3.1	3.2	5.1	4.5
France[3]	4.5	3.8	3.3	1.1	0.5	1.8	0.7	1.5	1.3
Germany, Fed. Rep. of	3.7	3.3	4.0	1.5	—	−1.0	1.5	3.0	2.4
Italy[3]	3.8	2.7	4.9	3.9	0.2	−0.5	−0.2	2.8	2.3
United Kingdom[4]	2.3	3.8	2.2	−2.3	−1.3	1.3	3.6	1.9	3.3
Other industrial countries	4.0	2.0	3.1	2.1	0.4	0.3	1.7	3.3	3.0
All industrial countries	3.6	4.2	3.3	1.2	1.4	−0.5	2.6	4.7	3.0
Of which,									
Seven major countries above	*3.5*	*4.6*	*3.3*	*1.1*	*1.6*	*−0.6*	*2.8*	*4.9*	*2.9*
European countries	*3.7*	*3.0*	*3.3*	*1.4*	*−0.1*	*0.4*	*1.6*	*2.4*	*2.4*
GNP deflator									
Canada	7.2	6.7	10.3	11.4	10.6	10.4	5.3	2.8	3.2
United States	6.2	7.3	8.8	9.1	9.6	6.5	3.7	4.2	3.3
Japan	8.3	4.8	3.0	3.8	3.2	1.9	0.8	1.3	1.6
France[3]	7.9	9.4	10.4	12.2	11.9	12.5	9.6	7.2	5.9
Germany, Fed. Rep. of	5.3	4.3	4.0	4.8	4.0	4.4	3.2	1.8	2.2
Italy[3]	10.9	13.9	15.9	20.7	18.3	17.8	14.9	10.8	8.8
United Kingdom[4]	11.0	11.2	14.5	19.8	11.7	7.4	5.0	3.9	6.1
Other industrial countries	8.5	9.6	7.7	9.1	9.3	9.7	7.2	6.6	5.4
All industrial countries	7.3	7.7	8.1	9.3	8.8	7.3	4.9	4.3	3.8
Of which,									
Seven major countries above	*7.1*	*7.3*	*8.2*	*9.3*	*8.7*	*6.9*	*4.5*	*4.0*	*3.6*
European countries	*8.2*	*8.9*	*9.0*	*11.1*	*9.8*	*9.4*	*7.2*	*5.6*	*5.2*

[1] Composites for the country groups are averages of percentage changes for individual countries weighted by the average U.S. dollar value of their respective GNPs over the preceding three years.
[2] Compound annual rates of change.
[3] GDP at market prices.
[4] Average of expenditure, income, and output estimates of GDP at market prices.

output was mainly domestically generated, with both private consumption and investment, particularly residential construction, sustaining expansion.

The pace of recovery remained modest in most of the major countries in Europe, with some acceleration in the growth of private consumption being offset by slower investment growth and a reduced contribution from net exports. France, the Federal Republic of Germany, and Italy all recorded a deceleration in output growth from the previous year, owing largely to the continuing sluggishness of domestic demand. Nevertheless, following the setback caused by the unusually harsh winter in 1984–85, both France and Germany had a significant rebound of demand and activity in the second half of 1985. The United Kingdom registered a relatively strong rate of growth of aggregate output in 1985 (3.3 percent). However, because of the influence of the one-year strike in the coal industry, which came to an end early in 1985, the underlying trend may have been somewhat weaker than the recorded overall growth rate.

In the smaller industrial countries, a general tendency for domestic demand growth to accelerate was more than offset by reduced contributions to growth from stockbuilding and net exports. Real GNP growth consequently slowed somewhat, from 3.3 percent in 1984 to 3.0 percent in 1985. Individual countries' growth rates ranged from ½ of 1 percent in Ireland to 4¾ percent in Australia.

Reflecting the continuation of recovery, the average unemployment rate in industrial countries edged downward during 1985, and total employment increased by some 1½ percent from 1984 to 1985. Only in North America, however, can it be said that labor market conditions have improved significantly since the recession trough of 1982. In Europe, the unemployment rate has risen in each year since 1979, and stood at 11 percent in 1985, twice the level of six years earlier. Japan, with its somewhat different labor market structure, has fared better, but its unemployment rate of 2½ percent in 1985, while slightly lower than the year before, remains high in historical perspective (Chart 2).

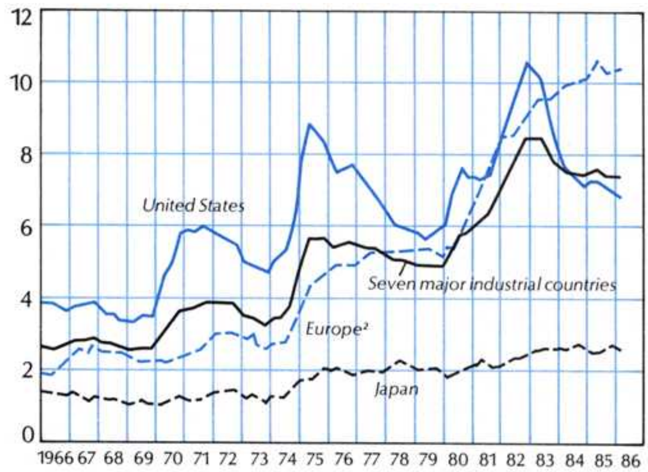
A more encouraging aspect of the labor market picture in 1985 and the early part of 1986 is the fact that employment creation in Europe has at last begun to pick up, and the unemployment rate appears to have peaked, with reductions in rates being recorded in several countries. This rise in employment seems attributable, at least in part, to the moderation of real wage increases in recent years, which has reduced the incentive to substitute capital for labor. In Canada and the United States, employment continued to increase strongly in 1985 despite the slowdown in output growth. Only France, Ireland, and Spain, among the industrial countries, experienced further reductions in the number of persons employed, but these reductions were significantly smaller than in earlier years.

By the early part of 1986, the improvement in the economic setting described above had not yet been reflected in actual performance indicators in the industrial countries because of lags. In the United States, after picking up in the first quarter of 1986 to an annual rate of 3.8 percent, real GNP growth slowed to an annual rate of 0.6 percent in the second quarter, reflecting reduced stockbuilding and a renewed decline in net exports. In the United Kingdom and Italy growth firmed somewhat in the first quarter of 1986. In France, however, real GNP growth slowed. And in Japan and the Federal Republic of Germany, real GNP declined in the first quarter, partly because of temporary factors, but also because the negative implications of the appreciations of their currencies appeared to be feeding through somewhat earlier than the positive effects of terms of trade gains and lower interest rates. Nevertheless, in both these countries as well as in most other industrial countries, various indicators, notably those on retail sales, suggested that the rise in real incomes was beginning to stimulate domestic demand, pointing to the likelihood of a strengthening of activity later in the year.

Inflation. As noted earlier, the sustained decline in inflation over a period of some six years has been one of the major achievements of the economic strategy in industrial countries (Chart 3). The further moderation of inflation in 1985 and the early part of 1986, more than three years into the recovery, distinguishes the current economic cycle from the upswings of the 1960s and 1970s. These earlier periods of expansion had been characterized by a disturbing tendency for inflation rates to ratchet upward to ever higher levels. In 1985, on the other hand, the rate of increase in the composite GNP deflator of the industrial countries fell to 3.8 percent, the lowest rate recorded since the late 1960s. As indicated by the continuing deceleration of year-on-year consumer price

Chart 2. Major Industrial Countries: Unemployment, 1966–First Quarter 1986

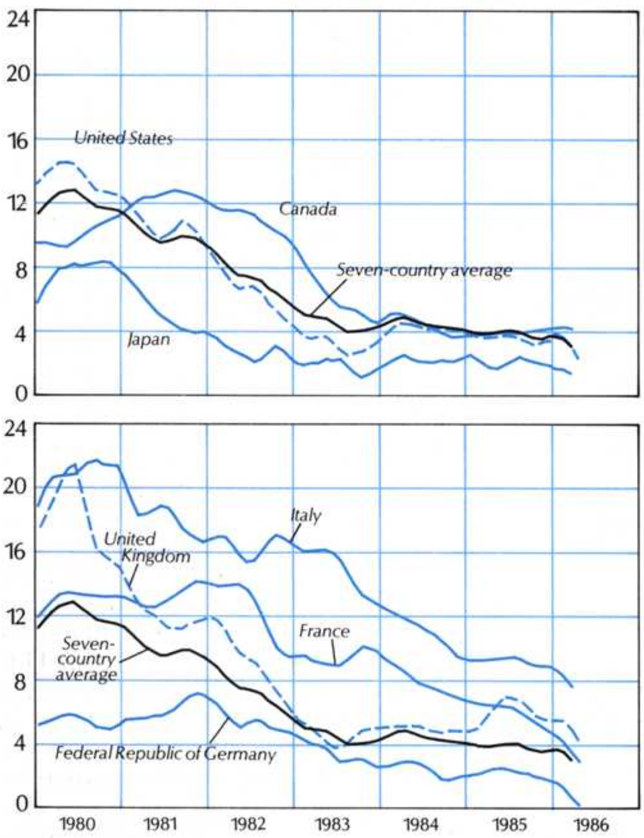
(In percent of labor force)[1]



[1] National unemployment rates weighted by labor force in the respective countries.
[2] France, the Federal Republic of Germany, Italy, and the United Kingdom.

Chart 3. Major Industrial Countries: Consumer Price Inflation, 1980–April 1986

(In percent)[1]



[1] Average of consumer price index for three months ended in month indicated over corresponding three months a year earlier.

increases in the opening months of 1986—reflecting absolute price declines on a monthly basis in several countries—inflation performance is likely to improve further this year.

Another important aspect of recent price developments in the industrial countries has been the further narrowing of inflation differentials among countries. The standard deviation of national inflation rates fell from some 3 percentage points in 1984 to 2½ percentage points in 1985, half its size in 1980. This development largely reflected the improved performance on the part of several previously high-inflation countries. Between 1983 and 1985, for example, the rates of increase in the GDP deflator for France and Italy were reduced by 3½ percentage points and 6 percentage points, respectively. Inflation rates in the smaller industrial countries also declined significantly, although they have generally remained above those in the major countries.

Both internal and external factors have contributed to the improved price performance of recent years. Domestically, the most important factor has been the consistent anti-inflationary stance of government policies in general and of monetary policy in particular. In most countries, the monetary authorities have succeeded in curtailing the growth of monetary aggregates and in creating conditions conducive to sustained downward pressure on inflation and inflationary expectations. In addition, many countries have suspended or modified wage indexation arrangements. These changes led to a significant reduction in labor cost increases in manufacturing, from 11.5 percent in 1980 to 5.2 percent in 1985 for the industrial countries as a group. At the same time, the cyclical recovery in 1983–84 was accompanied by sharp increases in labor productivity, so that unit labor costs in the manufacturing sector were essentially flat between 1982 and 1984, permitting a significant improvement in profitability. In 1985, because of slower growth in productivity, unit labor costs increased slightly (by 2 percent), but there was nevertheless still some margin for a further improvement in profitability.

The weakness of prices for oil and other primary commodities has also played an important role in the improved inflation performance of industrial countries. The terms of trade of industrial countries improved in every year from 1982 to 1985, by a cumulative amount of almost 5 percent. The decline in oil prices of the first quarter of 1986 had a marked impact on the level of consumer prices, although the full effect was not always felt immediately and in the case of some countries was reduced as measures were introduced to prevent the drop in import prices from being passed fully on to consumers. Overall, the industrial countries' import prices were 1½ percent lower in dollar terms in 1985 than in the previous year. In local currency terms they were slightly higher (1¼ percent), although they still exercised a significant dampening effect on inflation. With the dollar having declined substantially from its level in early 1985, the combination of exchange rate factors and weak commodity prices was by early 1986 exerting a sizable downward effect on import prices measured in local currency in most industrial countries.

DEVELOPING COUNTRIES

Policy Setting. Since the onset of the debt crisis in 1982, policies in most developing countries have been conditioned by the need to adapt to severe external financing constraints. This initially led to large cutbacks in imports and in the growth of domestic demand, until the strengthening of export performance, particularly in 1984, permitted a recovery in domestic growth. With more moderate expansion in industrial countries in 1985, developing countries once again faced a weakening in their external environment, and had to adapt their policies accordingly. The slowdown in growth in the industrial world in 1985 led to a sharp decline in the growth of world trade and a virtual stagnation in developing countries' exports. At the same time, the prices of non-oil primary commodities fell steeply, reflecting the relative weakness of activity in the industrial countries, unusually plentiful supplies, especially of agricultural commodities, and increasing protectionism in major markets. These difficulties were compounded by the continued reluctance of private creditors to resume lending. (A discussion of financing and debt in developing countries is provided on pages 27–30.)

The worsening external circumstances made the policy dilemma facing developing countries even more difficult. With exports no longer buoyant enough to provide much support to domestic economic activity, many countries appear to have found it harder to apply fiscal restraint. Thus, central government fiscal deficits, which had declined from 5.1 percent of GDP in 1983 to 4.3 percent in 1984, stabilized overall in 1985, and increased significantly in a number of countries. At the end of 1985, domestic imbalances were still large in many countries, and external creditworthiness remained unsatisfactory despite the substantial progress that had been made earlier in improving current account positions.

The extent to which adjustment efforts were modified in 1985 varied across countries, depending primarily on how much adjustment had already been achieved. In the main, increases in fiscal deficits were concentrated among those countries that had already achieved substantial improvements in their external positions and had thus acquired at least some room for maneuver in policy formulation. Many countries without a history of recent debt-servicing difficulties that had taken effective adjustment measures at an early stage were able to compensate for the softening of external demand in 1985 through a policy stance that helped support domestic demand. Fiscal deficits in a number of the exporters of manufactures, for example, increased in 1985. For countries where earlier adjustment efforts had been inadequate, on the other hand, the deteriorating external circumstances of 1985 compelled an intensification of adjustment policies and further cuts in fiscal deficits and imports. Many primary product exporting countries found themselves in this category. Their budgetary difficulties became particularly pronounced in 1985 because the stagnation in the purchasing power of their exports led to a parallel weakening of their fiscal revenues, which depended heavily on commodity export earnings. The external positions of these countries were such that, despite this weakness on the revenue side, they had to cut fiscal deficits in 1985 by ½ of 1 percent of GDP, on average.

In most developing countries, monetary and credit policies have for some time been geared to a gradual reduction in inflationary pressures. Toward this end, interest rates have generally been raised to establish or maintain positive real rates for both lending and borrowing instruments. Exceptions to the disinflationary pattern have been a few of the high-inflation countries where, until recently, the growing financial demands of the public sector have resulted in accelerating rates of monetary expansion. In virtually all countries, however, the private sector has found its access to credit squeezed. For many governments, the limited access to or willingness to use foreign sources of finance has led to increased reliance on domestic credit to finance public sector deficits. This has tended to curtail the growth of credit to the private sector even where public sector deficits were kept under reasonable control.

The slackening of domestic adjustment efforts that characterized policy implementation in developing countries during much of 1985 gradually gave way to a firmer policy stance in the latter part of the year and in the first half of 1986. In part, this was a response to necessity, as the weakening external environment compelled a strengthening in adjustment efforts. Another important development was a much more radical approach to controlling inflation adopted by several countries during that period (notably Argentina, Bolivia, Brazil, and Israel). The initiatives undertaken by these countries represented a welcome departure from the more accommodative policies pursued earlier.

While recent moves toward a more resolute policy stance have generally improved growth prospects in developing countries, there are nevertheless substantial differences among countries, depending in particular on whether they are importers or exporters of oil. For most oil importing countries, recent developments have eased the external constraints they face. The decline in international interest rates and the drop in oil import bills should lead to gains in real income that permit adjustment efforts to be consolidated. Nevertheless, even in these countries prospects remain modest, especially among the more heavily indebted countries. For oil exporting countries, as well as a number of countries with extensive commercial and financial links with oil exporting countries, the net effect of recent developments has been to accentuate seriously the policy dilemmas already confronted by these countries in 1985. Given the significant fiscal retrenchment and import compression already undertaken by many of these countries in recent years, further adjustment to the sizable loss in export earnings expected in 1986 is likely to be difficult.

Domestic Activity. Because of the deterioration in the international environment, output growth in the developing countries slackened appreciably in 1985, losing a good part of the momentum gained in the previous year. For the group as a whole, aggregate output rose by only 3¼ percent in 1985, down from 4¼ percent in 1984 (Table 5). Growth rates among subgroups of developing countries varied in part according to the severity of the external circumstances confronting them. The fuel exporting countries faced the most difficult situation in 1985, with a decline in the real purchasing power of their exports of 8 percent. As a result, their combined real GDP stagnated. The nonfuel exporters, by contrast, fared considerably better: although the real purchasing power of their exports grew by only 2½ percent (against 13½ percent in 1984), a strengthening of domestic sources of demand enabled real GDP to increase by 4¾ percent.

As noted earlier, a country's ability to adapt policies to help offset the effects of the deteriorating global

Table 5.

Developing Countries: Growth of Real GDP, 1968–85[1]

(In percent)

	Weights[2]	Average 1968–77[3]	From Preceding Year 1978	1979	1980	1981	1982	1983	1984	1985
Developing countries	**100**	**6.2**	**5.1**	**4.3**	**3.5**	**2.2**	**1.6**	**1.4**	**4.2**	**3.2**
Memorandum										
Median growth rates		5.2	5.7	4.9	3.7	3.2	1.4	1.3	2.8	2.5
By region										
Africa	12	5.3	1.1	3.2	3.7	1.8	0.8	−1.7	1.7	2.0
Asia	33	5.4	9.1	4.4	5.4	5.5	5.0	7.6	8.1	6.0
Europe	9	6.0	5.4	3.8	1.5	2.3	2.3	1.1	3.5	2.2
Middle East	18	9.2	1.7	2.3	−2.2	−1.8	−0.1	0.1	0.9	−1.2
Western Hemisphere	28	6.0	4.1	6.1	5.3	0.9	−1.0	−3.2	3.2	3.7
By predominant export										
Fuel exporters	32	8.4	2.7	3.7	1.0	0.9	−0.2	−2.0	1.4	0.1
Non-fuel exporters	68	5.4	6.0	4.6	4.5	2.8	2.5	3.1	5.6	4.8
Primary product exporters	34	5.4	3.5	4.6	4.2	1.1	0.3	−0.4	3.7	3.5
Exporters of manufactures	29	5.7	9.2	4.3	4.6	4.8	5.0	7.4	8.4	6.4
Service and remittance countries	5	4.6	5.9	5.7	5.7	2.5	3.2	2.6	3.3	4.0
Memorandum										
Fifteen heavily indebted countries	33	6.4	3.4	6.1	4.8	0.7	−0.5	−3.5	2.1	3.3
Countries with recent debt-servicing problems	42	5.6	3.5	5.4	4.5	1.2	−0.1	−2.5	2.6	2.9

[1] Except where otherwise indicated, arithmetic averages of country growth rates weighted by the average U.S. dollar value of GDPs over the preceding three years.
[2] Weights are calculated on the basis of the average U.S. dollar value of GDPs for 1982–84.
[3] Compound annual rates of change.

environment on domestic activity was largely a function of the strength of its external position. The exporters of manufactures had achieved a considerable strengthening of their current account in earlier years, and were thus able to allow increased domestic demand to compensate for some of the effects of the slowdown in exports. Primary commodity exporters, by contrast, generally remained in a precarious external position, so that when export earnings weakened they had little choice but to limit the growth of domestic absorption.

The interaction of external and domestic factors in the determination of output may also be seen in the divergent performance of the different regional groupings of developing countries. The Asian countries, many of which are exporters of manufactures, suffered a 13 percentage point deceleration in the growth of real export earnings in 1985, stemming largely from export volumes. However, since their initial external position had been relatively strong, they were able to permit some strengthening of domestic demand, and output increased by 6 percent, an impressive outturn both in historical perspective and in comparison with growth in other regions.

Economic growth in other regions was generally much weaker. The European developing countries, a grouping that also includes several exporters of manufactures, experienced a deceleration in export earnings growth similar to that in Asian countries. However, constrained by higher debt ratios and weaker external positions, the European developing countries had less room for maneuver and experienced only 2¼ percent output growth in 1985.

Declines in economic growth were also widespread in the Western Hemisphere in 1985. While it is true that the weighted-average growth rate for the region rose from 3.2 percent in 1984 to 3.7 percent in 1985, this acceleration is attributable to the largely policy-induced expansion in Brazil. The experience of most countries in the region is better represented by the 1¼ percentage point deceleration in the region's median growth rate. Latin American and Caribbean countries are predominantly exporters of primary commodities and they experienced severe terms of trade losses in 1985. Moreover, the volume of their exports also declined as a result of the weakening in the U.S. economy—their major market. Although external deficits had been sharply reduced in earlier years, domestic imbalances continued to be significant, as evidenced by sizable public sector deficits and rapidly accelerating inflation rates in several countries. Even where measures were implemented to correct these imbalances, they frequently involved initial cutbacks in domestic demand growth, which compounded the weakening of activity stemming from the external sector.

In the Middle East, output declined by 1¼ percent in 1985, largely because of continuing declines in the region's oil revenues. For the region as a whole, the purchasing power of exports declined by 9 percent. Domestic demand remained depressed too, because of the wide-ranging expenditure cuts undertaken by governments in response to the continuing losses in oil revenues, and in non-oil countries because of reductions in remittances and official transfer receipts from the oil exporting countries.

For the African countries as a whole, output growth remained very sluggish, with real GDP increasing by only 2 percent in 1985. But experiences differed within the region. In the two largest economies, Nigeria and South Africa, output declined or remained very depressed—in the former country owing to oil-related developments and in the latter as a result of policies aimed at curbing inflationary pressures and strengthening the current account. Among the other sub-Saharan African countries, however, output developments were somewhat more favorable, with the rate of expansion of GDP increasing from 2¼ percent in 1984 to 2½ percent in 1985. This improvement occurred notwithstanding a sharp fall in real export earnings, mainly as the result of a weather-related recovery in agricultural production from the depressed levels of the previous year.

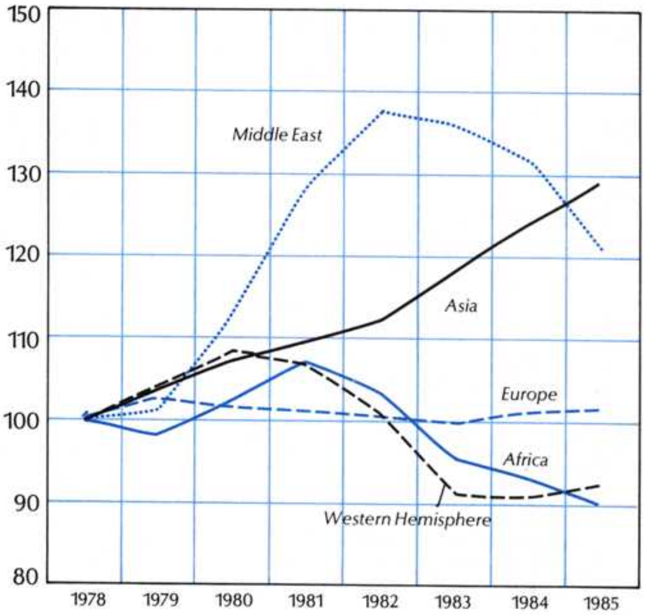
The weakness of the economic situation of developing countries is, if anything, understated by the statistics of GDP growth rates. The full extent of the worsening in living standards in recent years is more evident in the sizable declines in real domestic absorption, especially when allowance is made for population growth (Chart 4). Taking real absorption per capita as a rough guide to average living standards, the only region of the developing world where this measure of economic welfare rose fairly steadily throughout the first half of the 1980s was Asia. All other regions succumbed to the strains of deteriorating external conditions and unsustainable balance of payments positions. The decline in living standards has been particularly large in Africa and in the Western Hemisphere. It should be remembered, moreover, that most sub-Saharan African countries began the 1980s with living standards barely above subsistence levels. In the Middle Eastern countries, living standards grew sharply in the aftermath of the 1979–80 oil price increases but, since 1982, have been declining as a result of the severe cuts in spending necessitated by falling oil revenues.

A disturbing feature of economic performance in developing countries during the past several years has been the weakness of investment spending (Chart 5). This weakness persisted in 1985. The curtailment of investment in recent years has been the main domestic counterpart to the adjustment in the external current account and has affected both the public and private sectors. In the public sector, because of the sharp rise in interest payments on government debt and the political sensitivity of reducing some categories of current expenditures, capital outlays have borne the brunt of fiscal retrenchment in recent years. In the private sector, investment has frequently been "crowded out," both by the increased demands of the public sector on domestic savings referred to above and by diminished confidence in the likely returns on investments. As may be seen from Chart 5, the decline in gross capital formation has been greatest in Africa, Europe, and the Western Hemisphere. Although there are signs that the decline in the latter two regions may now be coming to an end, a substantial recovery in investment is essential if a sustained improvement in GNP growth rates is to occur. Investment spending has generally been more robust in the Asian region.

The slowing of activity in developing countries in 1985 was accompanied by a renewed weakening of labor market conditions. Perhaps because of lags, however, recorded unemployment rates do not appear to have risen. In the Western Hemisphere, for example, unemployment rates in the major cities actually fell in 1985 (by about ½ of 1 percentage point on average), following cumulative increases of 3–5 percentage points between 1981 and 1984. Nevertheless, in many countries, the setback in growth has clearly accentuated the problems of unemployment and underemployment stemming from adverse external developments and high population growth. In addition, continuing declines in oil revenues in oil producing countries have led to significant reductions in employment opportunities for workers from neighboring countries.

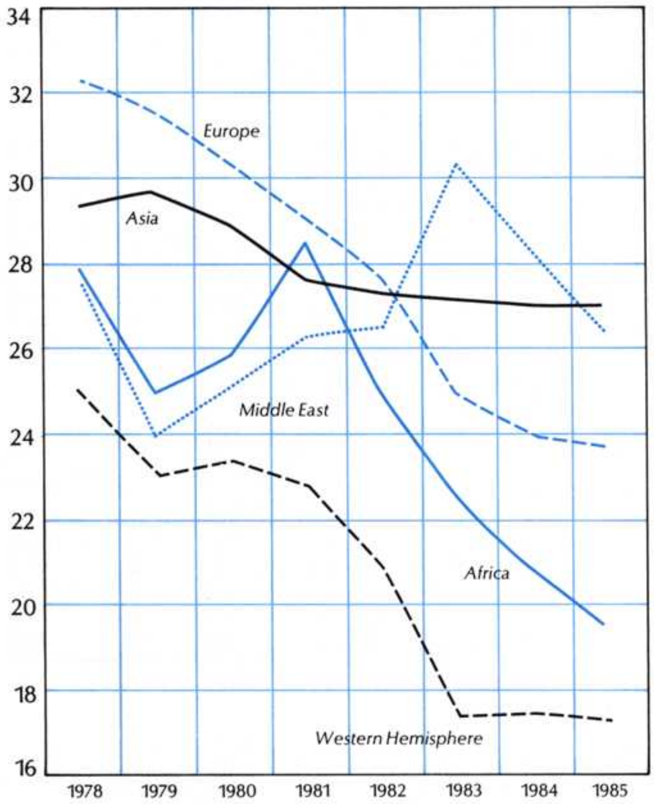
Chart 4. Developing Countries: Real Absorption[1] per Capita, by Region, 1978–85

(Indices, 1978 = 100)



[1] Real GDP less the real foreign balance.

Chart 5. Developing Countries: Gross Capital Formation, by Region, 1978–85
(In percent of nominal GDP)



Although 1985 was in many respects a disappointing year for developing countries, developments toward the end of the year and in the early part of 1986 have led to some improvement in economic prospects. For the oil importing countries, the drop in oil prices should serve to sustain real income growth. An even more favorable factor for a number of African and Central American countries was the sharp increase in coffee prices at the turn of the year. Furthermore, virtually all developing countries will benefit from the reductions that have occurred in international interest rates, and from the improved outlook for growth in the industrial world. Against these positive developments, however, it must be recognized that the fuel exporting countries have suffered substantial losses in real incomes that will curtail their growth possibilities. Income losses in oil producing countries are likely to have significant indirect effects on countries with extensive ties (through trade, workers' remittances, or official transfers) to oil exporters. The oil price decline is thus likely to have a sizable, though unevenly distributed, impact on the developing world.

Inflation. A striking feature of the inflation performance of developing countries in recent years has been the growing disparity between the experience of the majority of countries, which have had declining inflation, and developments in a small number of other countries, where rates of price increase have accelerated to extremely high levels. Inflation in the "typical" developing country may be roughly approximated by the median rate of price increase, which has been on a downward trend since 1980 and which, after a slight upward movement in 1984, declined again in 1985 (Table 6). The widespread nature of the improvement in 1985 is underscored by the fact that it was shared by most of the regional groupings. Nevertheless, at 8½ percent in 1985, the median inflation rate in developing countries remains considerably above that in the developed world.

In contrast to the deceleration evident on a median basis, the weighted average inflation rate accelerated to almost 40 percent in 1985, reflecting primarily very high and accelerating rates of price increase in Argentina, Bolivia, Brazil, Israel, and Peru. The composite inflation rate for this group, which had averaged 105 percent in 1981–82 and had risen to 250 percent by 1984, climbed further to nearly 300 percent in 1985. Price increases also accelerated in a number of other countries, notably in the Western Hemisphere, where the interaction between accommodative financial policies, exchange rate depreciations, and indexation mechanisms exacerbated inflationary pressures. Since mid-1985, however, several of the countries with the highest inflation rates have undertaken comprehensive measures, including monetary reforms, to bring inflation quickly under control. While the long-term success of these efforts will depend on the extent to which they are sustained, by early 1986 they had already resulted in dramatic declines in month-to-month inflation rates.

INTERNATIONAL TRADE AND PAYMENTS

GLOBAL PERSPECTIVES

World Trade. One of the more serious consequences of the slackening of economic growth in industrial countries in 1985 was the disappointing outturn for world trade. The export earnings of developing countries were particularly affected, with the prices of primary commodities being especially weak. Against the background of continued financing constraints, these developments produced a decline in the volume of imports into developing countries.

The slowing of world trade growth to about 3 percent in real terms in 1985 was unexpectedly pronounced, following as it did the strong acceleration in 1983 and 1984 (Table 7). For the most part, this deceleration reflected cyclical developments in the industrial countries, and especially the reversal of the inventory cycle in many of these countries. Stockbuilding, which has a high import content, had accounted for well over one fourth of the growth of industrial country demand in 1984. In 1985, on the other hand, the contribution of stockbuilding to demand growth turned significantly negative. As a

Table 6.

Developing Countries: Changes in Consumer Prices, 1968–85

(In percent)

	Average 1968–77[1]	From Preceding Year 1978	1979	1980	1981	1982	1983	1984	1985
Weighted averages[2]									
Developing countries	**15.2**	**18.7**	**21.5**	**27.1**	**26.1**	**24.4**	**33.0**	**37.9**	**39.6**
By region									
Africa	10.2	16.9	16.7	16.4	22.0	11.4	19.3	20.0	13.1
Sub-Saharan Africa[3]	11.8	22.2	26.7	25.6	33.1	13.4	30.4	22.2	18.9
Asia	8.8	4.0	8.0	13.1	10.6	6.3	6.6	7.2	7.4
Europe	10.0	19.8	25.9	37.9	24.1	23.7	23.1	28.0	28.6
Middle East	9.8	12.6	11.7	16.8	15.2	12.7	12.3	14.7	11.7
Western Hemisphere	27.9	41.9	46.5	54.2	59.0	66.4	102.6	123.3	145.7
Medians									
Developing countries	**8.5**	**9.9**	**11.6**	**14.6**	**13.3**	**10.4**	**9.4**	**10.0**	**8.7**
By region									
Africa	8.4	10.3	11.9	12.9	13.7	12.9	10.9	11.4	10.4
Sub-Saharan Africa[2]	8.6	10.3	12.5	13.5	13.5	13.1	11.2	12.0	10.3
Asia	6.9	5.9	7.5	13.9	12.5	7.6	8.1	7.2	5.3
Europe	8.0	9.9	14.3	16.2	15.7	19.0	13.8	13.4	13.0
Middle East	9.1	10.7	10.6	10.5	8.9	9.2	5.6	7.5	4.7
Western Hemisphere	9.8	10.4	14.9	18.1	14.7	9.2	8.8	11.9	15.0

[1] Compound annual rates of change.
[2] Geometric averages of country indices weighted by the average U.S. dollar value of GDPs over the preceding three years.
[3] Excluding Nigeria and South Africa.

result, industrial country imports, which had risen by 12½ percent in 1984, grew by less than 5 percent in 1985. A particularly large share of this deceleration was borne by the developing countries, whose exports, after rising by almost 7 percent in 1984, grew by less than 1 percent in 1985.

A further development, which also bore unfavorably on the developing countries, was the renewed deterioration in the prices of primary commodities relative to those of manufactures. With the strong recovery in demand in industrial countries during 1983 and the first half of 1984, primary commodity prices had firmed relative to those for manufactures. In fact, by mid-1984, the relative price of non-oil commodities had regained the value they had at the outset of the global recession in 1980. Subsequently, however, these gains were more than reversed, as the pace of the recovery in industrial countries eased, and supplies of many commodities increased. By the fourth quarter of 1985, non-oil commodity prices were, in real terms, 23 percent below their level of 18 months earlier (Chart 6). Oil prices exhibited a somewhat different behavior. Relative to prices of manufactures, the average price of crude oil in 1985 was, on average, only about 5 percent lower than in 1984. Early in 1986, however, oil prices began to fall sharply, and by the second quarter of the year were as much as 50 percent below their average 1985 levels.

The magnitude of the decline in non-oil primary commodity prices was largely unanticipated and appears to have resulted from an unusual confluence of demand and supply developments. On the demand side, the most important factor was, as just noted, the slowing of growth in the industrial countries and the associated inventory cycle. However, the size of the price decline—which was equal to or larger than those observed during major international downturns—was greater than can easily be explained by the relatively modest deceleration of world output growth in 1985. It seems likely, therefore, that supply factors have also played an important role. Available data on supply developments point to an unusually large buildup of commodity inventories stemming from the largest back-to-back yearly increases in production in at least the past 25 years. Further confirmation of the importance of supply factors is provided by the observation that the largest price declines were registered in those commodities where supply increases were the largest (such as agricultural crops) and the least where the supply situation tended to tighten (such as metals). An underlying factor that has contributed to the abundant supply of agricultural commodities has been the subsidization of agricultural production in a number of industrial countries. Other contributory factors include good weather, increased incentives to the production of primary commodities in developing countries, and lagged supply responses to the high real commodity prices of the later 1970s.

Table 7.

Summary of World Trade Volumes and Prices, 1968–85[1]

(Annual changes, in percent)

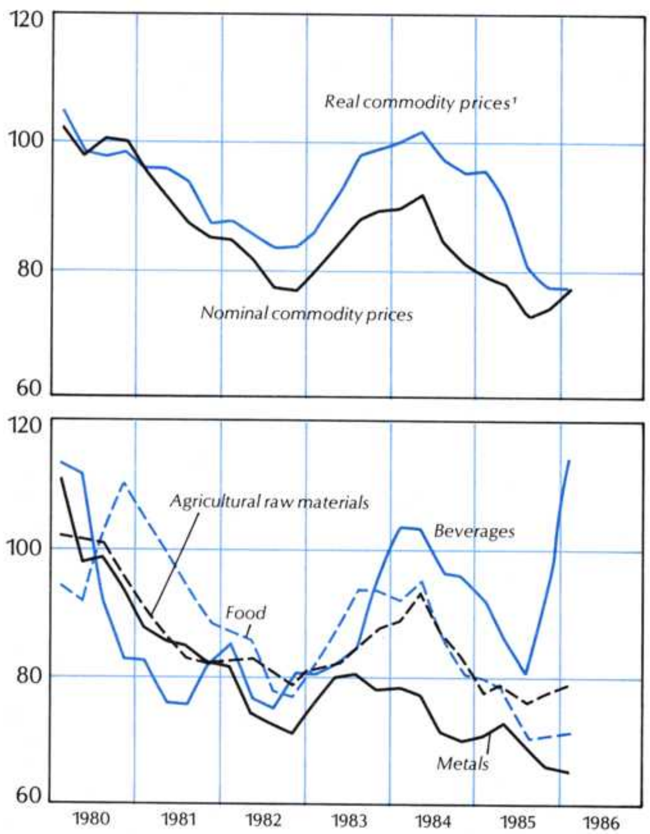
	Average 1968–77[2]	1978	1979	1980	1981	1982	1983	1984	1985
World trade[3]									
Volume	7.7	5.2	6.5	1.2	0.3	−2.4	2.9	8.6	3.1
Unit value (in U.S. dollar terms)	9.6	10.3	18.7	20.2	−0.9	−4.1	−4.7	−2.3	−1.9
(in SDR terms)[4]	7.9	2.9	15.0	19.3	9.4	2.4	−1.6	1.9	−1.0
Volume of trade									
Exports									
Industrial countries	8.0	5.8	7.0	4.1	3.6	−2.0	2.8	9.7	4.3
Developing countries	5.7	4.2	5.0	−4.1	−5.9	−8.2	3.0	6.7	0.7
Fuel exporters	4.7	−1.5	1.8	−13.3	−15.3	−16.5	−3.3	−0.1	−3.8
Non-fuel exporters	7.1	9.6	8.5	9.0	6.3	0.7	8.1	11.5	3.5
Imports									
Industrial countries	7.7	4.5	8.7	−2.1	−2.7	−0.6	4.9	12.4	4.7
Developing countries	9.2	7.1	4.7	8.5	6.7	−4.1	−2.6	1.7	−1.1
Fuel exporters	16.7	3.6	−4.4	13.6	18.6	−1.6	−10.5	−6.4	−11.8
Non-fuel exporters	6.6	9.0	9.3	6.4	1.7	−5.4	1.5	5.4	3.4
Unit value of trade (in SDR terms)[4]									
Exports									
Industrial countries	6.8	5.5	11.9	12.0	5.7	2.7	−0.7	1.3	0.2
Developing countries	12.8	−3.9	25.8	37.2	16.0	2.1	−4.6	4.3	−3.4
Fuel exporters	20.3	−6.1	40.1	61.7	23.3	3.4	−8.6	3.2	−4.2
Non-fuel exporters	7.4	−1.8	13.6	12.8	7.6	0.6	−1.1	5.1	−2.9
Imports									
Industrial countries	7.8	2.9	15.3	21.4	8.3	0.8	−2.4	1.1	−0.7
Developing countries	7.4	3.3	13.5	17.4	12.6	3.0	−0.9	2.8	−1.3
Fuel exporters	6.3	5.1	10.5	12.3	10.7	3.0	0.3	2.2	0.2
Non-fuel exporters	7.7	2.4	15.1	19.7	13.4	3.0	−1.5	3.1	−1.9
Terms of trade									
Industrial countries	−0.9	2.5	−3.0	−7.7	−2.4	1.9	1.7	0.2	0.9
Developing countries	5.0	−7.0	10.9	16.8	3.0	−1.0	−3.7	1.4	−2.2
Fuel exporters	13.2	−10.7	26.7	44.1	11.4	0.4	−8.9	0.9	−4.4
Non-fuel exporters	−0.3	−4.1	−1.3	−5.8	−5.1	−2.4	0.5	1.9	−1.1
Memorandum									
World trade prices (in U.S. dollar terms) for major commodity groups[5]									
Manufactures	8.2	15.3	13.9	10.6	−4.2	−2.3	−3.1	−3.5	1.1
Oil	22.8	0.4	45.9	63.5	9.9	−4.2	−11.7	−2.1	−4.7
Non-oil primary commodities	10.8	−5.5	17.8	5.9	−13.9	−10.1	7.1	3.7	−12.2

[1] Excluding China prior to 1978, except where otherwise indicated.
[2] Compound annual rates of change.
[3] Averages based on data for the two groups of countries shown separately below and on partly estimated data for the U.S.S.R. and other nonmember countries of Eastern Europe and, for years prior to 1978, China.
[4] For years prior to 1970, an imputed value of US$1 has been assigned to the SDR.
[5] As represented, respectively, by the export unit value index for the manufactures of the industrial countries; the oil export unit value of the oil exporting countries (according to the former analytical categories); and the index of market quotations for non-oil primary commodities exported by the developing countries.

The result of these price trends, taken together with developments in the volume of exports, has been a sharp divergence in the growth of real export earnings of industrial and developing countries. The purchasing power of industrial countries' exports increased by over 5 percent in 1985, while that of developing countries declined by 1½ percent. Were it not for the tight financial constraints faced by developing countries, such an outturn might have led to significant shifts in the global pattern of current account balances. As it was,

Chart 6. Developing Countries: Non-Oil Primary Commodity Prices, 1980–First Quarter 1986

(Indices expressed in terms of U.S. dollars, 1980 = 100)



[1] Nominal commodity prices deflated by the index of prices of manufactured exports of developed countries.

however, financing constraints were such that changes in the global distribution of current account balances were quite small. Instead, adjustment took the form of a marked disparity in the import growth rates of the two groups of countries, with imports of industrial countries increasing by 4¾ percent while those of developing countries declined by 1 percent in the aggregate (Table 8). These aggregate developments do not, of course, reveal the considerable variation in the experiences of individual countries within the broad groupings. The relatively stable overall current account balance of industrial countries in 1985, for example, masks a deterioration in the distribution of that balance between the United States, on the one hand, and other industrial countries, especially Japan and the Federal Republic of Germany, on the other. These and other intragroup developments are discussed later.

A major development in world trade was the sharp drop in oil prices in the early part of 1986. Although oil prices had been under downward pressure since 1981, a degree of relative stability in the real price was maintained in 1984 and 1985. This apparent stability rested, to a large extent, on the continuing willingness of Saudi Arabia to support the price by acting as the de facto "swing" producer within the Organization of Petroleum Exporting Countries (OPEC). As time wore on, however, this arrangement was increasingly undermined by several developments: (1) OPEC's gradual loss of market share to non-OPEC producers; (2) the continuing weakness, at prevailing prices, of oil demand; and (3) the increasing needs of OPEC members—a number of which were incurring significant current account deficits—for foreign exchange. In the face of these developments, Saudi Arabia decided in September 1985 to abandon its role as swing producer, and OPEC, at its December 7–9, 1985 meeting, decided to "secure and defend for OPEC a fair share in the world oil market. . . ." The effect on oil prices of the consequent rise in OPEC output and of destocking in consuming countries soon became apparent. Prices dropped sharply throughout the first four months of 1986, from an average level of some $26.50 a barrel in the fourth quarter of 1985 to well below $15 a barrel by the second quarter of 1986 (Chart 7).

While the future course of oil prices is very uncertain, the continuation of prices of the order of $15 a barrel would have major implications for international trade and payments in 1986 and beyond. For the oil importing countries taken together, a fall in oil prices to such a level represents an annual terms of trade gain of some $90 billion, equivalent to 6 percent of imports and close to 1 percent of GDP. These terms of trade gains, in combination with lower inflation and interest rates, have substantially strengthened the outlook for domestic demand in oil importing countries.

A rather different prospect confronts the fuel exporting developing countries. For these countries, as well as for others with close ties to them, an already disappointing outturn in 1985 is likely to be followed by an even weaker one in 1986. The loss in export earnings for these countries would amount to some $70 billion,[1] which represents about one third of exports and 8 percent of GDP—much larger losses in proportionate terms than the gains of the oil importing countries. Moreover, the secondary consequences of adjusting to these losses through curtailments in government expenditures, exchange rate depreciations, and reduced spending in the private sector are likely to amplify the first-round losses.

International Capital Markets. Capital flows from industrial to developing countries essentially stagnated in 1985. Although international bonds issued by developing countries increased from $5 billion in 1984 to $10 billion in 1985, only a limited set of the most creditworthy developing countries was able to make such placements. Net lending by banks, the

[1] The remaining $20 billion loss in oil export receipts would be incurred mainly by oil exporting industrial and centrally planned economies.

Table 8.

Changes in Purchasing Power of Exports, Import Volumes, and Current Account Balances

(Annual changes, in percent or percentage points)

	Purchasing Power of Exports		Import Volumes		Changes in Current Account Balances, in Percent of Exports of Goods and Services	
	1984	1985	1984	1985	1984	1985
Industrial countries	10.0	5.2	12.4	4.7	−2.2	0.7
Developing countries	8.2	−1.5	1.7	−1.1	4.7	−1.8

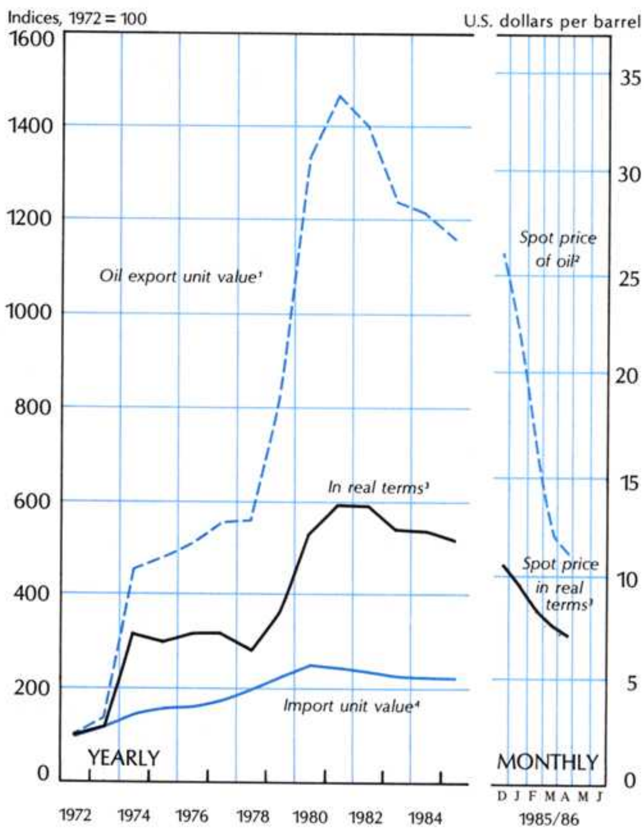
most usual source of funds on commercial terms for developing countries, declined to $3 billion in 1985 from $14 billion in 1984 and $51 billion in 1982. For many of the more heavily indebted developing countries, repayments exceeded new borrowing so that bank exposures in these countries declined. Reflecting the limited access of developing countries to commercial sources of borrowing, current account deficits were kept low in 1985. They were financed almost exclusively through the receipt of official lending and non-debt-creating flows.

Although capital flows to developing countries were subdued in 1985, in other respects international capital markets were quite buoyant, with the aggregate volume of transactions reaching record levels. Available measures of international financial activity vary widely depending upon their particular coverage. Nevertheless, they all point to rates of expansion in 1985 of the order of 30 percent or more. The rapid growth in flows among industrial countries, which has been continuing for several years, has in part reflected growing current account imbalances among these countries. A further factor in 1985 was the rapid decline in long-term interest rates, which prompted large-scale refinancings of existing fixed interest rate debt. More generally, innovations in borrowing techniques and the extensive liberalization of financial markets have led many major corporate and sovereign borrowers to seek finance through the issuance of securities rather than through conventional bank channels.[2] Thus, the share of syndicated bank loans in international financial market transactions has fallen from some 58 percent in 1982 and 23 percent in 1984 to less than 14 percent in 1985, whereas the share of bonds and note issuance facilities (NIFs) has risen correspondingly, to 84 percent in 1985.

The rapid growth of international capital markets over the past several years has stemmed in part from the extensive financial liberalization and innovation in industrial countries. While the timing and scope of liberalization measures have differed, they have often included removing ceilings on interest rates, allowing the use of new financial instruments, authorizing financial institutions to undertake previously prohib-

[2] International bond issues net of redemptions and bank purchases of bonds reached $62 billion in 1985, more than three times the level of such issues in 1980.

Chart 7. Oil Prices, 1972–April 1986



¹ Of oil exporting countries; in terms of U.S. dollars.
² Unweighted average of Brent and West Texas Intermediate spot prices in terms of U.S. dollars.
³ Oil price deflated by import unit value of oil exporting countries.
⁴ Import unit value of oil exporting countries in terms of U.S. dollars.

ited activities, allowing foreign financial institutions to participate in selected domestic markets, and removing or relaxing restrictions on capital flows. The institutional and regulatory structures of capital markets in different countries are still quite differentiated, but the recent liberalization programs, in combination with the secular growth of the Eurocurrency markets, have significantly increased their degree of integration.

International Liquidity. The rebuilding of holdings of international liquidity that many countries had engaged in throughout 1983 and 1984 slowed sharply in 1985. Excluding valuation effects on existing reserve holdings, foreign exchange reserves increased by only SDR 7 billion after having been built up by SDR 37 billion in 1984 (Table 9). Developing countries slowed their rate of foreign exchange reserve accumulation (before taking account of revaluation losses) from SDR 21 billion in 1984 to SDR 3 billion in 1985, while the rate in industrial countries slowed from SDR 16 billion to SDR 4 billion. Although the behavior of reserves was thus quite similar in the two groups of countries, the underlying reasons were rather different. Among developing countries, the slowing of reserve accumulation was in response to unfavorable external circumstances at a time when many of these countries were unable to borrow at acceptable terms on international capital markets. Several large developing countries that had been able to build up reserves in 1983–84 used them to finance current account deficits in 1985. Industrial countries, on the other hand, except for the United States, were generally in current account surplus in 1985. In any case, they had ready access to credit markets. The slowing of reserve accumulation in these countries reflected instead the intervention policies of governments, first to limit the rise, and later to encourage the decline, in the foreign exchange value of the U.S. dollar.

Slower accumulation of new reserves, together with valuation losses on existing holdings of U.S. dollars as the dollar declined against the SDR, led to an actual decline in the value of foreign exchange reserves in 1985 expressed in terms of SDRs. Total reserves excluding gold fell from SDR 406 billion at the end of 1984 to SDR 404 billion a year later. This decline, which stems from valuation factors, was concentrated among developing countries.

The decline in global reserves in 1985 is reflected in lower ratios of non-gold reserves to imports, both for the world as a whole and for some of the major subgroups of countries. This represents a reversal of the trend toward increases in these ratios that had been evident since 1981. During 1983 and 1984, especially, the adjustment efforts of many developing countries had resulted in substantial improvements in their external payments positions. This had led to a rebuilding of reserves as well as, in some cases, a contraction in the value of imports. Valuation factors have also contributed to the changed trend in the

Table 9.

International Reserves, Excluding Gold

(Annual changes, in billions of SDRs)

	1982	1983	1984	1985
All countries				
International reserves, excluding gold	−3	33	45	−2
Of which, foreign exchange[1]	*−8*	*23*	*40*	*−1*
Accumulation	−13	22	37	7
Valuation effects	5	1	3	−8
Industrial countries				
International reserves, excluding gold	−1	20	20	3
Of which, foreign exchange[1]	*−6*	*14*	*16*	*3*
Accumulation	−8	15	16	4
Valuation effects	2	−1	—	−1
Developing countries				
International reserves, excluding gold	−2	13	25	−5
Of which, foreign exchange[1]	*−2*	*9*	*24*	*−4*
Accumulation	−5	7	21	3
Valuation effects	3	2	3	−7
Memorandum				
U.S. dollars per SDR, end of period	1.103	1.046	0.980	1.098

[1] Estimates shown here pertain to total foreign exchange reserves. The breakdown into accumulation and valuation (i.e., quantity and price) components is based on the data for identified holdings of six major currencies shown in Appendix Table 1.2, adjusted, however, to cover total foreign exchange holdings. The adjustment assumes that the valuation effects on unidentified holdings are proportional to those on identified holdings.

reserves-import ratio. Since the U.S. dollar has a greater share in reserves than its weight in the valuation basket of the SDR, the SDR value of a given stock of reserves tends to increase when the dollar is rising and to fall when the dollar is declining. Reflecting these influences, by 1984 the ratios of non-gold reserves to imports for almost all major country groups equaled or exceeded their values at the end of the 1970s. In 1985, by contrast, these ratios tended either to stabilize or, especially among developing countries, to decline.

During 1985, the diversification of the currency composition of foreign exchange reserves accelerated. The proportion of identified foreign exchange reserves[3] denominated in U.S. dollars, which had been approximately 80 percent in the mid-1970s, fell to 71 percent at the end of 1984 and to 65 percent at the end of 1985. This decline in the U.S. dollar component of identified foreign exchange reserves had, as its counterpart, increases in the proportions of reserves denominated in deutsche mark (from 9 percent in 1977 to 16 percent in 1985) and in Japanese yen (from 3 percent in 1977 to 8 percent in 1985). The decline in the relative importance of U.S.-dollar-denominated reserves was greater for the industrial countries (whose dollar holdings fell from 89 percent in 1977 to 65 percent in 1985) than for the developing countries (whose dollar holdings declined only from 71 percent in 1977 to 66 percent in 1985). The year 1985 was the first in which developing countries held a greater share of their reserves in dollars than did the industrial countries.

INDUSTRIAL COUNTRIES

Exchange Rate Developments. In the past year, substantial progress has been made in bringing key exchange rate relationships better into line with underlying economic conditions in the major countries. In late February 1985, following more than four years of almost continual appreciation, the U.S. dollar began to depreciate relative to most other major currencies. The dollar's depreciation was associated with developments among the major industrial countries that led to a greater convergence of interest rates, as well as of output and inflation performance. The downward adjustment of the dollar, partially interrupted in the summer, received a further impetus in the aftermath of the September 22 meeting of finance ministers and central bank governors of the Group of Five countries. All the major currencies appreciated significantly against the U.S. dollar over the 12 months through April 1986, with the exception of the Canadian dollar, which depreciated by 1 percent. In nominal effective terms, the U.S. dollar depreciated by 20 percent over this period, while the Japanese yen appreciated by 27 percent, and the deutsche mark appreciated by 10 percent (Chart 8).

By the first quarter of 1986, these exchange rate movements had brought the real effective exchange rates (calculated on the basis of normalized unit labor costs) of the yen and the deutsche mark back to the levels prevailing in the first quarter of 1981, shortly after the sustained appreciation of the U.S. dollar began. Nevertheless, the real effective exchange rates of the U.S. dollar and the Italian lira remained higher, and those of the French franc and the pound sterling somewhat lower, than five years earlier. The dollar's value in real effective terms was 18 percent above that of the first quarter of 1981, about the same difference as indicated by the dollar's nominal effective exchange rate (which increased by 20 percent). In contrast, the 11 percent real appreciation of the Italian lira since the first quarter of 1981 occurred despite a nominal depreciation of some 30 percent, as the rate of inflation in Italy exceeded by over 40 percent the average in its trading partners during this period. Similarly, the pound sterling's real depreciation was less than its nominal depreciation over this period, owing to higher price increases in the United Kingdom than abroad.

The sustained appreciation of most major currencies against the U.S. dollar during 1985 and the first part of 1986 reflected in part a move toward convergence in growth, inflation, and financial conditions among the major industrial countries. In particular, interest rate differentials between assets denominated in U.S. dollars and those in other currencies narrowed significantly at the end of 1984 and during the course of 1985, reflecting primarily the fall in U.S. interest rates that began in the second half of 1984. Short-term interest rates in the United States fell steadily, from over 11 percent in July 1984 to less than 7 percent in April 1986. As a result, the differentials against assets denominated in Japanese yen and deutsche mark both fell from over 5 percent to less than 2 percent, although the decline was by no means continuous throughout the period. Real short-term interest rate differentials, which had favored U.S.-dollar-denominated assets during most of the 1981–84 period, also began to narrow during this period and, by April 1986, in fact favored non-U.S.-dollar-denominated assets (Chart 9). Long-term interest rate differentials in favor of the United States also fell dramatically over the period, and for several countries became negative, as U.S. long-term interest rates fell even faster than those of short-term securities. U.S. long-term government bond rates, which had exceeded those in the Federal Republic of Germany and Japan by about 6 percentage points in mid-1984, were about 2 percentage points higher in April 1986.

The decline in long-term U.S. interest rates and the depreciation of the U.S. dollar were probably also

[3] The currency composition of identified foreign exchange reserves is based on the Fund's currency survey and on estimates derived mainly from official national reports. These identified reserves differ from total foreign exchange reserves, which also include the foreign exchange reserves for which information on the currency composition is not available.

Chart 8. Major Industrial Countries: Indices of Monthly Average U.S. Dollar and Effective Exchange Rates, January 1982–April 1986

(Average value for 1975–84 = 100)

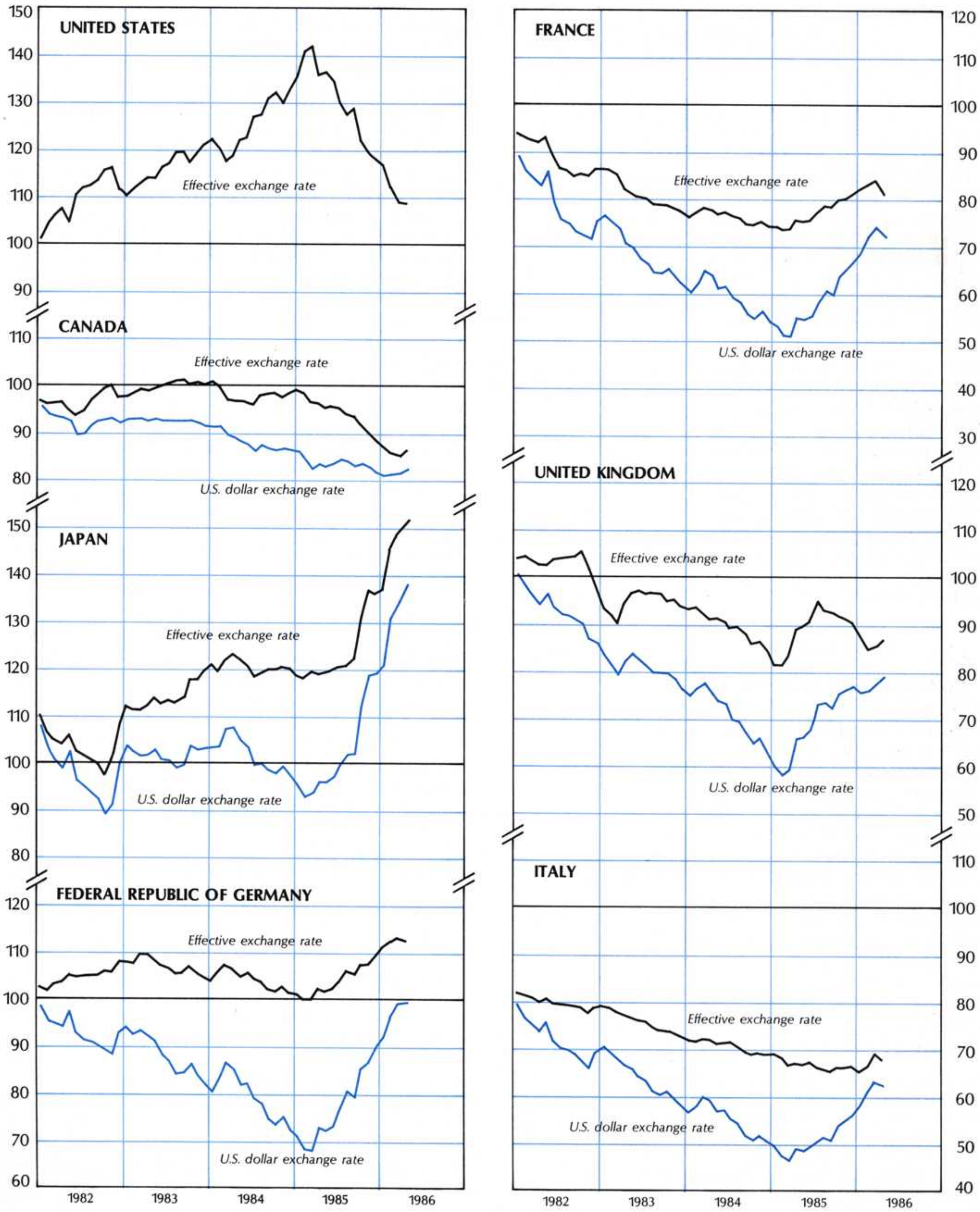
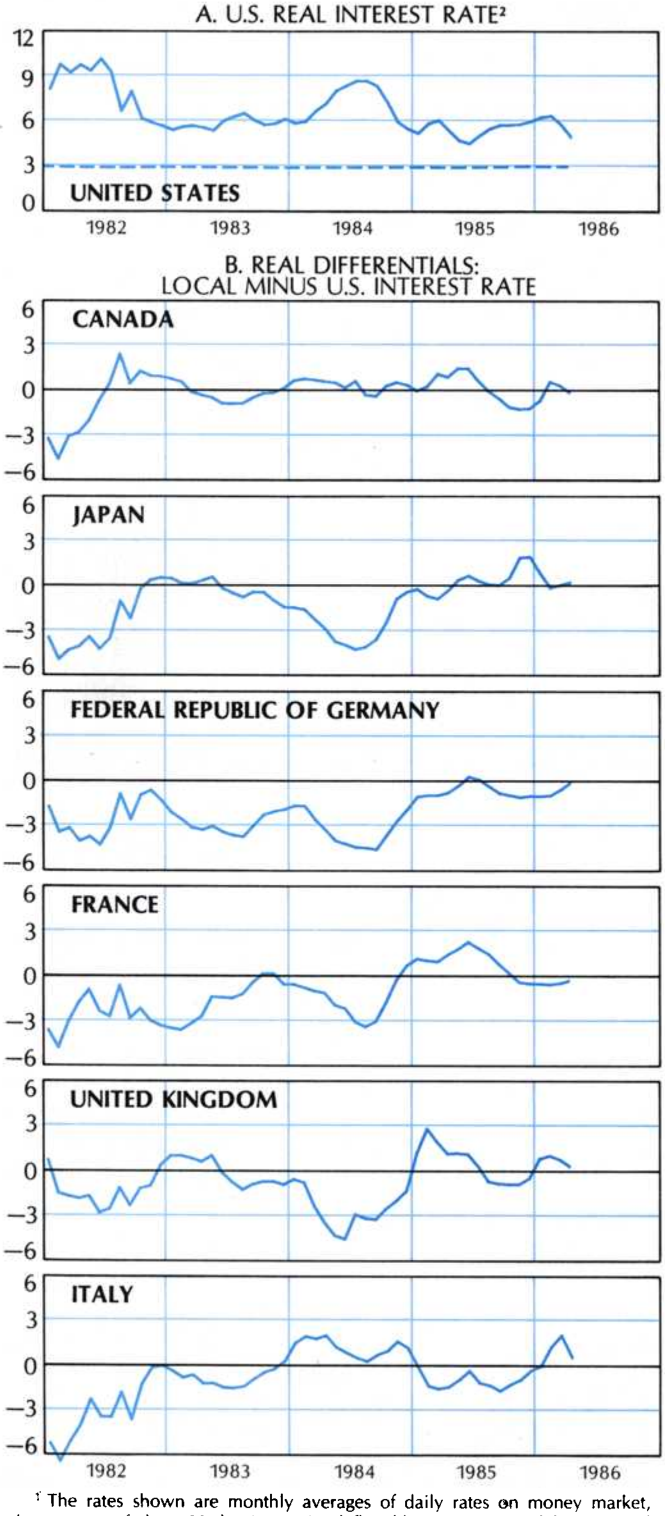


Chart 9. Major Industrial Countries: Monthly Average Real Short-Term Interest Rates, January 1982–April 1986[1]
(In percent per annum)



[1] The rates shown are monthly averages of daily rates on money market instruments of about 90 days' maturity deflated by an estimate of the expected rate of inflation, as defined in footnote 4, Chart 1. The rate for Japan is the discount rate on 2-month (private) bills.

[2] The dashed line represents the average value of the U.S. real short-term interest rate during the period 1975 to 1984.

influenced, at least from mid-1985 onward, by the prospect of a more restrictive fiscal policy in the United States, as evidenced by the Congressional Budget Resolution in August and the enactment of the Gramm-Rudman-Hollings Balanced Budget Act in December. Against this prospect of fiscal restraint in the United States, the actual as well as the prospective fiscal stance of other major industrial countries remained largely unchanged.

The sharp change in the trend movement of the U.S. dollar that occurred in late February 1985 may also have reflected a shift in investors' sentiment concerning the exchange rate. In this interpretation, the dollar's appreciation in early 1985 may have represented speculative pressures whereby the exchange rate became partly or wholly determined over short periods on the basis of the "self-fulfilling prophecies" of market participants, independently of fundamental determinants. The sharp appreciation of the U.S. dollar over that period relative to the deutsche mark and the Japanese yen, despite narrowing interest rate differentials, was indeed anomalous. It has also been argued that the United States has, because of changing circumstances in the rest of the world, at times benefited from a "safe haven" demand for dollar assets. If so, and depending on the investors' perception of risk, this would be another factor accounting for movements in exchange rates that are not easily accounted for by interest rate movements. Volatility of exchange rates is consistent with the presence of such speculative elements in the demand for different currencies.

The announcement following the September 1985 meeting of the Group of Five countries played an important part in reinforcing the initial shift in sentiment concerning the sustainable exchange rate of the U.S. dollar. It pointed to the desirability of a further appreciation of major currencies against the dollar, to reflect changes in policy and in economic conditions that had already taken place or were in prospect, and indicated the intention of the five countries to cooperate to encourage such a realignment. There was an immediate reaction in foreign exchange markets to this announcement. Moreover, effects on exchange rates continued in the weeks and months that followed as the credibility of the change in official views concerning exchange markets was buttressed by policy actions. Exchange market intervention was conducted by the Group of Five countries in cooperation with other industrial countries, and involved combined sales of U.S. dollars amounting to over $10 billion from September 23 through the end of October. Furthermore, the Japanese authorities permitted a significant, temporary tightening of monetary conditions in late October and November, leading to a rise in short-term nominal interest rates by as much as 2 percentage points.

During the period immediately following the Group of Five's announcement, the largest exchange rate movement was that in the bilateral rate between the

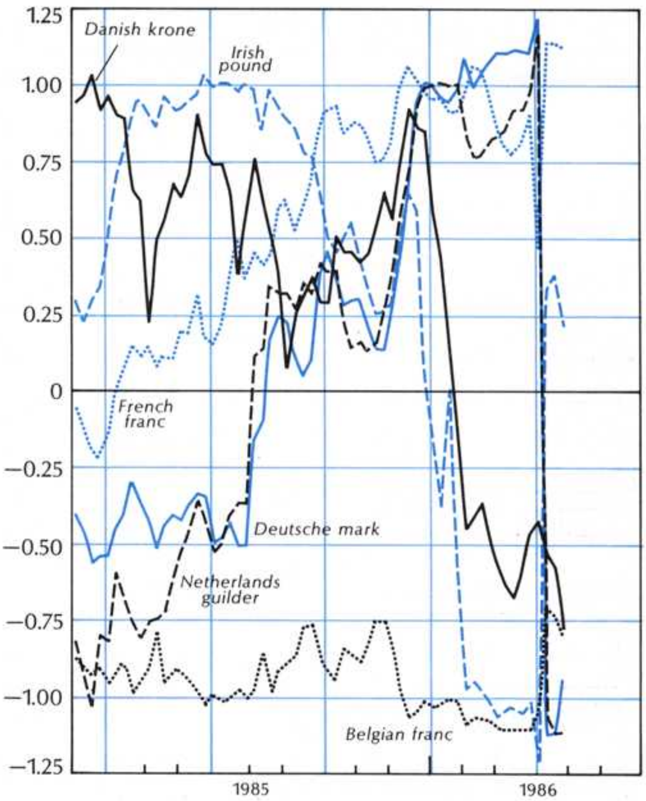
U.S. dollar and the Japanese yen: the yen appreciated against the U.S. dollar by 11 percent from September 22 to September 30, 1985 and by 44 percent from September 22, 1985 to April 30, 1986. This contrasted with an appreciation of 7 percent from March to September 22, 1985. The appreciation of the major continental European currencies against the dollar was also more pronounced after the Group of Five meeting than before, but not to the same extent as that of the Japanese yen.

Exceptions to the pattern described above were the Canadian dollar and the pound sterling. Although both currencies did initially appreciate following the September 22 meeting of the Group of Five, they subsequently fell back. Uncertainty surrounding world oil prices may have been largely responsible for the depreciating trend, in effective terms, of the pound sterling. Rumors of a possible U.K. membership in the exchange rate mechanism of the European Monetary System (EMS) at a central rate lower than the prevailing market rate—although repeatedly denied by the U.K. authorities—also may have affected the exchange rate. In Canada, the size of the budget deficit, the financial difficulties of three small Canadian banks, oil price developments, and a weakening current account appear to have been the principal factors adversely affecting the Canadian dollar. In January 1986, as the sharp decline in world oil prices was occurring, both the Canadian dollar and the pound sterling fell sharply against the U.S. dollar. By early February, the Canadian dollar had reached a record low of US$0.69, although it recovered somewhat thereafter, owing in part to substantial intervention by the Bank of Canada. Between September 1985 and April 1986 the Canadian dollar depreciated by 8 percent and the pound sterling by almost 7 percent in nominal effective terms.

The EMS was relatively stable in 1985 despite continued, albeit narrowing, differences in price performance among participating countries and the depreciation of the U.S. dollar. A realignment occurred in July 1985, but it changed only the position of the Italian lira in the parity grid and did not affect the relative bilateral positions of the other currencies. It had been generally expected that a weakening of the U.S. dollar would be associated with a greater increase in the demand for the deutsche mark than for other EMS currencies, given the deutsche mark's importance as a vehicle currency for trade and investment flows. Thus, dollar depreciation had been expected to lead to upward pressure on the deutsche mark within the EMS. The deutsche mark did appreciate relative to other EMS currencies after August 1985, but there was no evidence of major strains in the system even during the early part of 1986, when the deutsche mark reached the top of the narrow band (Chart 10).

A realignment of central rates within the EMS took place early in April 1986, at the request of the French authorities. This was the first major realignment since March 1983, which contrasts with the seven realignments that took place over the first four years after the formation of the EMS in March 1979. The realignment, which was effective April 7, 1986, involved an appreciation of the central rates of the deutsche mark and the Netherlands guilder by 3 percent and of the Belgian franc and Danish krone by 1 percent and a depreciation of the central rate of the French franc by 3 percent. The bilateral central rates of the Italian lira and Irish pound were held unchanged. As a result of these changes, the losses in competitiveness (as measured by normalized unit labor costs) of the French franc against the deutsche mark, the Netherlands guilder, the Belgian franc, and the Danish krone that had taken place between the previous realignment in March 1983 and the first quarter of 1986 were substantially reduced.

Chart 10. European Monetary System: Relative Positions of the Currencies Participating in the Narrow Band, March 1985–April 1986[1]



[1] Based on weekly averages. The vertical distance between any two currencies is equal to the percentage deviation from their bilateral central parity rate.

Balance of Payments Developments. The recorded current account deficit of industrial countries narrowed to $54 billion in 1985, from $64 billion in 1984 (Table 10). In interpreting these figures it should be recalled that the global balance of payments statistics contain a large and variable discrepancy (totaling some $76 billion in 1985) representing unrecorded net

Table 10.

Summary of Payments Balances on Current Account, 1978–85[1]

(In billions of U.S. dollars)

	1978	1979	1980	1981	1982	1983	1984	1985
Industrial countries	**14.8**	**−25.3**	**−61.1**	**−18.1**	**−19.7**	**−25.0**	**−64.3**	**−54.4**
Canada	−4.3	−4.2	−1.0	−5.1	2.4	2.4	2.6	−0.4
United States	−15.6	−1.0	1.9	6.3	−9.1	−46.7	−106.5	−117.7
Japan	16.5	−8.8	−10.7	4.8	6.9	20.8	35.0	49.2
France	7.0	5.2	−4.2	−4.8	−12.1	−4.7	−0.8	0.3
Germany, Fed. Rep. of	9.0	−6.0	−15.7	−5.2	4.1	4.2	7.0	13.3
Italy	6.2	5.5	−9.7	−8.2	−5.5	0.8	−2.9	−4.2
United Kingdom	2.2	−1.4	7.8	14.0	9.9	3.2	−0.8	3.8
Other industrial countries	−6.3	−14.7	−29.6	−19.9	−15.9	−3.9	2.0	1.3
Developing countries	**−34.6**	**7.1**	**28.6**	**−45.3**	**−83.5**	**−61.5**	**−32.1**	**−18.9**
By region								
Africa	−13.0	−3.6	−2.1	−22.3	−21.5	−12.1	−7.3	—
Asia	−6.7	−12.4	−18.8	−20.7	−17.4	−15.5	−4.2	−12.6
Europe	−7.1	−10.0	−12.3	−9.9	−6.0	−4.1	−1.9	−2.0
Middle East	11.2	54.2	92.0	50.1	3.3	−19.0	−15.9	−0.5
Western Hemisphere	−19.0	−21.1	−30.1	−42.6	−41.9	−10.8	−2.8	−4.7
By analytical criteria								
Fuel exporters	−6.0	51.6	96.1	35.2	−18.0	−17.5	−5.6	−4.5
Non-fuel exporters	−28.6	−44.5	−67.5	−80.6	−65.5	−44.0	−26.5	−23.3
Market borrowers	−31.6	−29.0	−35.7	−71.2	−73.1	−29.4	−2.6	8.0
Official borrowers	−7.4	−6.1	−9.3	−12.0	−10.6	−9.1	−10.0	−9.7
Other countries[2]	**−9.5**	**−6.5**	**−4.6**	**−3.3**	**−0.5**	**1.1**	**2.3**	**−2.4**
Total[3]	**−29.3**	**−24.8**	**−37.2**	**−66.8**	**−103.6**	**−85.4**	**−94.1**	**−75.7**

[1] On goods, services, and total (private and official) transfers.
[2] Covers estimated balances on current account transactions in convertible currencies of the U.S.S.R. and other nonmember countries of Eastern Europe.
[3] Reflects errors, omissions, and asymmetries in reported balance of payments statistics on current account, plus balance of listed groups' transactions with countries not included.

receipts. Given the available information, limited though it is, on the statistical roots of this discrepancy as well as the relative size of industrial countries in world trade flows, it is possible that the combined underlying position of these countries was significantly stronger than the recorded figures suggest.[4] The strengthening in the industrial countries' current account position in the past year reflects developments in both merchandise trade and services. The reduction in the recorded deficit on merchandise trade occurred despite higher growth in import volumes than in export volumes and was thus due wholly to an improvement in the terms of trade amounting to 1 percent. The surplus of industrial countries in services and private transfers increased by $9 billion, after a large decline in 1984, while net payments on account of official transfers continued to increase, rising by $3½ billion in 1985.

[4] The causes and the geographical distribution of the discrepancy are the subject of investigation by a working party established by the Fund for this purpose.

The divergence between current account developments in the Federal Republic of Germany and Japan, on the one hand, and in the United States, on the other, persisted in 1985. Germany and Japan increased their current account surpluses by amounts equivalent to just under 1 percent of their respective GNPs, to 2.1 percent and 3.7 percent of GNP, respectively. Correspondingly, the United States ran a current account deficit in 1985 of about 3.0 percent of GNP, an increase of 0.1 percent of GNP compared with 1984.

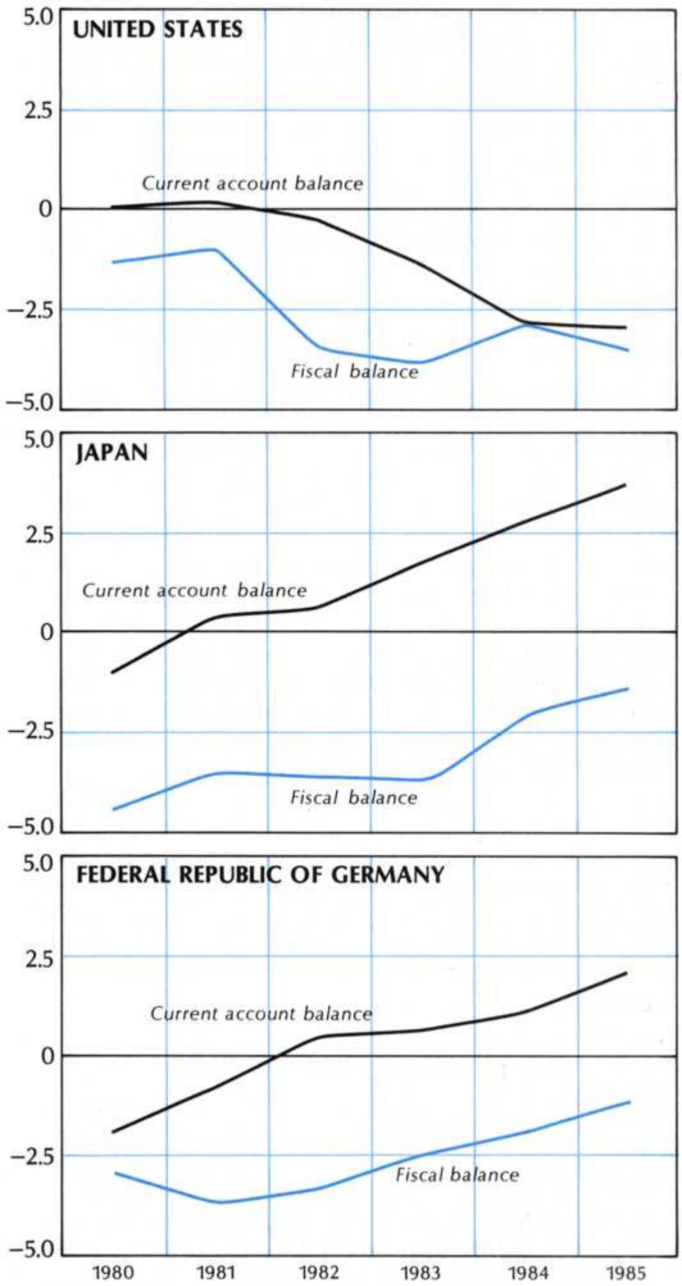
Germany and Japan experienced improvements in their terms of trade in 1985, which contributed to the strengthening of their current account balances. These terms of trade shifts were attributable, in the main, to the changes in relative prices between primary commodities and manufactures that were discussed above. Exchange rate changes for those countries were relatively small on average from 1984 to 1985 and did not play a major role. In contrast, the terms of trade for the United States worsened slightly during the year and contributed to the small rise in the U.S. deficit.

Developments in current account balances also reflect the effects of changes in international competitiveness and in the strength of demand in individual countries. However, competitiveness effects operate with lags extending over at least two or three years. The decline in the real value of the dollar against most other major currencies, which began in 1985, had not therefore had much effect on trade volumes among major industrial countries by early 1986. Indeed, movements in the volume of trade of the three major countries in 1985 appear to have continued to reflect the appreciation of the dollar that had occurred in earlier years, as well as faster growth in domestic demand in the United States than in Germany and Japan. In particular, despite a significant slowdown in U.S. growth in 1985 compared with 1984, U.S. imports rose by 4.5 percent in volume in 1985, while exports rose by only 0.8 percent. Japan's trade displayed the opposite tendency, with imports falling by 0.3 percent and exports increasing by 4.7 percent. The growth of Germany's exports, at 6.4 percent, was also somewhat faster than that of imports, which rose by 4.5 percent. The lags in the response of trade volumes, together with the more immediate effect of exchange rate changes on trade prices, gave rise to the familiar J-curve effects on current account balances. In the period covered by this report, these factors served to enlarge current account imbalances significantly, expressed in terms of U.S. dollars, even though it appeared likely that the exchange rate changes that had occurred would eventually tend to reduce them.

A perspective on current account developments that is complementary to that provided by analyses of changes in the terms of trade, in competitiveness, and in incomes is obtained by considering the counterpart developments in domestic financial positions. By definition, the current account of the balance of payments is equal to the sum of the net financial position of the private sector and the net financial position of the public sector. In other words, without implying a causal relationship, the movements in the current account positions of the three major industrial countries can be decomposed into shifts in fiscal positions and changes in the balance between private saving and investment which, however, have been relatively small in recent years. In the Federal Republic of Germany and Japan, general government deficits fell by 2½ percent and 2 percent of GNP, respectively, between 1981 and 1985, while in the United States the general government deficit increased by 2½ percent of GNP during the same period (Chart 11). For the most part, the changes in the excess of private saving over private investment oscillated without a definite trend during these years.

Chart 11. Three Major Industrial Countries: Fiscal and Current Account Balances, 1980–85[1]

(In percent of GNP)



[1] General government fiscal balances (+ surplus, − deficit) and external balances on current accounts (+ surplus, − deficit).

Recorded current account imbalances in the other large industrial countries were of a much smaller magnitude in 1985, in both absolute and relative terms, than those in the three largest countries. Both France and the United Kingdom recorded a strengthening of their positions. The United Kingdom had a relatively large improvement, of $4.6 billion or 1.1 percent of GNP, in its current account surplus in 1985. Part of this improvement was attributable to the ending of the coal miners' strike. The French current account shifted from a small deficit in 1984 to approximate balance in 1985. This improvement was wholly accounted for by the surplus on services. The trade balance was little changed, despite a 2½ percent improvement in the terms of trade.

Italy had a small increase in its current account deficit, of $1.3 billion or 0.3 percent of GNP. The improvement in the terms of trade was only 1.1 percent, and Italy's oil trade deficit did not change with respect to 1984. Both export and import volumes recorded relatively large increases, while the real value of the lira remained on average almost unchanged. Canada experienced a somewhat larger deterioration in its current account position, moving from a $2.6 billion surplus in 1984 to a $0.4 billion deficit in 1985, a swing equivalent to 0.9 percent of GNP. The weakening on current account seems largely attributable to a terms of trade deterioration of about 1.6 percent—reflecting Canada's position as a large exporter of primary commodities—together with the relatively faster growth of activity in Canada than abroad.

The current account balances of the smaller industrial countries did not show large movements in 1985, although on balance there was a small strengthening. The major exceptions were Sweden, where the current account position moved from a small surplus to a deficit of $1.1 billion, and Denmark, where the deficit widened by $1 billion, to $2.7 billion. As a group, the smaller industrial countries experienced a marginal worsening in their terms of trade in 1985, while import and export volumes displayed similar rates of growth.

The current account surpluses and deficits of industrial countries are largely mirrored in net flows of private capital, as net changes in reserves were generally small in 1985. The composition of private capital flows out of Japan and into the United States displayed the same trend as in earlier years: acquisitions of longer-term securities continued to grow in importance at the expense of short-term capital and other types of long-term capital. For the United States, net inflows of portfolio investments grew from $29 billion in 1984 to $64 billion in 1985. The balance of other long-term capital flows shifted from a net outflow of $15 billion in 1984 to a net inflow of $9 billion in 1985. In the same period, the short-term capital inflow fell from $45 billion to $20 billion.

DEVELOPING COUNTRIES

Exchange Rates. Two features of recent exchange rate developments in developing countries stand out. First, a growing number of developing countries have opted for a greater degree of exchange rate flexibility as an important element in their adjustment and stabilization programs. Second, the decline in the U.S. dollar against the currencies of the other major industrial countries has had an important impact on the nominal and real effective exchange rates of many developing countries.

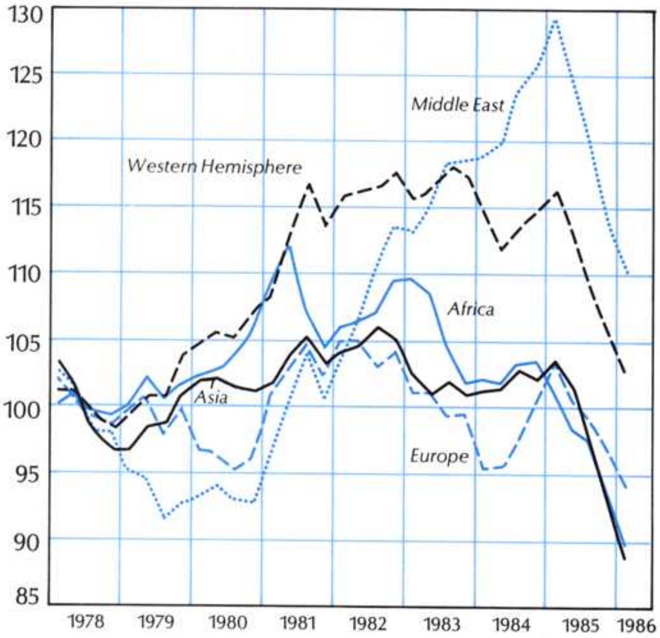
Illustrative of the first point is the addition, since the time of the last Annual Report, of Bolivia, The Gambia, Sierra Leone, and Zambia to the list of developing countries, now ten in number, identified in the Fund's classification as having an independent floating exchange arrangement.[5] For those countries that have opted to float in recent years, their prior experience with other exchange arrangements was quite varied, ranging from managed flexibility of the exchange rate as a means of compensating for inflation differentials to pegged arrangements with infrequent changes against a single currency or basket of currencies. Among those developing countries (the great majority) that have not adopted independent floating arrangements, there has also been a greater willingness to adjust exchange rates to correct relative price misalignments and to improve or maintain external competitiveness. Against a background of continuing progress toward lower inflation rates in the major industrial countries, the commitment to more flexible exchange rate policies has been particularly important for developing countries with moderate to high inflation rates. Given the interaction between exchange rate movements and inflation in open economies, such exchange rate management policies need to be carefully coordinated over time with the monetary and fiscal stances adopted. The more recent "shock" approach to disinflation adopted by some of these countries with very high inflation in the latter part of 1985 and early in 1986 has entailed renewed experimentation with fixed nominal exchange rates. In a move to enhance coordination of monetary and fiscal policies and to alter the inflationary expectations process, the authorities in some of these countries have introduced price and wage freezes, including as an important element the stabilization of their nominal exchange rates.

The influence of the depreciation of the U.S. dollar vis-à-vis the currencies of other major industrial countries on the exchange rates of developing countries is seen most clearly in the case of currencies that are linked to the U.S. dollar (Chart 12). The nominal and real effective exchange rates of countries in the Middle East, for example, declined significantly during the period under review. Since a number of countries in this grouping are fuel exporters facing lower export earnings in the wake of the sharp fall in oil prices, these exchange rate developments should assist in the process of balance of payments adjustment. The link between the sharp decline in the U.S. dollar and the behavior of developing countries' effective exchange rates is also apparent in other regions. Most countries in the Western Hemisphere and East Asia, for example, have traditionally given a large weight to the U.S. dollar, or linked their currencies to it. Hence, despite the importance of dollar-area trade, many have experienced substantial real effective depreciation of their currencies. The direct link between the behavior of the U.S. dollar and real effective exchange rates is somewhat less marked for developing countries in Africa and Europe, particularly if the evolution of effective rates is viewed in a longer-term perspective. European countries had earlier evidenced a willingness either to pursue flexible exchange rate policies or to use currency baskets in pegged exchange rate arrangements. These factors,

[5] Exchange arrangements maintained by member countries as of June 30, 1986, are detailed in Appendix Table II.1.

Chart 12. Developing Countries: Real Effective Exchange Rates by Region, 1978–First Quarter 1986[1]

(Indices, 1978 = 100)



[1] Excluding high-inflation countries.

particularly the latter, also influenced outcomes in Africa, but, in addition, links to a single currency other than the U.S. dollar, principally the French franc, were important in determining the evolution of real effective exchange rates.

Current Account Developments. The combined current account deficit of developing countries, after declining from $84 billion in 1982 to $32 billion in 1984, declined by a further $13 billion in 1985, to $19 billion. This latest decline was, however, concentrated among the oil exporters of the Middle East, which, through a sharp compression of imports, achieved a small surplus. The combined current account balance of other developing countries changed relatively little from 1984 to 1985 (Chart 13 and Table 10). The deficit was virtually unchanged at $21 billion, equivalent to 4 percent of exports of goods and services. Moreover, the changes in major subgroups of capital importing developing countries were all related to large changes for a few large countries—notably a $4 billion improvement in South Africa's current account and a $13 billion deterioration in that of China. The stability of current account balances from 1984 to 1985 was in marked contrast to developments over the preceding four years, during which the capital importing developing countries had reduced their combined current account deficit from the historically high level of 18½ percent of exports of goods and services in 1981 to only 4 percent in 1984. This adjustment had been necessitated by the 1982 debt crisis and the ensuing contraction in net lending by private creditors. By 1984, however, current account deficits had been brought broadly into line with the reduced availability of external financing, and there was therefore less need for further reductions in deficits in 1985.

While capital importing countries, as a group, reduced their current account deficits by about three fourths between 1981 and 1984–85, the performance of subgroups of countries varied significantly about this average. Those countries that had relied primarily on commercial sources of external financing (the market borrowers) had recorded very large deficits in 1981–82 (equivalent to 19 percent of exports of goods and services). With the virtual evaporation of external sources of finance, they reduced their combined deficit to under 1 percent of exports in 1984, and recorded a surplus in 1985. The official borrowers, in contrast, were more dependent on relatively stable sources of external financing, and their current account deficit, at 27½ percent of exports in 1985, was only marginally less than it had been in 1982. Nevertheless, some official borrowers also experienced a contraction in net lending because debt-servicing problems curbed their access to officially guaranteed export credits. The sub-Saharan African countries were particularly affected by this factor, and thus had to cut their current account deficit in half from 1982 to 1985.

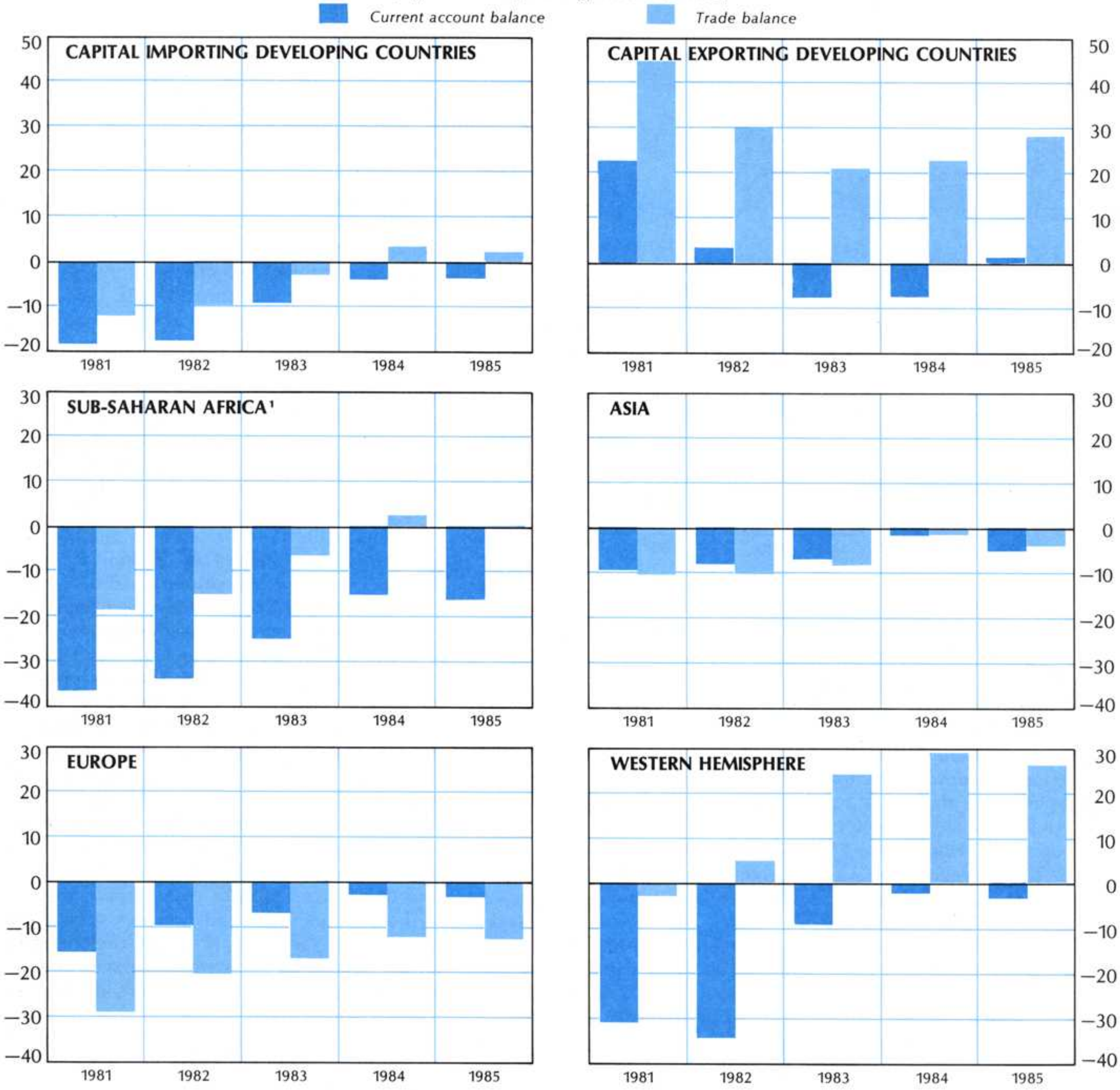
The large improvement in current account balances during 1982–85 was achieved primarily through an adjustment of the balance on merchandise trade. The capital importing developing countries had converted a trade deficit of $67 billion in 1981 into a surplus of $16½ billion in 1984, before slipping back to a surplus of $9½ billion in 1985. The services balance remained in a fairly stable deficit of about $70 billion during this period, while net receipts of unrequited transfers were similarly stable.

On a regional basis, the shift in trade balances was especially marked in the Western Hemisphere. The trade surpluses in this region in 1984 and 1985 averaged 35 percent of exports. However, sub-Saharan African countries also recorded a small surplus on trade account on average for those years. The trade surpluses of these two regions reflected the large share of their export receipts that are needed to cover interest payments. In European developing countries, by contrast, deficits on trade exceeded those on current account because of their large receipts of remittances and earnings from tourism. For Asian countries, service and transfer receipts broadly matched the corresponding payments, including interest payments. Thus the trade and current account balances of the Asian region have tended to be quite similar (Chart 13).

The stability of trade and current account balances from 1984 to 1985 masked major changes in the rates of growth of the underlying gross flows. The growth of developing country exports, which had accelerated to nearly 7 percent in 1984, dropped to only ¾ of 1 percent in 1985. The slowdown was widespread and affected virtually all countries. The weakest performance was recorded by the fuel exporting countries, whose exports declined by close to 4 percent in volume in the

Chart 13. Developing Countries: Trade and Current Account Balances, 1981–85

(In percent of exports of goods and services)



[1] Excluding Nigeria and South Africa.

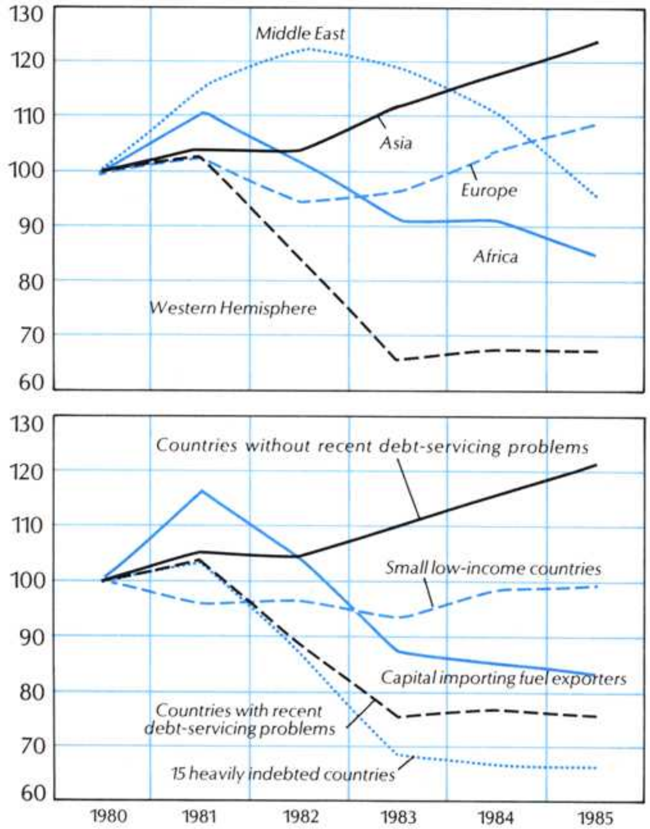
face of continued energy conservation and increases in oil production of other countries. Export volume growth among the non-fuel exporting countries remained positive, but nevertheless slowed sharply, from 11½ percent in 1984 to 3½ percent in 1985. Most of the deceleration was attributable to cyclical developments in the industrial countries, including the reversal of the inventory cycle. However, the intensification of protectionist pressures in industrial countries, together with the unexpected weakness in developing countries' exports of manufactures, suggested that protectionist barriers may also have played a part. For many countries, the adverse effect of the deceleration in export volumes was compounded by a deterioration in their terms of trade. Overall, the developing countries' terms of trade deteriorated by 2¼ percent in 1985, but the non-fuel exporters, with a decline of only 1 percent, fared rather better than the fuel exporters, who registered a decline of 4½ percent.

As noted earlier, the combination of stagnating export volumes and deteriorating terms of trade led to outright declines in the real purchasing power of developing countries' exports and hence in their imports in 1985. Imports, which had increased by 1¾ percent in volume in 1984, declined by 1 percent in 1985. The reduction was especially marked among those countries that suffered terms of trade losses. The imports of fuel exporters fell by nearly 12 percent and those of primary product exporters by nearly 5 percent. As a result, imports into Africa and the Western Hemisphere in 1985 were below the levels of 1980 by close to one sixth and one third, respectively. Imports into Europe and the Middle East were roughly back to 1980 levels. Only the Asian region has been able to achieve a substantial and sustained rise in its imports over the past five years (Chart 14).

Financing and Debt. Capital importing developing countries kept their aggregate external financing requirement in 1985 broadly in line with the volume of external financing that they were able to obtain. For the group as a whole, there was therefore the smallest increase in the stock of arrears outstanding since 1980, and net use of Fund credit fell to its lowest

Chart 14. Developing Countries: Import Volumes, 1980–85

(Indices, 1980 = 100)



level in six years and, indeed, turned slightly negative. But the balance established in 1985 was unsatisfactory because it was based on unsustainably low levels of domestic absorption, particularly investment, in many indebted developing countries, on a large volume of concerted financing, and on a disturbingly low level of spontaneous lending.

The financing situation that emerged for the capital importing developing countries in 1985 was attributable to developments affecting both the sources and the uses of external finance. On the sources side, net borrowing from private creditors stabilized at $8 billion in 1985, and two relatively stable sources of finance—non-debt-creating flows and long-term borrowing from official creditors—provided a further $51 billion (Table 11). Long-term borrowing from official creditors declined, partly in response to reduced needs for exceptional financing and partly because some official flows were converted from loans to grants, thereby contributing to an increase in non-debt-creating flows. The stability in net lending by private creditors was probably the result of two offsetting considerations. On the one hand, commercial banks were unwilling to lend to countries that had not regained creditworthiness, while net new finance was generally not needed by those countries that were creditworthy. On the other hand, although commercial banks might have wished to reduce their exposure in many countries—as evidenced by the need for concerted lending packages in several cases—the countries themselves had not adjusted to the point at which they could make substantial net repayments. There was therefore neither large net lending to creditworthy countries nor large net repayments by countries whose external position remained difficult.

The development that most affected the uses of external finance in 1985 was the further abatement in the acquisition of foreign assets by developing countries. This development was due entirely to lower acquisition of official reserves (excluding increases due to revaluation factors), which amounted to only $3 billion in 1985, reflecting the lower priority that many countries gave to rebuilding reserves after the $30 billion increase in 1983–84. The private sector's acquisitions of foreign assets increased in 1985, but remained relatively moderate by recent standards. Outflows of residents' capital in 1985—including flight capital—amounted to some $19 billion, or roughly half the 1982 level. The acquisition of foreign assets by the private sector has been curbed by a number of factors, most constructively where action was taken to increase the attractiveness of domestic financial assets vis-à-vis foreign assets, for example by raising domestic interest rates or correcting exchange rate overvaluation. Nevertheless, there remained a worryingly large number of countries where private sector demand for foreign assets remained strong and was constrained only by foreign exchange shortages (Chart 15).

Another significant feature of developments in 1985

Table 11.

Capital Importing Developing Countries: External Financing, 1979–85

(In billions of U.S. dollars, except as otherwise noted)

	1979	1980	1981	1982	1983	1984	1985
Deficit on goods, services, and private transfers	**61**	**78**	**113**	**104**	**63**	**36**	**40**
Use of reserves	−22	−19	3	18	−9	−21	−3
Outflows of residents' capital[1]	−9	−21	−32	−36	−19	−14	−19
Non-debt-creating flows[2]	25	24	26	26	23	25	31
Net external borrowing	**67**	**94**	**116**	**96**	**68**	**46**	**30**
From private sources	48	66	75	48	18	11	8
From official sources[3]	19	28	39	37	40	33	21
Of which, use of Fund credit (net)	—	*1*	*6*	*7*	*11*	*5*	*1*
Arrears[4]	—	−1	2	11	10	2	2
Memorandum							
Non-debt-creating flows plus long-term borrowing from official creditors	45	49	59	53	55	53	51
As percent of deficit on goods, services, and private transfers	73	63	52	51	86	147	130

[1] Asset transactions, net, plus recorded errors and omissions (the latter are included here on the assumption that the estimates reflect primarily capital flight).
[2] Official transfers, net direct investment, SDR allocations, valuation adjustments, and gold monetization.
[3] Long-term borrowing from official creditors, use of liabilities constituting foreign authorities' reserves, and use of Fund credit.
[4] Reflects involuntary "lending" by official and private creditors.

was the reduced reliance of capital importing developing countries on exceptional sources of finance. Net use of Fund credit was virtually zero and reliance on debt rescheduling declined from $37 billion in 1984 to $32 billion in 1985. However, as these figures indicate, debt rescheduling continued to be an important source of funds and the amounts rescheduled were still large by historical standards. Moreover, funds supplied through concerted lending packages, although lower than the average of $12 billion provided annually in 1983–84, were nevertheless some $5–6 billion in 1985, and therefore approximately three fourths of the total net private lending to the capital importing developing countries.

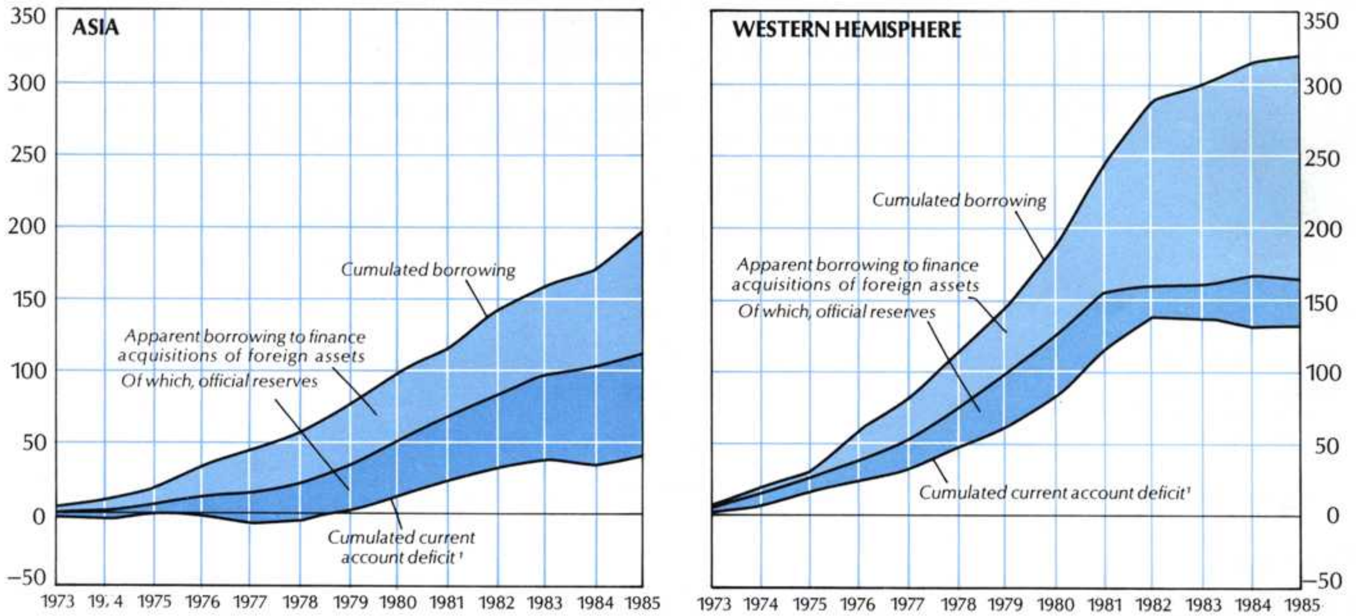
Despite the reduction in use of arrears and recourse to Fund credit referred to earlier, some developing countries were not able to contain their financing requirement to a financeable level. Arrears continued to accumulate in Africa and in the mineral exporting countries, and arrears appeared for the first time in recent years in the non-oil Middle East. Moreover, for some developing countries, net use of Fund credit continued at high levels and reserves were depleted.

Another unsatisfactory element of the situation in 1985 was that capital flows remained at a low level. Total net borrowing by the capital importing countries, for example, was equivalent to only 7 percent of imports in 1985. This continued tightness of the external financing situation, for the fourth year in succession, clearly has adverse implications for the long-run growth prospects of the financially constrained countries. Recognizing this, the Secretary of the U.S. Treasury, James A. Baker III, proposed at the Annual Meetings of the Fund and World Bank in Seoul a debt initiative designed to reinforce the debt strategy. This initiative was widely welcomed for its focus on moving to a higher growth path in which larger capital flows from both private and official sources could be justified by structural economic reforms that would permit faster growth of exports and output. In support of this goal, commercial and multilateral development banks were asked to provide additional lending in 1986–88 and the debtor countries were asked to introduce—or to strengthen—policies that would promote growth-oriented adjustment.

Because of the relatively slow growth of lending in 1985, the external debt of capital importing developing countries increased by only 7½ percent in terms of U.S. dollars in that year. Moreover, the growth of debt would have been only about 3½ percent but for the effects of the depreciation of the U.S. dollar on the valuation of the non-dollar component of the debt.

Despite the slow growth of debt, the capital importing

Chart 15. Selected Indicators of Uses of External Finance, 1973–85
(Cumulated flows, in billions of U.S. dollars)



[1] Less cumulated inflow of non-debt-creating flows.

countries' ratio of debt to exports of goods and services reached a new peak of 168 percent in 1985—a reflection of the decline in export earnings. Moreover, the marked regional differences in the debt ratio widened somewhat in 1985 (Table 12). These divergent trends across regions not only indicate differences in the degree of control that countries have maintained over their external borrowing, but also point to underlying differences in the extent to which the debtors have adopted export-led developmental strategies. These differences are also

Table 12.

Capital Importing Developing Countries: Debt and Debt Service Ratios, by Region, 1981–85
(In percent of exports of goods and services)

	1981	1982	1983	1984	1985
Debt[1]					
All capital importing countries	124	151	160	153	168
Western Hemisphere	210	273	291	276	297
Non-oil Middle East	144	165	194	205	223
Africa	112	148	165	165	178
Europe	117	125	132	129	145
Asia	71	86	90	84	98
Debt service[1]					
All capital importing countries	21	25	22	23	24
Western Hemisphere	41	51	42	41	41
Africa	15	21	23	25	27
Europe	21	23	22	24	27
Non-oil Middle East	21	26	27	29	32
Asia	10	11	11	12	13
Memorandum					
Capital importing countries, debt service rescheduled	—	1	4	7	7

[1] Regions are ranked by 1985 ratios.

present in the regions' debt service ratios, though in this case the divergences are muted by the effects of debt rescheduling.

Debt service payments increased by $3 billion in 1985 to $129 billion, bringing the debt service ratio to a record 23.8 percent. Despite the increase in payments, the debt service picture in 1985 was in some respects less difficult than in recent years: interest payments leveled off at $74 billion as a result of the lagged effect of recent reductions in international interest rates. Moreover, the $4 billion increase in amortization payments in 1985 was in part caused by a reduction in the amounts rescheduled, which was a further sign of the general easing of financial pressures in 1985. Nevertheless, the debt service position of many countries remained critical, especially in Africa and the Western Hemisphere.

Chapter 2

Policies and Activities of the Fund

The policies and activities of the International Monetary Fund extend over a wide range of functions. These include overseeing the operation of the international monetary system; exercising surveillance over the exchange rate policies of members; monitoring developments in the field of international liquidity and managing the SDR system; providing temporary balance of payments assistance, on appropriate conditions, to members in external difficulties; and a variety of other functions, including, in particular, technical assistance, designed to promote effective cooperation in international financial relations.

This chapter reviews these various functions, focusing attention on the ways in which the Fund has been responding to some of the key issues facing the world economy. A series of appendices provide more detailed background information on the Fund's activities, including quantitative information on lending and technical assistance activities, as well as information related to administrative operations.

FUNCTIONING OF THE INTERNATIONAL MONETARY SYSTEM

The Articles of Agreement state (Article IV, Section 3 (*a*)) that "The Fund shall oversee the international monetary system in order to ensure its effective operation. . . ." By the early 1980s concerns had arisen that the international monetary system was functioning less effectively than might be possible. In particular, exchange rates among major currencies were continuing to exhibit considerable variability, and the prolonged appreciation of the U.S. dollar against most other major currencies was leading to growing trade and current account imbalances. In addition, heavily indebted countries experienced acute difficulties in servicing their external obligations, especially after 1982. Official development assistance remained stagnant in real terms and protectionist pressures grew. Many developing countries were unable to respond to the deterioration in their external environment in a sufficiently timely fashion to prevent a serious disruption in the momentum of their development.

As a response to these various concerns, studies of the functioning of the international monetary system were conducted by the Group of Ten and the Group of Twenty-Four, and subsequently discussed in the Interim Committee of the Board of Governors. The report of the Deputies of the Group of Ten arose out of the Williamsburg Summit Declaration of 1983. It was forwarded to ministers and governors and made public in June 1985. It covered four major subjects: the functioning of floating exchange rates, strengthening multilateral surveillance, the management of international liquidity, and the role of the International Monetary Fund.

The Group of Twenty-Four prepared two reports. The first, "A Revised Program of Action Towards Reform of the International Monetary and Financial System," was issued in September 1984. The second report, which parallels more closely the subject matter of the report by the Group of Ten, was entitled "The Functioning and Improvement of the International Monetary System" and was prepared by a working group established for the purpose in May 1985 by the Chairman of the Group of Twenty-Four. The report was released in August 1985. It covers each of the subject areas dealt with in the report of the Group of Ten and also deals with the subjects of debt and the transfer of resources.

The report of the Group of Ten and the second report of the Group of Twenty-Four were presented to the Interim Committee at its meeting in Seoul in October 1985. The Committee welcomed the work that had been undertaken and asked the Fund's Executive Board to study the documents and report to it at its next meeting. In response to this request, the Executive Board held a series of meetings early in 1986, the conclusions of which were reported to the Interim Committee. The Committee itself had a substantive initial exchange of views on the various issues in its meeting of April 1986.

The reports of both the Group of Ten and the Group of Twenty-Four recognized that the various issues related to the working of the international monetary system, and the Fund's role in regard to them, were closely interconnected. For example, any changes in the operation of the exchange rate system, whether achieved through modifications in the system itself or through improvements in the mechanisms of policy coordination, would be reflected in the implementation of surveillance. More generally, the role of the Fund, as the central institution in the international monetary system, would be conditioned by the membership's view of how the system as a whole is expected to function and evolve.

With respect to the functioning of the exchange rate system, the two reports agreed that the variability of exchange rates, in the form of both short-term volatility and longer-term misalignments, had been a source of concern. The report of the Group of Ten concluded that fundamental changes in the exchange rate system were not called for, but that members should strive for better cooperation, involving both the commitment to stable domestic policies and the willingness to give greater weight to international considerations in the formation of domestic policies. Some Deputies of the Group of Ten also saw merit in a system of target zones for the major currencies. The report of the Group of Twenty-Four argued for according exchange rate stability a greater and more explicit priority and suggested that target zones for the major currencies could be helpful in this regard.

In the discussions that took place in the Executive Board, it was recognized that flexibility in the working of the exchange rate system was essential, as it had helped to preserve an open trading system and had contributed to making the financial system more resilient in the face of exogenous disturbances. However, floating rates among the major currencies had not functioned without substantial problems. Large payments imbalances had developed, there had been excessive short-run exchange rate volatility and, more importantly, significant and persistent misalignments in exchange rates had appeared. There was general agreement that potential improvements in the functioning of the system would depend heavily on the existence of the political will to pursue internationally consistent policies.

At its April 1986 meeting, the Interim Committee agreed with the Executive Board's conclusion that the flexibility with which the system had operated had enabled the world economy to adapt to a number of major disturbances. The Committee also agreed that the variability of exchange rates and the longer-term misalignments that had emerged remained a source of concern. The Committee felt that, if better exchange rate performance were to be achieved on a durable basis, it would be essential for economic policies to be conducted in a sound and mutually consistent way, and for exchange rate considerations to play their part in the formation of these policies. The Committee asked the Executive Board to consider further possible modifications in the exchange rate system that would contribute to enhancing exchange rate stability and the mutual consistency of economic policies without sacrificing the essential flexibility of the system.

The reports of both the Group of Ten and the Group of Twenty-Four agreed that surveillance was central to the role of the Fund, but that it had not yet been as effective as was desirable. The reports put forward a number of procedural and substantive proposals for enhancing the effectiveness of surveillance, which were discussed in depth by the Executive Board and subsequently by the Interim Committee. These proposals, and the discussions concerning them, are reviewed in some detail in the following section of this chapter.

On the subject of liquidity and the SDR, both reports recognized that the management of the present system of international reserves had not been entirely satisfactory, although the Group of Ten report noted that the process of liquidity creation had been made more flexible in certain respects. Nevertheless, the uneven expansion of international credit and sharp shifts in the terms and conditions on which international liquidity was made available had not always been conducive to a gradual adjustment toward steady noninflationary growth. The reports made proposals for improving the system, either through strengthening the international liquidity system in general or through adapting the particular role played by the SDR. The discussion of these proposals in the Executive Board revealed general agreement that the functioning of the present system of reserve creation has shown some shortcomings. Periods of excessive expansion of liquidity had been followed by periods of excessive contraction, producing an uneven pattern of reserve growth. There was also agreement that the quality of the SDR should be improved and the asset made more usable.

The role of the SDR was reviewed by the Interim Committee in April 1986. The Committee considered that the SDR, which is an owned reserve asset, could play a useful role as a component of international reserves and as a unit of account. It also recognized the potential use of the SDR mechanism as a "safety net" against unexpected contingencies. The Committee stressed the monetary character of the SDR, which should not be a means of transferring resources, and recommended that the Executive Board study possible improvements in the monetary characteristics of the SDR that would increase its attraction and usefulness as a component of monetary reserves. On the question of an allocation of SDRs, it was determined that, although most members of the Committee favored an allocation, the broad support needed for an allocation was lacking at that time.

The proposals made in the reports with respect to the role of the Fund covered a number of specific areas. These included conditionality in the use of the Fund's resources, policies related to access limits in the use of resources, prolonged use and arrears, collaboration between the Fund and the World Bank, concessionality in Fund lending, and quotas and voting rights. The report of the Group of Ten stressed the revolving character of the Fund's resources and the need for prompt and effective adjustment measures in the face of balance of payments difficulties. The report of the Group of Twenty-Four, on the other hand, argued for making larger amounts of financing available for longer program periods, and for a reorientation of conditionality to give higher priority to growth-oriented structural adjustment. The two reports agreed on the importance of effective collaboration with the World Bank and on the need to address the problems of arrears and prolonged use of the Fund's resources.

The Interim Committee reaffirmed the key role of the Fund in assisting countries in designing adjustment policies and in providing balance of payments financing. In this context, the Committee welcomed the decisions taken by the Executive Board establishing the Structural Adjustment Facility, which is discussed later in this chapter. The decision establishing the new facility calls for close collaboration between the Fund and the World Bank with a view to assisting members in developing medium-term policy frameworks. The Committee emphasized that, in furthering their collaboration, the Fund and the Bank should maintain their respective areas of responsibility, avoid cross-conditionality, and ensure that the policy advice they give is consistent.

The debt situation and the transfer of real resources was the subject of a chapter of the report of the Group of Twenty-Four. It was noted there that the external debt situation of the developing countries had been deteriorating for several years before a number of exogenous factors combined to precipitate the debt crisis in mid-1982. The effect of these factors was compounded by significant shortcomings in the policies of many developing countries, and the tightening of regulations by bank supervisory authorities in industrial countries also has had an impact on the availability of bank finance. The Fund has continued to play an active role in the handling of the debt situation. This role has included the commitment of the institution's own resources in support of growth-oriented adjustment programs and helping to mobilize other sources of finance. The Fund's role in developing and implementing the debt strategy is described in more detail later in this chapter.

SURVEILLANCE

GENERAL ASPECTS OF SURVEILLANCE

The Second Amendment to the Articles of Agreement requires that the Fund "shall exercise firm surveillance over the exchange rate policies of members."[6] In order for the Fund to perform its functions in this regard, the Executive Board adopted the principles and procedures for surveillance set forth in the document entitled "Surveillance Over Exchange Rate Policies."[7]

[6] Articles of Agreement of the International Monetary Fund, Article IV, Section 3(*b*).

[7] Executive Board Decision No. 5392-(77/63), adopted April 29, 1977, *Selected Decisions of the International Monetary Fund and Selected Documents*, Twelfth Issue, pages 9–14 (hereafter referred to as *Selected Decisions*).

Article IV, Section 1(iii) requires each member to "avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members. . . ." The decision on surveillance specifies a number of developments that might indicate a need for discussion between the Fund and a member. These include protracted large-scale intervention in exchange markets in one direction, as well as certain actions taken for balance of payments reasons. Specifically, these are an unsustainable level of official borrowing or lending; the introduction, intensification, or prolonged maintenance of restrictions on current or capital transactions; and the pursuit of domestic financial policies that provide abnormal incentive or disincentive to capital flows. In addition, broader aspects of surveillance are also reflected in specific references in the Articles themselves. In particular, Article IV, Section 1 not only requires each member to avoid manipulating exchange rates, but also obliges the member to collaborate with the Fund and other members to promote a stable system of exchange rates, highlighting the need for each member to direct its economic and financial policies toward the objective of fostering orderly economic growth with reasonable price stability and to seek to promote stability by fostering orderly underlying economic and financial conditions.

Procedurally, the two main vehicles for the exercise of the Fund's surveillance responsibilities are the periodic Article IV consultations with individual members and the broader reviews of economic developments and policies from a multilateral perspective in the context of the regular Executive Board discussions of the world economic outlook. In addition, Board discussions occasionally deal in more detail with specific issues related to surveillance. In particular, during the past year, continuing concerns with the external debt situation of developing countries were reflected in several related Board discussions, including discussions of developments in commercial and official lending, the structure of financial markets, and the debt strategy. Also, several discussions of trade issues served to reaffirm serious concerns about the continued drift toward protectionism.

PROPOSALS TO IMPROVE SURVEILLANCE

When the decision on surveillance was adopted in April 1977 it was recognized that it would not be possible to produce a comprehensive set of guidelines applicable to all situations that might arise. Accordingly, the decision that established the principles of surveillance also specified that they should be reviewed at two-year intervals, or more frequently. A recurrent theme of each subsequent review has been the need to make surveillance effective. The most recent review, concluded on February 12, 1986, focused on several proposals made recently to improve the functioning of the international monetary system and to enhance the implementation of surveillance procedures, most prominently in the reports of the Group of Ten and the Group of Twenty-Four.

These reports agreed on a number of key points regarding the implementation of surveillance: first, the function of surveillance is central to the role of the Fund; second, surveillance should be evenhanded and symmetrical; third, the achievement of this symmetry requires particularly close scrutiny of the policies of countries that are important in the international financial system; and fourth, surveillance has so far been less effective than would be desirable in influencing national policies and in promoting economic and financial conditions conducive to exchange rate stability.

The Executive Board endorsed these broad conclusions of the two reports. It noted that the shortcomings highlighted in these reports—in particular the concerns about evenhandedness and effectiveness—had in large measure been rooted in the fundamental changes that had occurred in the international economic and financial environment since the widespread adoption of floating exchange rates. They also reflected the difficulty that individual countries had in fully appreciating the benefits to be gained from framing their domestic policies in the light of a set of consistent international objectives. The perceived asymmetry in the effectiveness of Fund influence—meaning that conditionality in the use of Fund resources had significantly affected developing countries, while surveillance had had little practical effect on the countries with a major impact on the world economy—had increased since the adoption of floating exchange rates by several major countries. The Board felt that an essential requirement for effective surveillance was a willingness on the part of all members to implement policies in a way that took full account of both their interdependence within the international monetary system and their mutual self-interest in the improved operation of the system.

Part of the responsibility for shortcomings in the functioning of the system might, in the Executive Board's view, also be attributed to the way in which the surveillance mechanism has operated. Particular importance was thus attached to reviewing possible means of improving the surveillance mechanism. The Executive Board considered a number of proposals, including some that focused on improvements in the procedures through which surveillance was implemented.

First, the scope of surveillance could be widened to include the broader principles of oversight by the Fund over members' economic policies, thus recognizing explicitly that exchange rate movements that cause international concern are more often than not the unintended result of divergences and inadequacies in domestic policies rather than the deliberate consequences of policies aimed at influencing conditions in the foreign exchange market. Second, indicators—not necessarily quantified, rigid indicators, but more systematic guidelines than those specified in the existing surveillance decision—could be used to characterize a stance of policies and to help the detection of inconsistencies and deviations from appropriate policies. Third, the implementation of existing surveillance procedures could be strengthened along the lines of some of the detailed proposals in the reports of the Group of Ten and Group of Twenty-Four. These proposals, summarized in Table 13, can be grouped broadly into three categories: those aimed at improving the analytical basis of surveillance, those designed to enhance the multilateral setting of surveillance, and those intended to strengthen the influence of the consultation process.

As regards the analytical basis of surveillance, a number of proposals met with widespread support. It was agreed that there was a need to broaden the coverage of policies subject to surveillance and to integrate further the assessment of exchange rates and domestic policies within a medium-term framework. Specifically, exchange rate developments should be viewed in the context of an assessment of fiscal, monetary, trade, and structural policies. Moreover, a medium-term framework was seen as essential to assess the consistency and sustainability of members' policies. In this context, regular consultations provide a useful opportunity to assess the adequacy of available data and to stress the main areas of needed improvement. Finally, it was emphasized that staff reports for Article IV consultations should provide candid appraisals of members' policies, making clear the analytical basis of policy judgments; when the staff disagreed with a member's policies, precise suggestions for policy change should be made.

Considerable support was also expressed for proposals to strengthen the multilateral setting of surveillance. While the basis for an overall assessment of international economic developments and prospects is provided by the twice-yearly world economic outlook exercise, it was felt that the usefulness of this review could be enhanced by a more explicit analysis of economic interactions among major countries. The inclusion of a separate chapter in the *World Economic Outlook* devoted to an analysis of the international repercussions of policies and developments in the larger countries should improve the framework for reviewing policy issues in a multilateral setting.

A suggested means for strengthening the conduct of Article IV consultations was through direct contact, at the conclusion of certain Article IV consultations, between the Managing Director of the Fund and the finance minister of the country concerned. This could be helpful in those cases where high-level consideration was thought to be particularly necessary because of the importance of the issues involved or the urgency of the need for policy action. Second, the continuity of the consultation process could be strengthened through a review in subsequent reports of policy recommendations made by the Fund in the

Table 13.

Summary of Proposals of the Group of Ten and the Group of Twenty-Four to Enhance Surveillance Procedures

	Group of Ten	Group of Twenty-Four
Analytical basis of surveillance		
Data	Identify necessary improvements in scope, quality, and timeliness.	
Policy coverage	All policies affecting trade, capital movements, external adjustment, and the effective functioning of the international monetary system, including microeconomic policies and structural features that could weaken performance and induce exchange rate instability.	Thorough assessment of the national economic policies of major industrial countries.
Time horizon	Analysis and recommendations should be viewed in a medium-term framework. Improve techniques to analyze medium-term external debt and debt service scenarios.	Seek to establish a consistent set of targets that appear to be sustainable in the medium term.
Policy assessments	Provide more candid assessments, making clear the empirical and analytical basis of policy judgments. Differences of view with the authorities should be spelled out and discussed.	
Policy recommendations	Provide precise suggestions for policy changes.	Identify policies to achieve agreed objectives and appropriate measures when actual outcomes deviate from agreed objectives.
Multilateral setting of surveillance		
	Separate chapter of *World Economic Outlook*, for review by ministers and governors of the Group of Ten, providing a framework to discuss international repercussions and interactions of national policies of member countries of the Group of Ten.	Two-stage procedure: – against the background of the world economic outlook exercise, discussion and negotiation of mutually consistent objectives and policies for major industrial countries; – follow-up reports on achievement of policies.
Strengthening the influence of the consultation process		
Follow-up to consultations	Review implementation and effects of policy recommendations in subsequent reports. Request members to indicate measures introduced or considered to address problems identified, and respond to specific policy suggestions. Confidential (selective) exchange of views between the Managing Director and the finance minister.	References to previous policy recommendations and related measures undertaken. Information notices on deviations in implementing suggested policy changes. Following Board consideration of reasons for deviation, discussion between the Managing Director and the member's authorities. Further Board consideration.
Publicity	Basic confidentiality should be preserved. Some Deputies supported certain forms of greater publicity, in particular, public statements by the Managing Director at the end of the consultation process and the release of consultation documents at the member's request.	Confidentiality should be preserved. No statement or document should be released.
Supplemental consultations	Review existing arrangements with a view to making greater use of supplemental surveillance.	Greater use of supplemental surveillance.

course of a consultation. Third, the coverage of information notices used to monitor key developments in the period between Article IV consultations could be broadened. At present, these notices cover only significant changes in real effective exchange rates and in trade policies. Fourth, greater use could be made of the supplemental surveillance procedure, whereby the Managing Director can initiate an informal and confidential discussion if he considers that a modification in a member's exchange arrangements or exchange rate policies, or the behavior of the exchange rate for its currency, may be important or may have important effects for other members.

These various issues related to surveillance, together with a report by the Managing Director of their initial consideration by the Executive Board, were reviewed by the Interim Committee in April 1986. The Committee reaffirmed the key role that

Fund surveillance needs to play in the functioning of the international monetary system. The need to strengthen the multilateral framework of surveillance, which had been a particular focus of the reports of the Group of Ten and the Group of Twenty-Four, was also a central element of the Committee's review of means to improve surveillance. The Committee noted in this context that increased emphasis would be given in the world economic outlook exercise to policy interactions among industrial countries in order to strengthen the basis for assessing the international repercussions of the policies and objectives of the major industrial countries, and to help promote the further development of recent initiatives to enhance policy coordination among these countries.

The Interim Committee asked the Executive Board to consider ways in which its regular reviews of the world economic situation could be further adapted to improve the scope for discussing external imbalances, exchange rate developments, and policy interactions. The Committee suggested that an approach worth exploring was the formulation of a set of objective indicators related to policy actions and economic performance, having regard to a medium-term framework. Such indicators might help identify a need for discussion of countries' policies.

Subsequently, at the Tokyo Economic Summit in May 1986, participants reaffirmed their undertaking made in 1982 to cooperate with the Fund in strengthening multilateral surveillance, particularly among the countries whose currencies constitute the SDR basket. They requested that, in conducting such surveillance and in conjunction with the Managing Director of the Fund, their individual economic forecasts should be reviewed, taking into account such indicators as GNP growth rates, inflation rates, interest rates, unemployment rates, fiscal deficit ratios, current account and trade balances, monetary growth rates, reserves, and exchange rates.

SURVEILLANCE IN 1985/86

As already noted, the world economic outlook exercise provides the basic analytical framework for the Fund's review of the world economy and the exchange rate system, and thus for the assessment of the exchange rate policies of members in an international context. Recent innovations in the staff's analysis include, in addition to the special chapter on policy interactions in industrial countries mentioned above, the preparation and presentation of medium-term scenarios. The latter have provided the basis for a discussion of the global debt problem and, more generally, for a systematic assessment of the medium-term implications of a number of policy strategies in the various groups of Fund members. In the Executive Board discussion of the world economic outlook in September 1985, and subsequently in the Interim Committee meeting, concern was expressed about the weakness of economic activity in the industrial world and the effect of this weakness on the growth of world trade and on primary commodity prices. Without significant growth in the export earnings of developing countries, the management of the debt situation was likely to become much more difficult. It was felt that the overall economic outlook had become more uncertain during the course of 1985, and that there were greater downside risks in the projections. On the other hand, the considerable progress that had been made in reducing inflation in the industrial countries had been an important improvement in the outlook.

The Board and the Interim Committee broadly endorsed the policy strategy of the industrial countries, especially the framing of policies in a medium-term context and the emphasis that was being given to the preservation of financial stability. Particular stress was placed on the need for substantial and sustained reductions of budget deficits by those countries where they were excessive. In addition, the need to broaden further the basis of expansion in the world economy was emphasized. In this connection, countries that had strong external positions and good inflation records were considered well placed to contribute to growth in the world economy.

As for the handling of the debt situation, three key requirements for a durable solution were emphasized, namely, adequate access for developing countries to growing markets in industrial countries, firm measures of adjustment by the developing countries themselves, and an appropriate supply of finance to ease the process of adjustment. In this context as well as in others, the persistence of protectionist pressures was seen as a major problem. The importance of resisting continuing pressures for trade restrictions was stressed, but it was also noted that a lasting solution to the threat required an improved setting of macroeconomic policies.

By the time of the discussion of the world economic outlook that took place in the spring of 1986, a number of major developments had occurred, including the sharp decline in oil prices, the continued depreciation of the U.S. dollar, a further decline in interest rates, the increased determination of the United States to deal effectively with its fiscal deficit, and the evidence of more coordinated attention by the major countries to issues such as exchange rates and the debt situation. Although the growth of output in the industrial countries had slowed in 1985, and the terms of trade of developing countries had deteriorated sharply, the more recent developments just referred to had contributed to an improvement in the outlook for most countries.

Against that background, the Fund's Executive Board and the Interim Committee noted some specific ways in which economic performance could be strengthened in the period ahead. The current and prospective reduction in the U.S. fiscal deficit was welcomed. In respect of those countries whose economies were operating below capacity, where the balance of payments was in strong surplus, and where inflation had been largely eliminated, it was noted that there might be room for more growth-oriented policies in the short term, while preserving the credibility of the authorities' medium-term policy stance. The decline in interest rates that had occurred was welcomed, and it was hoped that further progress in reducing fiscal pressures and inflation would allow this process to continue. This would help capital formation and the growth of output and employment and would alleviate the debt burden of developing countries. Attention was also drawn to the central importance of structural policies in improving the efficiency of resource allocation.

Particular note was taken of the fact that developing countries continued to face a number of serious problems. The exceptionally difficult economic conditions, especially in Africa, were a matter of special concern. In 1985, world trade had been sluggish, commodity prices had fallen significantly, the external financing situation remained very tight, imports had declined in real terms in many countries, and the growth of output had slackened. Nevertheless, some progress had been made by developing countries in coping with their economic problems. On the whole, with some notable exceptions, the rate of inflation had been contained and a number of countries had adopted particularly bold anti-inflationary policies. Also, current account deficits remained well below their peak figures of the early 1980s. It was noted, however, that much remained to be accomplished, and the importance of effective domestic policies for promoting noninflationary growth was stressed.

While discussions of the world economic outlook provide the opportunity for members to review prospects and policies in the world economy at large, it is periodic Article IV consultations that provide the primary means for the exercise of firm surveillance over the exchange rate policies of individual members. Article IV consultations normally take place annually but there can be a longer interval—up to two years—for some members, and shorter cycles may be requested in some circumstances. The annual cycle is employed for countries whose policies have a substantial impact on other members, for countries with Fund stand-by or extended arrangements, and for countries for which there are questions concerning balance of payments viability. A standard 12-month interval had been specified for 127 countries as of the end of 1985, while longer intervals between consultations (ranging from 16 to 24 months) had been specified for 19 countries. In the 1985/86 financial year a total of 124 consultations were concluded involving 83 percent of the Fund membership. In addition, large movements in real effective exchange rates were brought to the attention of the Executive Board under the information notice system on 42 occasions.

The evolving nature of the consultation process has been reflected over the years both in the focus of Executive Directors' discussions in concluding consultations with individual members and in the content of staff reports. In particular, international economic linkages and issues related to trade and protectionism as well as capital flows have been increasingly emphasized. In order to keep the Executive Directors informed of important trade policy actions by major countries between reports on Article IV consultation discussions, a procedure for issuing special trade information notices to the Board has been introduced. Two such notices were issued during the past financial year.

Article IV consultations have also increasingly reflected the need to discuss with member countries the medium-term implications of their policies. Consultation reports for almost all countries for which external indebtedness is a significant issue have included an analysis of the medium-term external debt outlook. The practice of including medium-term balance of payments scenarios has also been extended to countries where external indebtedness is not seen as a major issue, including many industrial countries.

Economic developments and policies in the major industrial countries have been discussed by the Executive Board on a number of occasions throughout the year, in the context both of the Article IV consultations with individual countries and of the semiannual discussion of the world economic outlook. These discussions have afforded the opportunity for the Board to express its views on policies in individual countries and their interaction with developments in the world economy at large.

The *United States*, in the period since late 1982, has succeeded in combining a strong economic recovery and a further decline in inflation. This achievement has helped to promote world economic recovery and to facilitate the adjustment efforts of developing countries. Over time, however, serious imbalances have emerged in the U.S. economy, and the growth of economic activity has slowed. In particular, large federal government deficits have become a pressing issue of economic policy. The increase in the federal deficit has contributed to a sharp widening of the U.S. current account deficit. The capital inflows that are needed to finance the external deficit have given rise to concerns about the resulting use of world savings and have constituted a worrisome development in the external debt position of the United States. Against this background, the recent evidence of renewed determination by the U.S. authorities to deal with the fiscal problem is an especially heartening development.

Monetary policy in the United States has been instrumental in bringing down inflation from the high levels of the early 1980s. In view of the continued moderation of inflation and the recent sluggishness of output, the recent stance of monetary policy—in which faster monetary growth has been associated with a substantial decline in U.S. interest rates—can be considered to be broadly appropriate. The emphasis that the U.S. Administration has placed on the role of market forces in the design of economic policies is also appropriate. Lastly, it remains essential that the Administration stand fast in its resolve to resist protectionist pressures.

The *Federal Republic of Germany* has maintained a steady and consistent stance of policies for a number of years. These policies have succeeded in reducing the rate of inflation to a very low level; output growth, however, has remained relatively moderate and until recently has relied to a considerable extent on foreign demand. Steps have been taken to reduce labor market rigidities. Nevertheless, there is room for further improvements. While the medium-term orientation of financial policies is clearly appropriate, and a shift toward more stimulatory short-term demand management would not be warranted, it has been argued that there may be scope within this framework for directing policies toward a strengthening of domestic demand. The halving of the general government deficit in proportion to GNP since 1981 has been a major achievement that may permit greater priority to be given to reducing tax rates than to a further reduction in the overall deficit. In this connection, the reductions in income tax rates implemented at the beginning of 1986 and planned for 1988 are to be welcomed.

The economy of *Japan* continued to perform well in 1985; even though growth receded from the high rate of 1984, economic activity was broadly in line with its medium-term potential. Prices continued to be virtually stable. For the future, the continuation of strong growth in Japan is in the vital interest of the international community, and the large withdrawal of stimulus from the external sector in response to the shift in exchange rates during 1985 and the early part of 1986 will have to be taken into account in formulating policies. The Japanese authorities have generally conducted their fiscal management in a flexible manner, and this approach remains appropriate in current circumstances, though without prejudice to medium-term objectives. The authorities permitted a significant tightening of monetary conditions in the final months of 1985 in order to consolidate the strengthening of the yen. With a substantial appreciation of the yen apparent by early spring 1986, there emerged scope for monetary policy in Japan to be directed toward promoting a strengthening of domestic demand.

In spite of the appreciation of the yen during 1985 and the early months of 1986, sizable current account surpluses are expected to continue in Japan over the medium term, reflecting fundamental saving and investment relationships, particularly the continued high rate of private sector saving. Japan's surpluses have provided savings to the rest of the world and thus have helped to hold down international interest rates, but it is nonetheless important for Japan and the other major industrial countries to pursue appropriate and compatible policies in order to promote harmonious external economic relationships. In this connection, measures taken by Japan during 1985, along with other steps in the direction of liberalization, privatization, and deregulation of the economy, should prove helpful. The Action Program announced by Japan in 1985 promises important progress in the direction of reducing inhibitions to imports and should be implemented with determination.

Further progress has been achieved in *France* in reducing inflation, improving profitability, and strengthening the external account. New procedures for wage settlements have introduced more flexibility into the economy, and wage moderation has been central to the progress made in all three areas. Additional measures were taken in the second quarter of 1986 to reduce structural rigidities, including a reduction of controls on capital flows and on domestic prices and interest rates. These measures should help to restore market incentives and improve employment prospects. The continued success of incomes policy depends on the support of adequately constraining financial policies. In view of the need for an increase in the share of private sector investment in GDP, and the already high burden of taxes and social security contributions, priority should continue to be given to the reduction of government expenditures.

The *United Kingdom* has experienced an uninterrupted expansion of output since mid-1981, reflecting a fundamental transformation in the economy since 1979 and the continued commitment of the authorities to price stability through adherence to a medium-term financial strategy. On the other hand, despite the persistence of a very high level of unemployment, unit labor costs have continued to rise faster than in the other major industrial countries and have even shown some tendency to accelerate. There is therefore a need for further action to reduce rigidities in the labor market. Growth of the monetary aggregates has become difficult to interpret, perhaps reflecting changes in the financial structure. In these circumstances, the exchange rate can sometimes provide useful additional signals on monetary conditions. The ratio of the public sector borrowing requirement to GDP—adjusted for the effects of transitory factors—has hardly declined; it is therefore especially important for fiscal policy to be sufficiently restrained to sustain confidence in financial markets and, if possible, permit a reduction of interest rates.

The improvement in economic performance in *Italy* since 1984 has resulted from a strengthened cohesiveness of economic policies. However, some of the momentum toward fiscal correction has recently been lost. A sustained reduction in the fiscal deficit remains an essential condition for the maintenance of balanced growth over the medium term. The Italian authorities have pursued a monetary policy that is consistent with a deceleration of inflation, and the continuation of that course is essential. The shift away from quantitative ceilings on bank credit to a market-oriented system requiring more flexible and positive real interest rates has also had beneficial consequences, as has the adoption of measures aimed at reducing wage indexation. There remains, however, an urgent need to reduce other labor market rigidities and to promote the continued containment of labor costs.

The growth of economic activity in *Canada* has continued to be strong, and the recovery has not been associated with any significant upward pressure on prices or costs. It is encouraging that the expansion has become more balanced, as business fixed investment has picked up and has been accompanied by a high personal saving rate. The major challenge facing the Canadian authorities is to achieve a lasting reduction of unemployment while extending the progress made toward price stability. The strategy to achieve these objectives will have to involve a substantial improvement in the federal fiscal position and a monetary policy aimed at consolidating the gains made in reducing inflation, coupled with continued efforts to improve the efficiency of resource allocation, such as the move to liberalize energy price determination.

Article IV consultations with smaller industrial countries and with developing countries covered a broad range of issues and reflected the varying circumstances facing individual member countries. The Board's consideration of these issues has continued to focus on emerging problems faced by members and to reflect concerns related to the evolution of the international economy. In particular, close attention has been paid to the appropriateness of exchange rate policies, domestic financial policies, and trade policies, as well as to issues of structural adjustment.

In most countries, key factors highlighted in the analysis of exchange rate policies were the position of the overall balance of payments and its structure, and trends in the real effective exchange rate index. In developing countries that are heavily dependent on one or a few sectors, the analysis of these broader indicators was often supplemented by a discussion of the competitiveness or profitability of particular tradable goods industries. Other areas that received prominent attention were the restrictiveness of exchange and trade systems and developments in parallel exchange markets. In cases where questions were raised regarding the appropriateness of exchange rate policies, the most common reason was the maintenance of an unchanged peg against the U.S. dollar at a time when the dollar was undergoing sizable fluctuations.

Great importance was also attached to the reduction of fiscal deficits. Fiscal deficits have remained large in many countries following marked increases in the late 1970s. Where deficits were judged to be too large, a reduction in expenditures was typically recommended. The use of complementary revenue measures was also suggested in many cases. In a few instances, mostly in nonindustrial countries, specific recommendations were made to strengthen the tax base. These recommendations included measures to strengthen tax administration and, in oil producing countries, to broaden the coverage of taxation with particular reference to non-oil activities.

Discussions of monetary policies, as in past years, typically focused on whether the stance of policy was consistent with the objective of reducing, or keeping down, the rate of inflation, and on the impact of credit expansion on the balance of payments. For developing countries that operate with fixed or less than fully flexible exchange rates, the primary focus usually was on the growth of credit rather than on monetary aggregates. The allocation of credit was also a concern, notably the share of credit expansion pre-empted by the financing needs of the public sector.

For a number of developing countries, policy or institutional changes were recommended in response to analyses of the adequacy of monetary statistics and the instruments of monetary policy. These recommendations included improving the timeliness and accuracy of statistics, broadening the range and effectiveness of policy instruments, and tightening control over the lending activities of specialized banks. In a number of cases where interest rates are set administratively, the adequacy of the level of interest rates was questioned.

The increasing recognition in recent years of the adverse effects of structural rigidities on economic activity, employment, and trade has led to a greater emphasis on structural issues in the conduct of surveillance. Discussions of structural issues during the past year have addressed a range of problems, including inefficiencies in markets for labor, goods, and financial assets. For example, policy recommendations for labor markets included greater wage flexibility; the modification of indexation practices; the reduction of employment-based taxes; the adjustment of minimum wages; more flexible hiring or management of the work force; and improved work incentives or labor mobility.

An increased emphasis has also been given to trade policies in recent years. The importance of resisting protectionist pressures and, where possible, rolling back existing restrictions has been a recurrent theme in Article IV consultations with a broad spectrum of Fund member countries, developing and developed alike. Particular attention has been drawn to the need for developing countries to have adequate access to markets in industrial countries if they are to be successful in a growth-oriented adjustment strategy based on comparative advantage. Recommendations in the area of trade policy have included liberalizing the system of licensing and controlling imports and phasing out reliance on quantitative controls and other nontariff barriers.

INTERNATIONAL LIQUIDITY AND THE SDR

One of the principal activities of the Fund involves monitoring developments in international liquidity and managing the SDR system. As noted earlier, the reports of the Group of Ten and the Group of Twenty-Four recognized that the functioning of the present international monetary system had not been entirely satisfactory in recent years, and both reports set forth proposals for improving the system.

LIQUIDITY AND THE FUNCTIONING OF THE INTERNATIONAL MONETARY SYSTEM

These proposals included suggestions for strengthening the international monetary system in general, as well as proposals for changing or expanding the role of the SDR in particular. The report of the Group of Ten made a number of general suggestions. First, an improvement in the operation of private credit markets could be sought through the encouragement of the collection and dissemination of data used in the assessment of creditworthiness, through deregulation of capital markets and liberalization of capital movements, and through strengthened supervision of banks operating in international markets. Second, the integration of surveillance over members' exchange rate policies and surveillance over international liquidity could contribute to a better functioning of the international monetary system. And third, the provision of official financing on appropriate terms to countries with limited access to private capital markets could help restore the creditworthiness of those countries.

The report of the Group of Twenty-Four also supported stricter surveillance over exchange rate and macroeconomic policies, as well as surveillance of international liquidity, because the ability of the developing countries to rebuild reserves had been "limited by the willingness of major countries to consider the international impact of their policies and to respond to the urgings made in the representative international fora."

The report emphasized that the improvement of creditworthiness, like the acquisition of reserves without borrowing, depends on the ability of countries to strengthen their balance of payments positions; it is therefore strongly influenced by the domestic policies of the major industrial countries, which in recent years have generated slow growth of demand and declining relative prices for the exports of developing countries. Moreover, because creditworthiness had not been restored despite vigorous adjustment policies and sizable improvements in the current account positions of the developing countries, the report argued that market processes alone could not be relied on to correct an inadequate amount or an uneven distribution of international liquidity. Accordingly, the report urged that "the Fund should be enabled to influence the liquidity needs of the world economy through a more efficient SDR creation and distribution than it has so far been able to do."

In addressing the issues that the two reports raised about the general function of the present international monetary system, the Fund's Executive Directors differed in the nature and the strength of their concerns. Many Directors argued that, to a greater or lesser degree, the shift of emphasis from owned to borrowed reserves had created certain difficulties. The stock of international reserves and the terms and conditions on which they are supplied depend mainly on decisions made by private financial institutions, which are in turn influenced importantly by the policies of the key-currency countries. Private markets could not, in this view, be relied on to provide an adequate amount of reserves, to distribute reserves efficiently, or to avoid sudden limitations on (or abrupt changes in the terms and conditions of) access to reserves.

Other Directors, however, while agreeing that the private market system had shown some deficiencies, argued that for the most part the international financial markets had functioned effectively. In this view, the need to repay or refinance debt to maintain or re-establish creditworthiness imposed a useful discipline. Any country or group of countries without access to private financial markets was likely to be in need not of borrowing on commercial terms, but rather of concessional assistance in support of structural adjustment. Accordingly, these Directors felt that the U.S. debt initiative was the appropriate type of approach for meeting the financing requirements of countries that had not regained access to markets despite having undertaken adjustment measures.

The Executive Board also focused on the evolving role of the SDR in the international monetary system. The Board took note of a number of major structural changes that had occurred in the system since the creation of the SDR: the suspension of the convertibility of official U.S. dollar balances into gold; the advent of greater exchange rate flexibility; the emergence of a multicurrency reserve system; and the expansion and integration of international credit markets. These changes were felt to have had implications for the principal role of the SDR of alleviating the shortage of international liquidity as well as reducing the perceived asymmetries in the reserve-currency system. They may also have made obsolete one of the original functions of the SDR, which was to shore up confidence in the convertibility of the U.S. dollar into gold.

In addition to considering the original purposes of the SDR, it was noted that the SDR now serves—or could serve—other purposes: it constitutes an owned component of reserves; it may help diversify official portfolios; and it serves as a unit of account. Many Executive Directors considered that a more extensive role for the SDR could improve the system by increasing the proportion of owned reserves in total reserves. Some Directors felt that the stability of the system would be enhanced if the SDR were used more extensively to provide effective diversification of reserve holdings without reliance on exchange market transactions. Other Directors felt that greater stability of the system depended on better economic policies and closer international cooperation and that the SDR could not significantly contribute to this goal.

THE ADEQUACY OF INTERNATIONAL RESERVES

An adequate level of reserves is essential to the smooth functioning of the international economy. International reserves allow countries to avoid undertaking abrupt adjustments in their economic policies in response to unanticipated disturbances that may adversely affect or threaten to affect their international payments positions. International reserves provide buffers that countries can draw down and replenish as their international receipts fluctuate relative to their payments needs. Moreover, since an adequate stock of reserves helps to assure private savers and investors that countries will be able to smooth their import and absorption streams when confronted with fluctuations in their international receipts, it also reduces the incentives for capital flight that might arise if there were the anticipation that countries might be forced to make abrupt policy adjustments in response to unpredicted shocks.

An evaluation of the adequacy of international reserves requires consideration of the factors influencing the demand for and the supply of reserves. The reports of the Group of Ten and the Group of Twenty-Four both noted that the demand for international reserves has not been significantly reduced by the advent of floating exchange rates. Countries have continued to hold reserves as a precaution against unanticipated shocks, as a means of demonstrating creditworthiness, and for exchange market intervention. The existence of a persistent long-term demand for reserves is reflected in both the relative stability of the ratios of non-gold reserves to imports for most country groups and the willingness of countries to rebuild reserve holdings even under adverse circumstances. During the 1980s, the industrial countries as a group have maintained their reserves at close to 17 percent of their imports, while the developing countries, as a group, following a decline in the ratio of their reserves to imports to 26½ percent in 1982, have recently rebuilt that ratio to more than 30 percent.

In their efforts to maintain reserves, countries have faced different terms and conditions at which reserves are being supplied. Creditworthy countries have been able to borrow reserves at competitive terms in international financial markets. The net cost of these borrowed reserves has equaled the difference between the cost of borrowed funds and the return earned on reserve assets. By contrast, the external payments difficulties of many developing countries since 1982 have severely limited their access to private capital markets. This experience has made it evident that for some countries the opportunity to acquire or augment reserves by borrowing may not exist when needed most; even where indebted countries have pursued strong adjustment programs, access to financial markets has not been restored quickly. In this situation, many developing countries have been able to rebuild reserves only through using official capital flows or through current account surpluses generated by compressing imports and restraining economic growth. The necessity for a large number of countries to rely heavily on import compression to increase reserves has been seen as incompatible with the expansion of world trade, or with the general growth-oriented strategy for dealing with the international debt problem.

Such perspectives underscore the difficulty of assessing the adequacy of the global stock of reserves without taking account of the distribution of reserves among countries and the terms and conditions under which additional reserves can be acquired. In recent years, concern has been expressed that countries perceived to be most in need of additional reserves may face adverse terms and conditions for obtaining them. It has been argued that, in these circumstances, the supply of reserves generated by international agreement takes on special importance. The strength of that concern has not, however, produced general agreement on either the need or the appropriate means for an increase in international reserves.

Despite the willingness of most Executive Directors to support a new allocation of SDRs, sufficient support for an SDR allocation has not emerged during the fourth basic period, which will end in December 1986. Those Directors who did not favor an SDR allocation indicated that they were not convinced of a long-term global need for reserve supplementation. They argued that most of an SDR allocation would be received by countries without a strong need for reserve supplementation; that experience has shown that SDRs tend not to be held by the very group of countries whose need is cited as justification for an allocation; and that the persistent tendency of these countries to deplete their SDR holdings, if repeated following a new allocation, would constitute a permanent transfer of resources and would thus be contrary to the purpose of the SDR.

The issues raised by these objections to an SDR allocation have received considerable attention in the work program of the Fund. In recent years, various proposals have been put forward for arrangements that could be used, in effect, to redistribute an SDR allocation toward countries with the strongest need for additional reserves. In addition, the Executive Directors have recently, at the request of the Interim Committee, studied proposals to achieve a more balanced and stable proportion of SDR holdings in members' reserves. Work on these issues is continuing.

DEBT SITUATION AND STRATEGY

An important aspect of the Fund's activities in the past several years has been the handling of international debt problems. The strategy adopted in late 1982 for the resolution of the debt-servicing difficulties of developing countries has been based on a case-by-case approach involving coordinated efforts by debtor and creditor countries, commercial banks, and multilateral financial institutions. Since then, considerable progress has been made. The aggregate current account deficit of the capital importing developing countries was reduced from about $100 billion in 1981 to an average of some $25 billion in 1984–85. On the whole, external debt has been serviced and principal has been restructured in an orderly fashion, while total external payments arrears were reduced in 1985 for the first time in recent years. The adjustment that has been achieved by many developing countries, together with the substantial strengthening of the balance sheets of international banks resulting from increases in loan-loss provisioning and growth in bank capital, has increased the resilience of the international financial system in the face of potential adverse developments.

Notwithstanding the considerable progress that had been achieved by 1985, developing countries remained highly vulnerable to a number of disturbing developments in the world economy. The expansion in world trade slowed in 1985 with the deceleration of growth in industrial countries and the increased protectionism in those countries. The decline in oil prices and other key commodity prices reduced the export earnings of developing countries, and new commercial bank financing declined further. A number of developing countries continued to experience substantial internal and external imbalances and, even though growth recovered in 1984–85, income per capita in many heavily indebted countries remained below pre-1982 levels. As a result of all these factors, the process of adjustment came under increasing pressure in 1985.

In response to these difficulties, the U.S. Secretary of the Treasury, James A. Baker III, launched an initiative at the Annual Meetings of the World Bank and the Fund in October 1985 to reinforce the debt strategy. The initiative stressed the continued validity of the case-by-case approach and emphasized three mutually supporting elements. First, debtor countries needed to implement macroeconomic and structural policies designed to promote growth, to encourage external adjustment, and to reduce inflation. Second, the Fund should continue to play a central role in managing the debt problem, while the role of multilateral development banks and, in particular, the World Bank, should be enhanced by increased and more effective structural adjustment lending. It was suggested that annual disbursements from the World Bank and the Inter-American Development Bank to principal debtor countries should, over the period 1986–88, rise by about 50 percent from the projected rate of $6 billion a year. The World Bank's role in stimulating private lending to developing countries would also be enhanced, while the operations of both the Multilateral Investment Guarantee Agency and the International Finance Corporation would assist in attracting non-debt-creating capital flows to these countries. Third, additional net lending from commercial bank sources was needed to underpin sound economic policies. On the basis of an indicative group of 15 heavily indebted countries, a figure of $20 billion for such new lending was suggested for the period 1986–88, which would represent an increase of 2½–3 percent a year in outstanding commercial bank claims.[8] (This list of countries was not intended to be exhaustive, and the figure of 2½–3 percent per annum was not to be regarded as an entitlement for countries, nor as a maximum for creditors.) In addition to the provision of net new loans to the group of 15 countries, it was expected that banks would continue to provide, on a spontaneous basis, adequate net new lending to countries receiving bank financing, provided that these countries maintained sound policies. It was also expected that banks would consider lending to other developing countries experiencing debt-servicing problems that might require relatively small amounts of commercial bank financing under adjustment programs supported by the Fund and the Bank.

The proposed strengthening of the debt strategy was welcomed by the international community. In a joint press release issued in December 1985, the Managing Director of the Fund and the President of the World Bank urged that the initiative should be translated into positive and concrete action as soon as possible. Commercial banks accounting for the overwhelming bulk of claims on debtor countries indicated their willingness to play their part in implementing the strategy in collaboration with other concerned parties—including governments and the international institutions. The Interim and Development Committees, at their meetings in April 1986, also welcomed the strengthening of the debt strategy.

A strengthened debt strategy requires important policy changes in both debtor and creditor countries. The key task for debtor countries is to implement sound macroeconomic and structural policies in order to provide the basis for sustained economic growth, reduced inflation, and the restoration of international creditworthiness. When there are internal imbalances, prudent fiscal and monetary policies are needed to restore stable financial conditions and establish the foundation for durable growth. A growth-oriented adjustment strategy also requires prices, exchange rates, and interest rates that are in line with market realities to bolster the generation of private financial savings, foster the efficient allocation of investment, ensure the competitiveness of exports, and discourage capital flight.

Creditor countries need to create a commercial and financial environment that is more supportive of the growth objectives of developing countries. There has been evidence of progress in this area in the past year, including, for example, the commitment of the United States to reduce its fiscal deficit, the coordinated adjustment in the pattern of exchange rates among major

[8] See Appendix IX, page 165, for a listing of the 15 heavily indebted countries.

currencies, and the downward movement in international interest rates. Successful implementation of the reinforced debt strategy, however, also requires industrial countries to maintain open markets and pursue policies aimed at noninflationary growth, creating a financial climate in which further declines in interest rates may be possible.

Creditor governments have also been facilitating financial flows to developing countries more directly. In the framework of the Paris Club, official creditors have shown considerable flexibility in responding to the needs and circumstances of debtor countries. The Paris Club has agreed to successive annual reschedulings in a number of cases and to multiyear rescheduling agreements (MYRAs) for Ecuador in April 1985 and Côte d'Ivoire in June 1986. The Paris Club has also indicated willingness to agree on MYRAs in cases where such agreements would contribute to a return to normal debtor-creditor relationships. Official creditors have recognized that export credits and credit guarantees extended by their export credit agencies are an important source of bilateral financing for debtor countries. Consequently, many agencies are now prepared to resume or increase export credits and cover, on a case-by-case basis, for developing countries that are willing to undertake the policy adjustments needed to restore creditworthiness and have concluded and are implementing Paris Club debt reschedulings.

The Fund has played a central role in the management of the debt crisis both by assisting developing countries in the design of comprehensive economic programs tailored to their individual circumstances and by helping to mobilize the necessary financial resources in support of these programs. As a result of the decision in December 1985 to continue the policy of enlarged access (see below, page 47), the Fund can continue to make a significant contribution to balance of payments financing. Nevertheless, its financial support is not likely to be on the same scale as in the early stages of the debt crisis; thus a somewhat greater emphasis has been given to the catalytic role of Fund support. In this regard, the procedure of "enhanced surveillance" has been established in connection with the development of MYRAs.

Enhanced surveillance, which is prompted by a request from the member, is a procedure for monitoring economic developments in certain countries that have advanced significantly in their process of adjustment, and for which a Fund arrangement is not envisaged. The Fund staff's assessment of the policy program presented by the member in the process of consultations with the Fund staff is provided to creditors for consideration, along with other information, in making lending decisions. This procedure is intended to secure the Fund's help for countries that are very close to restoring normal market relations. Commercial banks have already negotiated MYRAs in conjunction with enhanced surveillance in a number of cases. The MYRA that was extended to Ecuador in 1985 by the Paris Club may entail enhanced surveillance in the third year (after the current Fund arrangement expires); more recently, the Paris Club rescheduling with Yugoslavia incorporated enhanced surveillance.

Table 14.

Upper Credit Tranche Stand-By and Extended Arrangements in Place at the End of Financial Years 1978/79 to 1985/86

Year	Stand-By Arrangements	Extended Arrangements	Total
1978/79	10	5	15
1979/80	16	7	23
1980/81	17	15	32
1981/82	21	12	33
1982/83	30	9	39
1983/84	30	5	35
1984/85	27	3	30
1985/86	24	2	26

FUND-SUPPORTED ADJUSTMENT PROGRAMS

RECENT EXPERIENCE

Besides the role it has played in coordinating the global response to the debt crisis, the Fund has also worked directly with member countries to develop adjustment programs that it has supported financially. The main vehicles for this purpose are upper credit tranche stand-by and extended arrangements. So far in the 1980s the Fund has approved such arrangements for over 40 percent of the membership.[9] These countries included 12 of the 15 highly indebted countries mentioned above. (Two of the other three entered into special monitoring arrangements with the Fund in connection with their adjustment programs.)

Twenty-six countries had stand-by or extended arrangements in place at the end of 1985/86, a somewhat smaller number than in other recent years (Table 14). Nineteen arrangements were approved in the course of the year, while the other seven were continuations of arrangements approved in earlier years. In part, the decline in the number of arrangements reflects the adjustment of the current account deficits of some countries to the available financing.[10] Most of the countries that have undertaken adjustment programs during this period, however, still have some way to go before reaching balance of payments viability. Some countries have in fact made little progress, and a number of countries have overdue

[9] In recent years all such arrangements have been for developing countries.

[10] Some countries that no longer require the Fund's financial assistance have sought continuing close involvement through enhanced surveillance.

obligations to the Fund, which preclude them from drawing under existing arrangements or entering into new arrangements.

The fact that some countries have yet to reach balance of payments viability, despite adjustment programs that have continued over a number of years, contrasts with past experience when most countries entering into such programs were able to reach a satisfactory balance of payments position within three to five years, the repurchase period for use of the Fund's ordinary resources in the credit tranches. In large part, the recent difficulties reflect the unprecedented need for adjustment that was faced by developing countries at the beginning of the 1980s, which was acknowledged in the 1981 Annual Report (page 78) in the following terms:

> The Fund recognizes that to rectify a country's balance of payments position may, under present circumstances, require structural changes and that these adaptations may take longer than the one to three years normally set for Fund programs.

This difficult situation, which was reflected in the longer repurchase period for borrowed resources under the Fund's enlarged access policy (three and a half to seven years), was compounded by the shift in the availability of external finance that took place following the emergence of the debt crisis in 1982. While much of the difficulty members have had with their adjustment programs has reflected the difficult external environment, there has been a continuing search for improvement in the application of the Fund's conditionality—the standards the Fund applies in providing financial support for members' adjustment programs.

CURRENT ISSUES IN CONDITIONALITY

The process of reviewing conditionality and adapting it to new situations takes place at two levels. The experience with each individual program is examined through reviews in the course of the program, through discussions of further programs, and through Article IV consultations. This process may result in changes in subsequent programs with the member and, where the experience is applicable more broadly, in programs with other members. There are also reviews by the Executive Board of particular topics in conditionality, or, more generally, of overall experience with Fund-supported programs.

The most recent review of conditionality was carried out by the Executive Board in January 1986. It dealt with a variety of issues in the implementation of conditionality, focusing on possible improvements in program design and on ways of dealing with the problem of prolonged use of Fund resources by a growing number of member countries. During 1985/86, the Executive Board also held three seminars related to conditionality. The first seminar, in July 1985, considered a number of effects of Fund-supported adjustment programs: their effects on growth in program countries, their global effects, and their effects on income distribution.[11] The other two seminars, in February 1986, dealt with the design of Fund programs: the first was a discussion of general issues, the second a discussion of program design in planned economies.

The Executive Board's review of conditionality drew on a detailed appraisal of the experience of the 22 countries that had been granted upper credit tranche arrangements in 1982, supplemented by material on selected aspects of the experience of other countries with more recent programs. The Board noted with concern that a significant number of program countries had not made satisfactory progress toward balance of payments viability. In discussing this experience, attention was drawn to the external environment, slippages in policy implementation, and problems relating to program design. While the adverse economic environment since 1980 had clearly been a major factor, it was noteworthy that some members had made considerable progress in adjustment under circumstances comparable to those faced by members that had not. These differences appeared mainly to reflect divergences in the determination with which policies had been implemented. Directors stressed particularly that the success of a program depended on introducing policy measures at a sufficiently early stage, on tailoring the program to the circumstances of each individual case, and on having the ability to make flexible policy adjustments in the course of the program when circumstances changed. For these conditions to be fulfilled, there needed to be strong support from the political leadership of the country concerned.

In considering the implications of this experience for program design, Directors stressed the need for a growth-oriented approach. In the discussion of the growth issue at the July 1985 seminar, it was noted that the Fund's ability to promote growth was constrained by the availability of resources to the Fund and the use to which available resources could be put. As a monetary institution that needs to ensure the revolving character of its resources, the Fund must emphasize the restoration of balance of payments viability in member countries using Fund resources. Nevertheless, there are strong causal links running from growth to balance of payments viability (and vice versa). Balance of payments adjustment in a context of slow growth can lead to "adjustment fatigue," particularly if the period of adjustment is prolonged. Directors therefore felt that the Fund should increase its efforts to persuade members to adopt policy reforms favorable to growth.

In considering how to direct adjustment policies toward faster growth, Directors supported the increas-

[11] The Executive Board had before it three papers on these topics which have since been published in the Occasional Papers series (numbered, respectively, 41, 42, and 46).

ing emphasis in Fund programs on the need to enhance economic efficiency and competitiveness and increase supply responses. Both in the conditionality review and in the subsequent seminar on program design, the need for comprehensiveness of programs and greater emphasis on structural reforms was stressed. Many such reforms fall within the Fund's traditional areas of responsibility. These include, in particular, policies to enhance competitiveness. The Board noted that exchange rate flexibility designed to bring the exchange rate into line with market realities was an important tool with which to improve efficiency.

While the Fund has had long experience with the development of policies to enhance competitiveness, other areas of structural adjustment presented more difficult challenges. A higher priority would need to be given to the supply-side, or structural, aspects of programs. These include pricing policy, tax reform, financial sector reform, and trade liberalization. To move very far in that direction, however, would require careful attention to the question of collaboration with the World Bank (see below) and also could have implications for the guidelines on conditionality.

The present guidelines on conditionality date from 1979,[12] and were developed in the course of a major review of all aspects of conditionality. While there has been a considerable evolution of the practices of conditionality since then, this evolution has not been so great as to require any revisions in the guidelines. The coverage of policy conditions (or "performance criteria") is dealt with in Guideline 9, which reads as follows:

> The number and content of performance criteria may vary because of the diversity of problems and institutional arrangements of members. Performance criteria will be limited to those that are necessary to evaluate implementation of the program with a view to ensuring the achievement of its objectives. Performance criteria will normally be confined to (i) macroeconomic variables, and (ii) those necessary to implement specific provisions of the Articles or policies adopted under them. Performance criteria may relate to other variables only in exceptional cases when they are essential for the effectiveness of the member's program because of their macroeconomic impact.[13]

Consideration was given to a change in this guideline to provide for more routine inclusion in Fund arrangements of performance criteria on microeconomic policies. It was eventually concluded, however, that the Fund should not go too far in the formulation and follow-up of microeconomic policies, but should nevertheless increase its efforts to persuade program countries to carry out structural reforms. More generally, the Board agreed that the present guidelines on conditionality, applied on a case-by-case basis, continued to provide a satisfactory and sufficiently flexible basis for Fund policies on the use of its resources.

Among the other issues emphasized by the Board in its discussions of conditionality over the last year has been the value of medium-term scenarios, which in recent years have become a standard feature of the Fund's work both at the aggregate level (in the world economic outlook exercise) and at the level of the analysis of individual countries. The increased use of such scenarios was welcomed, with the proviso that the inevitable uncertainties involved in such exercises necessitated caution in their use. Adjustment programs were now more explicit about the time frame for adjustment as well as the assumptions of exogenous factors and policies underlying the projections. The medium-term scenarios facilitated a more explicit evaluation of the question of medium-term viability, and the greater use recently of sensitivity analyses and alternative scenarios had been an important innovation in this respect. Medium-term scenarios were also considered helpful in understanding the longer-term aspects of adjustment as well as in assessing the adequacy of short-term measures.

FUND-BANK COLLABORATION

The Fund and the World Bank share the common objective of assisting members in their efforts to improve economic conditions in their countries, but each institution has its own specific responsibilities and specialized expertise. The areas of economic policy dealt with by the two institutions are complementary and interrelated, as is the financial assistance each can provide.

Close cooperation between the Fund and the Bank is thus essential so that each can assist its members to the greatest extent possible, draw on each other's expertise, and avoid duplication and working at cross-purposes.

Collaboration between the Fund and the Bank has intensified recently in a variety of ways, especially with respect to countries where both institutions are actively involved in lending operations. The increasing emphasis on issues of medium-term and structural adjustment under Fund-supported programs, and the importance of an appropriate macroeconomic framework for sectoral and structural adjustment policies under the Bank's policy-based lending, have led to the further development of mechanisms for closer collaboration between the two institutions. These mechanisms aim at ensuring mutual understanding of the views and activities of the other and the development of a consistent diagnosis of members' policies, so that policy advice and financial resources

[12] Executive Board Decision No. 6056-(79/38), adopted March 2, 1979, *Selected Decisions*, Twelfth Issue, pages 26–28. From 1968 to 1978, the Fund's approach was guided by the conclusions from the first comprehensive review of conditionality carried out in the former year.

[13] Ibid., pages 27–28.

provided by the two institutions can be made consistent, complementary, and mutually reinforcing while avoiding cross-conditionality. Collaboration has also been necessary to further the efforts of the two institutions to encourage the provision of additional financial resources from other creditors.

In the past year the frequency of contacts between the Fund and Bank staff increased markedly both at headquarters and in the field. In 1985, Bank staff participated in Fund missions to 17 countries, and parallel or overlapping Fund and Bank missions took place to 44 countries, in some cases more than once to the same country. Such participation was relatively frequent in cases involving actual or potential use of Fund resources, and where the Bank was also undertaking or contemplating policy-based lending. Fund staff participated in Bank missions on 18 occasions in 1985, including participation by Fund staff from functional departments in Bank missions dealing with specialized topics. In 1985, Fund and Bank staff members began attending Executive Board meetings at the other institution on a systematic basis. Bank staff members have normally been invited to attend Fund Board meetings on country matters of interest to the Bank to promote effective cooperation by strengthening the understanding of considerations underlying Fund activities. Similarly, Fund staff have normally been invited to attend Bank Board meetings regarding lending operations in support of structural change. Frequent interaction and discussion between the two staffs have contributed to improved understanding of social and economic conditions of member countries and have broadened the overall short-term and medium-term perspectives of the two institutions.

In connection with Article IV consultations, as well as in the design of programs supported by Fund resources, the Fund staff frequently consulted the Bank staff in the areas where the Bank had particular expertise, especially the assessment of the efficacy of public sector investment programs and investment priorities, the efficiency of public enterprises' operations, and the pricing of energy, transport, and other important commodities. Other areas where Bank staff views were frequently sought include sectoral productivity analysis, import liberalization, and tariff reform. Fund staff, in turn, assisted Bank staff in assessments of a range of macroeconomic issues, particularly in connection with the Bank's structural and sector adjustment lending. Coordination between the staffs of the two institutions on their respective lending has been close. For those countries in which structural problems were important, the economic programs were supported in most cases by both a Fund arrangement and the Bank's policy-based lending; while aiming at mutually supportive lending operations, care is taken to avoid cross-conditionality. Fund-Bank collaboration to mobilize commercial bank financing has become particularly close and was a feature in five of nine commercial bank financial packages concluded or agreed in principle in 1985.

A recent development that will require intensified collaboration between the Fund and the World Bank is the establishment of the Structural Adjustment Facility, discussed in more detail in the following section. The Facility calls for member countries to develop medium-term policy frameworks, in close collaboration with the staffs of the Fund and the Bank, working together.

FINANCIAL POLICIES AND ACTIVITIES

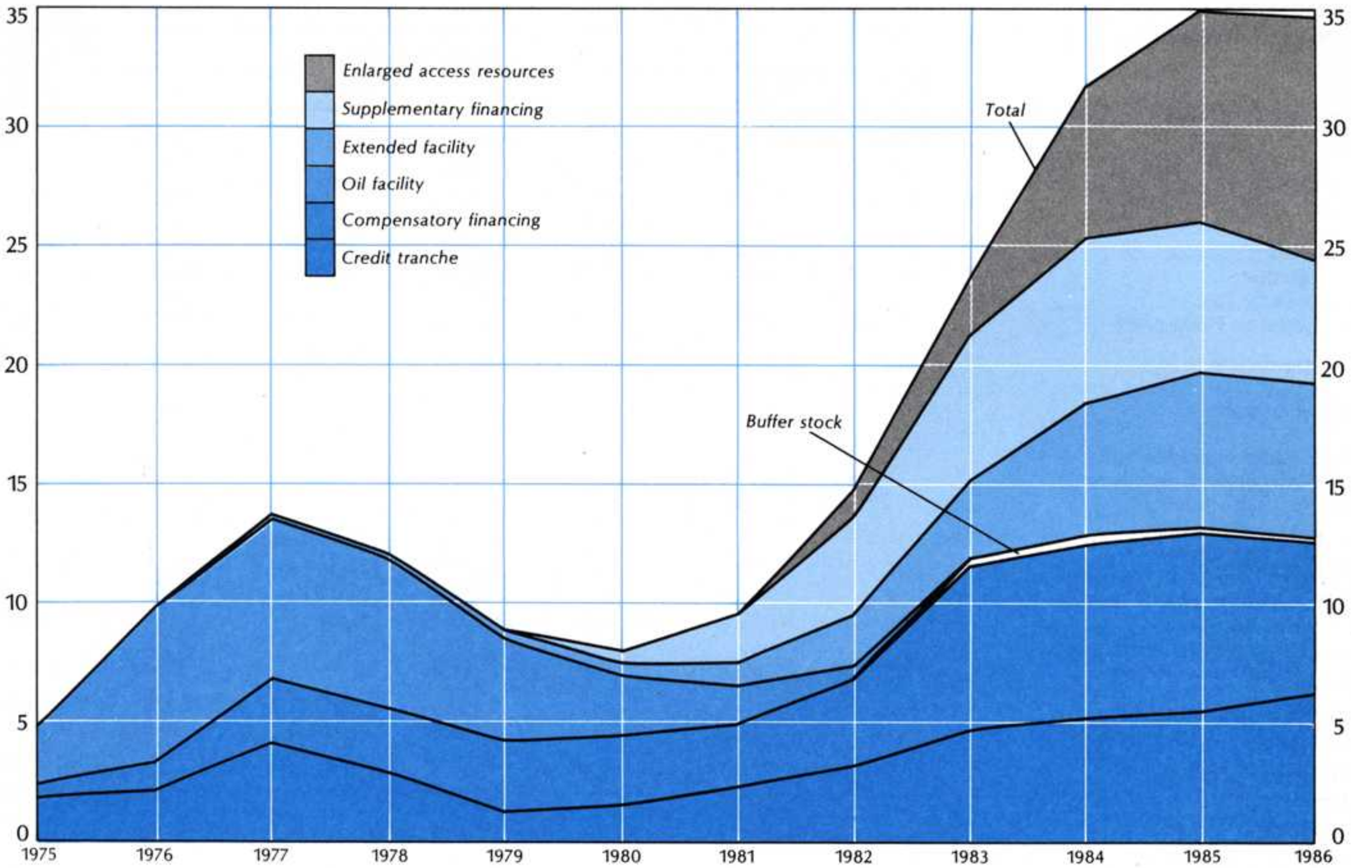
The financial activities of the Fund during the year 1985/86 were marked by a continuing high level of Fund credit outstanding, some slackening in the extension of new Fund credit, and a rising volume of repurchases. A notable policy development was the establishment (noted above, and discussed in more detail below) of the Structural Adjustment Facility, designed to provide concessional assistance to eligible low-income member countries that face protracted balance of payments problems.

The financial activities of the Fund have been influenced in part by the progress that a number of member countries have made over the past several years in strengthening their current account and external reserve positions. Drawings from the Fund declined from SDR 6.1 billion in 1984/85 to SDR 3.9 billion in 1985/86, and outstanding Fund credit fell slightly from SDR 34.9 billion at the end of 1984/85 to SDR 34.6 billion at the end of 1985/86 (Chart 16). The decline in outstanding Fund credit reflected the sizable repurchase obligations falling due, which were in turn related to the large expansion of Fund credit earlier in the 1980s (Table 15). Such a cycle of drawings and repurchases reflects the nature of Fund credit, which is for short-term to medium-term balance of payments assistance, and the revolving character of Fund resources.

Overall activity in the SDR Department remained at roughly the same level as in 1984/85. Transactions by agreement increased significantly and exceeded those with designation for the third consecutive year. The significant growth in voluntary SDR transactions in recent years is related largely to members' needs to acquire SDRs for Fund-related transactions—mainly for the payment of charges. The pattern of SDR holdings across countries was similar to that at the end of April 1985, with SDRs continuing to accumulate in the reserves of members as the Fund reduced its holdings of an unchanged stock of SDRs.

As noted in Chapter 1, the export earnings of many developing countries remain quite weak, and their balance of payments and international creditworthiness are still a source of concern. Recovery remains fragile in many countries, and it is important that the Fund remain in a position to respond to members' needs to use its resources. The Fund's liquidity position and financing needs are reviewed regularly by the Executive Board to evaluate the Fund's ability to meet prospective requirements. At its latest review in

Chart 16. Use of Fund's Resources as at April 30, 1975–86
(In billions of SDRs)



March 1986, the Executive Board determined that the Fund's liquidity was adequate to meet expected demands under existing policies for the immediate future.

An important aspect of membership in the Fund is the access of members to the Fund's resources. In recent years, members' access has been governed by the Fund's policy on enlarged access, which has been in operation since March 1981 and subject to annual review since 1983. At its meeting in October 1985, the Interim Committee recalled that the enlarged access facility was temporary and that the access limits under it were subject to periodic review. At the same time, the Committee recognized that, given the uncertainties in the world economy and the serious payments difficulties that many member countries continue to face, the policy should be continued in 1986 with only modest reductions in access limits. Reflecting the agreement reached in the Interim Committee, a subsequent Executive Board decision provided that access during 1986 should be subject to annual limits of 90 or 110 percent of quota (previously 95 or 115 percent of quota); three-year limits of 270 or 330 percent of quota (previously 280 or 345 percent of quota); and cumulative limits of 400 or 440 percent of quota (previously 408 or 450 percent of quota), depending on the seriousness of the balance of payments need of the member and the strength of its adjustment efforts. As in the past, the access limits under the policy are not treated as targets or entitlements. Although the Fund can approve arrangements above the indicated access limits in exceptional circumstances,[14] all programs approved during 1985/86 were within the prescribed limits. The enlarged access policy and the access limits will be reviewed again before the end of 1986.

The Executive Board also decided to retain the existing limits of maximum access to the compensatory financing facility (83 percent of quota each in respect of shortfalls in export receipts or excesses in the cost of cereal imports, subject to an overall limit of 105 percent of quota) and the buffer stock financing facility (45 percent of quota). With reference to compensatory financing of cereal import costs, the Executive Board completed, in May 1985, a review of the

[14] Executive Board Decision No. 8147-(85/177), adopted December 9, 1985 (reproduced in Appendix III).

Table 15.

Selected Financial Activities: General Resources Account, 1980–86

(In millions of SDRs)

	Financial Year Ended April 30						
	1980	1981	1982	1983	1984	1985	1986
Gross purchases[1]	2,210.8	4,385.9	6,960.2	10,258.2	10,164.1	6,059.8	3,940.9
Industrial countries	23.8	—	—	54.0	—	—	—
Developing countries	2,187.1	4,385.9	6,960.2	10,204.3	10,164.1	6,059.8	3,940.9
Africa	581.3	1,157.7	1,986.4	2,056.1	1,642.7	1,017.6	841.8
Asia	454.5	2,070.5	3,151.9	2,748.0	2,589.7	746.7	844.1
Europe	647.9	865.8	1,326.0	1,590.1	1,658.3	837.5	322.5
Middle East	—	—	—	25.1	—	57.4	—
Western Hemisphere	503.4	292.0	496.0	3,785.0	4,273.4	3,400.5	1,932.5
Net purchases[2]	−1,362.9	1,575.3	5,066.0	8,711.5	8,148.9	3,214.8	−340.6
Memorandum							
Number of stand-by and extended arrangements as of April 30	29	37	35	39	35	30	26
Of which, extended arrangements	*7*	*15*	*12*	*9*	*5*	*3*	*2*
Amounts under arrangements	3,049.7	9,475.1	16,206.3	25,025.5	18,569.4	11,675.3	4,906.7
As percent of total quotas	7.8	15.9	26.7	41.0	20.9	13.1	5.5
Undrawn balances	2,718.0	8,076.4	11,154.6	16,405.1	9,269.5	5,543.1	2,379.1
As percent of commitments under arrangements	89.1	85.2	68.8	65.6	49.9	47.5	48.5
Outstanding Fund credit	8,306	9,545	14,802	23,590	31,742	34,973	34,640
As percent of total quotas	21.3	16.0	24.4	38.6	35.6	39.2	38.8
Number of countries	74	78	79	85	84	83	79

[1] Excluding purchases in the reserve tranche.
[2] Purchases minus repurchases; net repurchases (−).

1981 cereal decision, which covered an initial period of four years.[15] The Board concluded that the operations under the decision had served their purpose in providing balance of payments assistance to members experiencing temporary increases in the value of their cereal imports and decided to extend the period of operation from four to eight years, that is, to mid-1989.[16]

Recognizing that a number of low-income member countries continue to face protracted balance of payments problems, the Interim Committee, at its meeting in October 1985, agreed that the resources that would become available over the period 1985–91 from repayments of Trust Fund loans totaling about SDR 2.7 billion (which might be supplemented with funds from other sources) should be used to provide additional concessional balance of payments assistance—in conjunction with World Bank and other resources—to some of the low-income countries that are currently eligible for International Development Association (IDA) resources and that are in need of such assistance.[17] On this basis, the Executive Board established in March 1986 a lending facility within the Fund's Special Disbursement Account, known as the Structural Adjustment Facility (SAF), and also decided that members eligible to use it will be the low-income countries eligible, as of March 1986, to receive IDA loans.[18] In April 1986, 60 countries were eligible for SAF assistance;[19] of this group, the two largest countries, China and India, indicated at the Interim Committee meeting in October 1985 that they would not avail themselves of the facility, thus enlarging the amount available to other eligible countries.

The access of each eligible member under the SAF will be the equivalent of 47 percent of its quota over

[15] Executive Board Decision No. 6860-(81/81), adopted May 13, 1981, as amended by Decisions Nos. 7602-(84/3), January 6, 1984, and 7967-(85/69), May 3, 1985, *Selected Decisions*, Twelfth Issue, pages 88–93.

[16] Ibid.

[17] Under Schedule B of the Articles of Agreement all assets that become available as a result of the termination of the Trust Fund must be transferred to the Special Disbursement Account. The disposition of resources in the Special Disbursement Account is subject to Article V, Section 12(*f*), and in the specific case of Trust Fund reflows, also subject to Executive Board Decision No. 6704-(80/185) TR, December 17, 1980, *Selected Decisions*, Twelfth Issue, pages 360–61.

[18] For details, see Appendix II. The list of eligible countries is subject to change at the discretion of the Board.

[19] Executive Board Decision No. 8240-(86/56) SAF, adopted March 26, 1986 (reproduced in Appendix III).

three years, of which up to 20 percent of quota would be available in the first year with provision for possible enlargement of access over time as experience with the new facility develops. The terms for use of resources will be similar to those of the Trust Fund, with interest at the rate of ½ of 1 percent per annum on outstanding balances, payable semiannually, and repayments in ten equal installments commencing five and a half years, and finishing ten years, after the date of each disbursement. Loans will be made to eligible members that present medium-term macroeconomic and structural adjustment programs designed to overcome protracted balance of payments problems and foster growth. These programs will be in the context of a medium-term policy framework to be developed by the authorities of the members, together with the Fund and the World Bank working in close collaboration. The Fund will review the operations of the SAF not later than May 31, 1988, and determine, inter alia, the disposition of any uncommitted balances available in the period through mid-1991.[20]

A number of member countries continued to experience difficulties in settling their financial obligations to the Fund on time during 1985/86. While the amounts of overdue financial obligations remain small in relation to the amount of Fund credit outstanding, they are large in relation to the Fund's reserves and they have tended to rise in terms of their size and duration as well as in respect of the number of member countries in arrears. As of April 30, 1986, eight members were overdue by six months or more on financial obligations in the General Resources Account, and two in the SDR Department. Six members were also overdue by six months or more on repayments of principal or interest on Trust Fund loans. In total, the number of members overdue by six months or more in one or both Departments or to the Trust Fund was eight, as against four at the end of April 1985. The total overdue obligations of these eight members on April 30, 1986 was SDR 482 million, compared with SDR 176 million overdue from four members at the end of April 1985.[21]

During the financial year 1985/86, two members were declared ineligible to use the general resources of the Fund, pursuant to Article XXVI, Section 2(*a*), in light of their overdue financial obligations to the General Resources Account. Liberia was declared ineligible on January 24, 1986, and Sudan on February 3, 1986. This brought to four the number of members in such a status at the end of April 1986. On the dates of those declarations, the total overdue obligations to the Fund of Liberia and Sudan amounted to SDR 52 million and SDR 227 million, respectively. The previous declarations of ineligibility in respect of Viet Nam (January 15, 1985) and Guyana (May 15, 1985) remained in effect. A declaration of ineligibility, while imposing formal legal constraints on a member's ability to obtain financial resources from the Fund, does not itself alter nonfinancial relations between the member and the Fund. The Fund seeks to remain in constructive communication with the member and to cooperate with it and assist it in designing and implementing economic policies that will lead to a strengthening of its external position and facilitate the early restoration of normal financial relations with the Fund.

The reduction and elimination of overdue obligations is important to the Fund's financial position and character as a cooperative intergovernmental monetary institution. The Fund has kept the situation under close review and has established policies and procedures in an effort to prevent arrears from emerging and to help members to correct such problems when they do arise. In a number of cases, this approach has contributed to achieving positive results. Efforts have also been directed to strengthening the Fund's own financial position in light of uncertainties about the timing of some members' payments to the Fund.

Since the Fund's current income does not include charges receivable from members that are overdue by six months or more in meeting their financial obligations to the Fund and are not current in paying charges, the existence of overdue obligations to the Fund has obvious implications for its income position. Taking account of the uncertainties concerning overdue payments, the Executive Board decided to raise the net income target, beginning with the financial year 1985/86, from 3 percent to 5 percent of reserves at the beginning of each year. The net income target was thus set at SDR 52 million for that year. Effective February 1, 1986, a system of special charges on overdue obligations was also instituted to recover the direct financial costs to the Fund resulting from members' late payments of obligations.

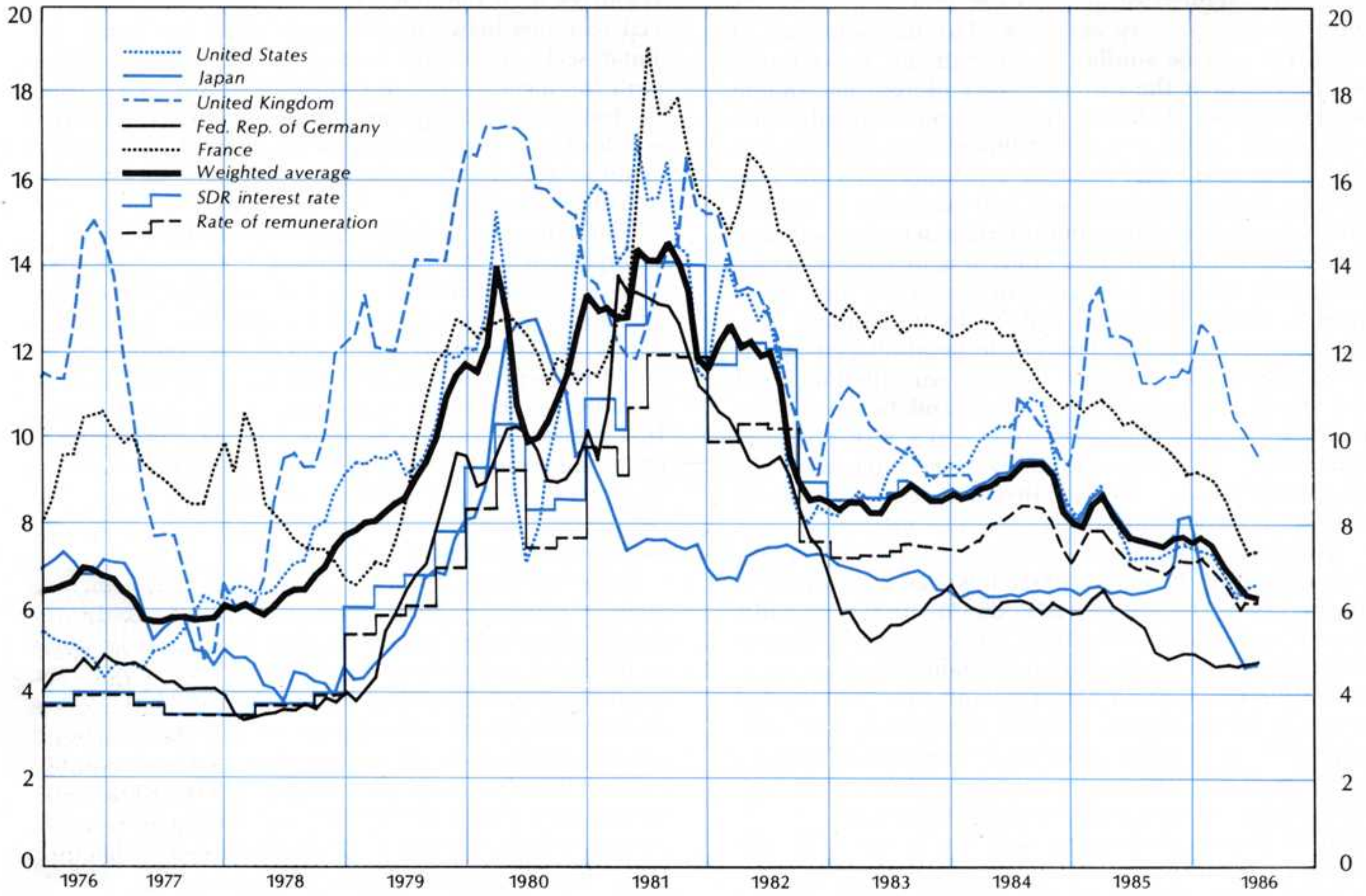
Partly as a result of the measures taken by the Fund to safeguard its financial position in the face of the rising overdue obligations of members, charges on the use of the Fund's resources did not follow the downward trend of interest rates in major international financial centers. Charges on the use of ordinary resources at the beginning of financial year 1985/86 were left unchanged at 7.0 percent, but they were increased to 7.87 percent at midyear in order to ensure that the net income target would be met, notwithstanding the negative effect on income of the increasing amount of overdue obligations and nonaccrual of charges. In the event, net income at the end of the year exceeded projections and permitted a retroactive reduction in the rate of charge to 7.0 percent effective November 1, 1985. Taking the retroactive reduction of the rate of charge into account, net income for the year was SDR 78 million, which was added to the Special Reserve, thus raising the Fund's total reserves (the Special Reserve and the General Reserve) from SDR 1,044 million at April 30, 1985 to SDR 1,122 million at April 30, 1986, an increase of 7.5 percent.

[20] Executive Board Decision No. 8241-(86/56) SAF, adopted March 26, 1986 (reproduced in Appendix III).

[21] Detailed information on overdue financial obligations to the Fund of members overdue by six months or more is provided in the notes to the Financial Statements relating to the General Department, the SDR Department, and the Trust Fund in Appendix VIII.

Chart 17. SDR Interest Rate, Rate of Remuneration, and Short-Term Interest Rates, July 1976–June 1986[1]

(In percent per annum)



[1] Data are monthly averages. Up to December 1980, short-term domestic interest rates are the yield on three-month treasury bills for the United Kingdom and the United States, the rate on three-month interbank deposits for France and the Federal Republic of Germany, and the call money market rate (unconditional) for Japan. From January 1981, the yield on U.S. Treasury bills was converted to a coupon equivalent basis, and the discount rate on two-month (private) bills (converted to a bond equivalent yield) was used for Japan. From March 1981, the basis for the interbank rates for France and the Federal Republic of Germany was converted from a 360-day year to a 365-day year. Since August 1, 1983, the SDR interest rate and the rate of remuneration have been fixed weekly.

The remuneration coefficient, which is expressed as a percentage of the SDR interest rate and determines the rate of remuneration to creditor members of the Fund, is set in accordance with Rule I-10 of the Fund's Rules and Regulations. This rule aims at gradually raising the rate of remuneration toward the SDR interest rate, while taking account of all relevant factors, including the SDR interest rate and the rate of charge.[22] On May 1, 1985, the remuneration coefficient was raised from 90 percent to 91.66 percent, and on August 1, 1985 it was raised further to 93 percent. It was lowered to 92 percent on February 1, 1986, but was raised on May 1, 1986 to 97.49 percent (Chart 17). The rate of remuneration averaged 6.85 percent per annum in 1985/86 compared with 7.77 percent in 1984/85.

Effective July 25, 1986, the Executive Board decided on a new target for net income for the financial years 1987 and 1988 and on the rate of charge and the rate of remuneration. These decisions were taken in the light of the level of overdue financial obligations and the resulting need to strengthen the Fund's financial position. They were based on the principle that the financial consequences for the Fund which stem from the existence of overdue financial obligations shall be shared between debtor and creditor countries, and that the sharing shall be applied in a simultaneous and symmetrical fashion.[23] Essentially the new decisions provide that during the financial years 1987 and 1988 the Fund's net income target be raised from 5 percent to 7.5 percent of the Fund's reserves at the beginning of each year.

The basic rate of charge (in Rule I-6(4)) will be determined at the beginning of the financial years 1987

[22] Executive Board Decision No. 7603-(84/3), adopted January 6, 1984. For details, see the Annual Report for 1984, pages 83, 129–30.

[23] Executive Board Decision No. 8348-(86/122), adopted July 25, 1986, and Executive Board Decision No. 8349-(86/122), adopted July 25, 1986 (reproduced in Appendix III).

and 1988 on the basis of the estimated income and expense of the Fund and the target amount of net and supplemental income during that year. Effective May 1, 1986, the rate of charge was set at 6.0 percent. The rate of charge during 1987 and 1988 shall be further adjusted at half-yearly intervals in light of overdue charges to the Fund, and the rate of remuneration prescribed in Rule I-10 will also be adjusted in a similar fashion as the rate of charge. The adjustments will be made within agreed limits. The decision also provides that effective February 1, 1987 the rate of remuneration (under amended Rule I-10) shall be equal to 100 percent of the SDR interest rate (under Rule T-1). It was understood in the Executive Board that the net income target will remain at 7.5 percent in any financial year beyond 1988 in which the problem of overdue financial obligations to the Fund remains serious. The increase in the net income target above 5 percent will remain subject to a sharing of the burden between debtor and creditor countries, as during the financial years 1987 and 1988, as long as the increase is required by the problem of overdue financial obligations.

The SDR valuation basket was revised effective January 1, 1986 in accordance with the 1980 decision.[24]

[24] Executive Board Decision No. 6631-(80/145) G/S, adopted September 17, 1980 (*Selected Decisions,* Twelfth Issue, pp. 307–308) states that, unless the Fund decides otherwise, the SDR valuation basket be revised with effect on January 1, 1986 and on the first day of each subsequent five-year period. This decision provided that the SDR basket is to include the currencies of the five countries with the largest exports of goods and services during the five-year period ending one year prior to the date of the revision, which in the present revision is the period 1980–84.

The five currencies used for the previous valuation were retained, as these currencies were those of the same five members whose exports of goods and services during the period 1980–84 had the largest value. However, the weights were revised reflecting changes from 1975–79 to 1980–84 in the relative importance of these currencies in international trade and finance. The weights used in determining the amounts of each of the five currencies to be included in the valuation basket were as follows:

	Date of Effective Change of Valuation (Percentage weights; amounts of currency unit in parentheses)	
Currency	January 1, 1981	January 1, 1986
U.S. dollar	42 (0.540)	42 (0.452)
Deutsche mark	19 (0.460)	19 (0.527)
Japanese yen	13 (34)	15 (33.4)
French franc	13 (0.740)	12 (1.020)
Pound sterling	13 (0.071)	12 (0.0893)

The currency weights were translated into the corresponding amounts of each currency unit on the basis of the average exchange rate prevailing during the three months preceding the introduction of the respective baskets. The absolute amounts of each currency were adjusted so that the value of the new basket was the same on December 31, 1985 under both the revised valuation and the then current valuation. The basket as defined by the new combination of currency units will constitute the SDR until December 31, 1990, even though the percentage weights of each currency in the basket will change with shifts in exchange rates among the five currencies.

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Appendices

List of Tables in Appendix I

List of Tables in Appendix II

Appendix I

International Reserves

This appendix examines developments in international reserves and liquidity. First, it considers the recent evolution of holdings of official reserve assets. Second, it reviews the currency composition and distribution of international reserves. Finally, the placement of official holdings of foreign exchange reserves is reviewed.

RECENT EVOLUTION OF OFFICIAL RESERVE ASSETS

Total international reserves measured in terms of SDRs decreased by over 2 percent during 1985, to SDR 686 billion by the end of the year. The change in total reserves resulted from declines both in the holdings of non-gold reserves and in the market value of official holdings of gold. The lower holdings of non-gold reserves resulted from reduced holdings of Fund-related reserve assets by both industrial and developing countries and from a decline in the SDR value of foreign exchange held by developing countries. The value of official holdings of gold fell as a result of a 5 percent decrease in the market price of gold in terms of the SDR that more than offset a slight increase in the quantity of official gold holdings.

NON-GOLD RESERVES

At the end of 1985, non-gold reserves totaled SDR 404 billion, which was nearly the same total as at the end of 1984. While the non-gold reserves of the industrial countries and of the capital exporting developing countries increased slightly, the holdings of the capital importing developing countries fell by SDR 5 billion (4 percent). Moreover, those capital importing developing countries which have experienced debt-servicing difficulties saw their non-gold reserves decline by SDR 5 billion (11 percent).

FOREIGN EXCHANGE RESERVES

Foreign exchange reserves remained virtually constant between the end of 1984 and 1985 at SDR 347 billion (Table I.1), reflecting a slowing down in the accumulation of new reserves and capital losses in the SDR value of existing holdings, which are denominated predominately in U.S. dollars. This stability in the SDR value of foreign exchange reserves is in sharp contrast to the 10 percent and 12 percent increases in 1983 and 1984, respectively. The holdings of industrial countries grew by over SDR 3 billion, which nearly matched the declines in holdings of developing countries.

The reduction in the foreign exchange reserves of the capital importing developing countries in 1985 (SDR 5 billion) was even larger than that experienced in 1982. In both periods, the decline in reserves mainly reflected developments in capital importing countries with debt-servicing difficulties. In the Western Hemisphere, for example, the foreign reserves of such countries fell by SDR 7 billion (29 percent) in 1982 and by SDR 5 billion (14 percent) in 1985.

HOLDINGS OF FUND-RELATED RESERVE ASSETS

Holdings of Fund-related reserve assets decreased by 2 percent in 1985 to SDR 57 billion. This reflected a SDR 3 billion decline in holdings of reserve positions in the Fund that more than offset the increase of SDR 2 billion in holdings of SDRs (Table I.1). Reserve positions in the Fund, which comprise the reserve tranche position and the creditor position, fell in 1985 for the first time in the 1980s. As the cumulative total stock of SDRs has remained constant since the last allocation in 1981, the increase in holdings of SDRs by member countries corresponded to a decline in Fund holdings of SDRs. The decline in members' holdings of SDRs that occurred in 1983 mainly reflected the fact that 22 percent of the increase in quotas under the Eighth General Review of Quotas was paid in SDRs; hence, member countries' holdings of SDRs declined and their reserve positions in the Fund increased. These SDR payments were made in December 1983 and amounted to SDR 6 billion. Payments in SDRs for quota purposes totaled SDR 0.2 billion in 1984 and less than SDR 0.1 billion in 1985.

GOLD

Gold valued at current market prices (in terms of the SDR) declined by 5 percent in 1985, to SDR 283 billion. This decrease primarily reflected a fall in the market price of gold from SDR 315 an ounce at the end of 1984 to SDR 298 an ounce at the end of 1985. The physical stock of gold has remained fairly constant since

Table I.1.

Official Holdings of Reserve Assets, End of Year 1980–85 and End of March 1986[1]

(In billions of SDRs)

	1980	1981	1982	1983	1984	1985	March 1986
All countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	16.8	21.3	25.5	39.1	41.6	38.7	38.0
SDRs	11.8	16.4	17.7	14.4	16.5	18.2	18.6
Subtotal, Fund-related assets	28.6	37.7	43.2	53.5	58.0	56.9	56.6
Foreign exchange	292.8	292.5	284.5	307.3	347.8	346.7	332.8
Total reserves excluding gold	321.4	330.2	327.7	360.8	405.8	403.6	389.4
Gold[2]							
Quantity (*millions of ounces*)	953.0	953.3	948.7	947.4	946.3	948.9	948.7
Value at London market price	440.5	325.5	392.9	345.2	297.6	282.5	286.7
Industrial countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	10.7	13.5	17.1	25.6	27.2	25.2	24.6
SDRs	8.9	11.9	14.1	11.5	13.4	14.9	15.5
Subtotal, Fund-related assets	19.6	25.5	31.1	37.1	40.6	40.1	40.1
Foreign exchange	164.7	159.6	153.2	167.6	183.9	187.2	182.7
Total reserves excluding gold	184.3	185.1	184.4	204.7	224.5	227.3	222.8
Gold[2]							
Quantity (*millions of ounces*)	787.9	787.6	787.3	786.6	786.0	786.5	786.5
Value at London market price	364.2	269.0	326.1	286.6	247.2	234.1	237.7
Developing countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	6.1	7.8	8.4	13.6	14.3	13.5	13.4
SDRs	2.9	4.5	3.7	2.9	3.1	3.3	3.1
Subtotal, Fund-related assets	9.0	12.3	12.1	16.5	17.4	16.9	16.5
Foreign exchange	128.0	132.8	131.2	139.7	163.8	159.5	150.7
Total reserves excluding gold	137.1	145.1	143.3	156.1	181.3	176.3	166.6
Gold[2]							
Quantity (*millions of ounces*)	165.1	165.6	161.4	160.8	160.3	162.4	162.2
Value at London market price	76.3	56.6	66.8	58.6	50.4	48.3	49.0
Capital importing developing countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	3.2	3.3	2.7	3.4	2.8	2.6	2.6
SDRs	2.3	3.7	2.4	1.8	1.9	2.1	1.9
Subtotal, Fund-related assets	5.5	7.0	5.1	5.2	4.7	4.7	4.5
Foreign exchange	83.8	88.3	85.5	99.9	127.4	122.3	118.5
Total reserves excluding gold	89.4	95.4	90.8	105.1	132.0	126.9	123.0
Gold[2]							
Quantity (*millions of ounces*)	144.6	143.1	138.6	137.8	137.2	139.4	139.1
Value at London market price	66.8	48.9	57.4	50.2	43.1	41.5	42.1
Capital importing developing countries with debt-servicing problems							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	1.8	2.0	1.2	1.2	1.0	0.8	0.8
SDRs	1.2	1.9	0.7	0.5	0.5	0.7	0.6
Subtotal, Fund-related assets	3.1	3.9	1.9	1.8	1.5	1.5	1.4
Foreign exchange	36.6	32.1	21.9	26.7	42.5	37.9	36.7
Total reserves excluding gold	39.7	36.0	23.8	28.6	44.1	39.4	38.2
Gold[2]							
Quantity (*millions of ounces*)	54.0	51.4	47.2	46.3	47.3	47.4	48.4
Value at London market price	24.9	17.5	19.6	16.9	14.9	14.1	14.6

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

[1] "Fund-related assets" comprise reserve positions in the Fund and SDR holdings of all Fund members and Switzerland. Claims by Switzerland on the Fund are included in the line showing reserve positions in the Fund. The entries under "Foreign exchange" and "Gold" comprise official holdings of those Fund members for which data are available and certain other countries or areas, including Switzerland. For classification of countries in groups shown here, see Appendix IX.

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

1972, with the exception of a 9 percent decline in 1979, which occurred mainly because members of the European Monetary System deposited 20 percent of their gold holdings with the European Monetary Cooperation Fund (EMCF) in exchange for European currency units (ECUs). Both the physical holdings of gold and its distribution between industrial and developing countries have changed very little during the period 1980–85. Of a total physical stock of gold reserves of 949 million ounces at the end of 1985, industrial countries held 83 percent and developing countries 17 percent.

DEVELOPMENTS IN FIRST QUARTER OF 1986

During the first quarter of 1986, total international reserves fell by SDR 10 billion, reflecting a decline in non-gold reserves that more than offset a rise in the market value of official holdings of gold. The decrease in non-gold reserves was due to a reduction in foreign exchange holdings (SDR 14 billion). While both industrial and developing countries experienced declines in their holdings of non-gold reserves, the fall in the reserves of developing countries during the first quarter of 1986 was nearly twice the decline experienced during all of 1985.

The market price of gold measured in terms of the SDR rose slightly in the first quarter of 1986. Since the total physical holdings of gold remained virtually unchanged, the official holdings of gold valued at current market prices rose by over 1 percent to SDR 287 billion at the end of the quarter.

CURRENCY COMPOSITION OF RESERVES

During 1985, the diversification of the currency composition of foreign exchange reserves that has been evident since the mid-1970s continued. The share in total identified foreign exchange reserves of reserve assets denominated in the U.S. dollar fell by 5 percentage points, to 65 percent, whereas the share of almost all other currencies increased (Table I.2). The diversification of the currency composition of foreign exchange reserves during the past decade can be divided into several subperiods. Between 1975 and 1977, the currency composition of reserves remained relatively stable; thereafter, the share of the U.S. dollar declined from 80 percent to 69 percent when the U.S. dollar depreciated sharply between 1977 and 1980. However, as the U.S. dollar began to appreciate relative to the other major currencies in the early 1980s, this diversification away from the U.S. dollar was partly reversed, and the share of the U.S. dollar in reserves rose to 72 percent by 1983. Since 1983, the share of U.S. dollar-denominated reserve instruments in identified foreign exchange reserves has declined by 7 percentage points, as reserve instruments denominated in deutsche mark and Japanese yen became increasingly important in reserve portfolios, especially those of industrial countries.

In the calculation of these shares, the SDR value of ECUs issued against gold is not counted as part of foreign exchange reserves, but the SDR value of ECUs issued against U.S. dollars is counted as part of the holdings of U.S. dollars. The overall picture regarding trend changes in the currency composition of foreign exchange reserves is similar if ECUs, which were introduced in 1979 and accounted for 11 percent of total foreign exchange reserves at the end of 1985, are treated separately. Under this alternative treatment of ECUs, the share of the U.S. dollar declined from 77 percent in 1977 to 55 percent in 1980; it then increased to 58 percent in 1981 and stayed at that level through 1984, before declining to 56 percent in 1985.

The changes in the SDR value of foreign exchange reserves can also be decomposed into price and quantity changes for each of the major currencies (including the ECU) and for the total of the identified foreign exchange reserves (Table I.3). In 1985, total identified foreign exchange reserves fell by SDR 4 billion, which was the result of a positive quantity change of SDR 3 billion and a negative price change of SDR 7 billion. This negative price change reflects a reversal of the pattern observed in 1984, when the price change had been positive for the U.S. dollar and negative for all other major currencies. In 1985, in contrast, the fall in the SDR value of the U.S. dollar resulted in a large negative price change (SDR 22 billion) for U.S. dollar reserves that was only partially compensated by the positive price changes for all other major currencies, including SDR 6 billion for the deutsche mark and SDR 2 billion for the Japanese yen.

Holdings of ECUs were virtually unchanged in 1985, after a decline of SDR 4 billion in 1984. ECUs are issued by the EMCF to the central banks of the members in exchange for the deposit of 20 percent of the gold holdings and 20 percent of the gross U.S. dollar holdings of these institutions. These swaps are renewed every three months, and changes in the members' holdings of U.S. dollars and gold, as well as in the market price of gold and in the value of the U.S. dollar, affect the amount of ECUs outstanding.[1] Quantity changes in ECU holdings, therefore, depend on the evolution of its two components, gold and U.S. dollars.[2]

The decline in holdings of ECUs in 1985 was much smaller than in 1984. In 1984, there was a relatively small negative quantity change (SDR 0.4 billion) and a negative price change that was a result of an increase in the ECU value of the SDR (owing to the appreciation

[1] In calculating the value of the gold holdings of the EMCF in terms of ECUs, the ECU swap price is equal to the lower of two values: the average of the prices recorded daily at the two London fixings during the previous six calendar months and the average price of the two fixings on the penultimate working day of the period.

[2] The quarterly swaps are arranged at the end of the first week of January, April, July, and October. Changes in the number of ECUs outstanding thus depend on the exchange rates and gold prices on these dates, whereas changes in the SDR value of ECU holdings are calculated at the SDR/ECU exchange rate at the end of each quarter.

Table I.2.

Share of National Currencies in Total Identified Official Holdings of Foreign Exchange, End of Year 1977–85[1]

(In percent)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	Memorandum: ECUs Treated Separately[2] 1985
All countries										
U.S. dollar	80.3	78.2	75.2	69.0	73.1	71.7	72.2	70.5	65.1	56.4
Pound sterling	1.8	1.8	2.1	3.1	2.2	2.5	2.7	3.1	3.2	2.9
Deutsche mark	9.3	11.2	12.8	15.6	13.4	12.9	12.0	12.8	15.5	14.2
French franc	1.3	1.2	1.4	1.8	1.4	1.3	1.1	1.1	1.2	1.1
Swiss franc	2.3	2.2	2.6	3.3	2.8	2.8	2.4	2.1	2.4	2.2
Netherlands guilder	0.9	0.9	1.1	1.4	1.2	1.2	0.9	0.8	1.0	1.0
Japanese yen	2.5	3.4	3.7	4.5	4.3	4.7	5.0	5.7	7.6	7.0
Unspecified currencies[3]	1.6	1.1	1.2	1.4	1.4	2.8	3.5	3.8	3.9	15.2
Industrial countries										
U.S. dollar	89.4	86.4	83.4	77.6	78.7	76.7	76.0	71.6	63.2	48.9
Pound sterling	0.9	0.7	0.8	0.8	0.7	0.8	0.9	1.6	2.0	1.7
Deutsche mark	5.5	7.9	9.7	14.4	13.1	12.5	12.9	14.7	19.2	16.4
French franc	0.3	0.4	0.6	0.5	0.5	0.4	0.3	0.4	0.5	0.4
Swiss franc	0.8	1.2	1.5	1.8	1.8	1.8	1.5	1.4	1.8	1.5
Netherlands guilder	0.6	0.5	0.6	0.7	0.8	0.7	0.5	0.6	1.0	0.9
Japanese yen	1.8	2.3	2.6	3.5	3.7	4.4	5.1	6.1	8.5	7.3
Unspecified currencies[3]	0.7	0.5	0.7	0.6	0.7	2.8	2.9	3.5	3.9	22.9
Developing countries[4]										
U.S. dollar	70.9	66.6	66.3	60.1	67.1	66.5	68.0	69.2	67.5	67.5
Pound sterling	2.8	3.2	3.4	5.4	3.8	4.4	4.8	4.8	4.7	4.7
Deutsche mark	13.3	15.9	16.2	16.7	13.9	13.3	11.1	10.6	10.9	10.9
French franc	2.3	2.3	2.2	3.1	2.5	2.4	2.0	1.9	2.1	2.1
Swiss franc	3.9	3.6	3.8	4.9	3.9	3.9	3.6	3.0	3.1	3.1
Netherlands guilder	1.2	1.5	1.6	2.0	1.6	1.7	1.3	1.0	1.1	1.1
Japanese yen	3.2	4.9	4.8	5.6	5.0	5.1	4.9	5.3	6.5	6.5
Unspecified currencies[3]	2.5	1.9	1.7	2.2	2.2	2.8	4.2	4.1	4.0	4.0

Source: International Monetary Fund, various publications, and staff estimates.

[1] Starting with 1979, the SDR value of European currency units (ECUs) issued against U.S. dollars is added to the SDR value of U.S. dollars, but the SDR value of ECUs issued against gold is excluded from the total distributed here. For classification of countries in groups shown here, see Appendix IX. Only selected countries that provide information about the currency composition of their official holdings of foreign exchange are included in this table.

[2] This column is for comparison and indicates the currency composition of reserves when holdings of ECUs are treated as a separate reserve asset, unlike the earlier columns starting with 1979 as is explained in the preceding footnote. The share of ECUs in total foreign exchange holdings was 10.9 percent for all countries and 20.2 percent for the industrial countries in 1985.

[3] This residual is equal to the difference between total identified reserves and the sum of the reserves held in the seven currencies listed in the table.

[4] The calculations here rely to a greater extent on Fund staff estimates than do those provided for the group of industrial countries.

of the U.S. dollar with respect to the SDR). In 1985, however, there was a large negative quantity change that was offset by a positive price change associated with an increase in the SDR value of the ECU (owing to the depreciation of the U.S. dollar with respect to the SDR).[3]

There are significant differences in the pattern of currency diversification between industrial and developing countries (Table I.2). Over the period since 1977 the industrial countries have experienced greater diversification of reserve holdings than developing countries. In the reserve portfolios of the industrial countries, the share of reserves denominated in the U.S. dollar fell by 26 percentage points during this period, and the shares of the deutsche mark and the Japanese yen increased by 14 percentage points and 7 percentage points, respectively. In contrast, developing countries have shown more limited diversification. For example, their share of instruments denominated in U.S. dollars in foreign exchange reserves fell by only 3 percentage points. Moreover, the share of instruments denominated in deutsche mark also fell by 2 percentage points. In contrast, the shares of the pound sterling and the Japanese yen increased by 2 and 3 percentage points, respectively.

[3] Quantity changes in ECU holdings are caused by changes in the amounts of dollars deposited with the EMCF and changes in the ECU prices of the U.S. dollar and gold. In 1984 the negative quantity change for ECUs was caused primarily by a decline in the amounts of dollars deposited with the EMCF, whereas changes in the ECU prices of the U.S. dollar and gold had only a small positive impact. In 1985, however, the sharp fall in the ECU prices of the U.S. dollar and gold led to a sharp drop in the amounts of ECUs created by the EMCF, although the amounts of dollars deposited with this institution increased slightly.

Table I.3.

Currency Composition of Official Holdings of Foreign Exchange, End of 1980–End of 1985[1]

(In millions of SDRs)

	1980	1981	1982	1983	1984	1985
U.S. dollar						
Change in holdings	5,889	9,119	−4,554	12,969	22,259	−18,517
Quantity change	559	−6,350	−13,381	4,129	10,079	3,273
Price change	5,331	15,469	8,828	8,840	12,187	−21,790
Year-end value	161,299	170,418	165,864	178,834	201,069	182,576
Pound sterling						
Change in holdings	2,923	−1,865	619	906	2,062	278
Quantity change	2,298	−979	1,273	1,268	3,440	−693
Price change	625	−886	−654	−362	−1,378	971
Year-end value	7,472	5,607	6,226	7,132	9,194	9,472
Deutsche mark						
Change in holdings	9,770	−4,310	−2,074	−292	7,029	7,558
Quantity change	12,774	−2,494	−2,065	2,240	9,984	1,899
Price change	−3,003	−1,815	−9	−2,532	−2,955	5,659
Year-end value	38,043	33,733	31,659	31,367	38,396	45,954
French franc						
Change in holdings	1,266	−674	−358	−309	340	319
Quantity change	1,585	−58	7	170	566	−140
Price change	−319	−616	−365	−479	−226	459
Year-end value	4,292	3,618	3,260	2,951	3,291	3,609
Swiss franc						
Change in holdings	2,357	−1,044	−179	−504	−15	631
Quantity change	2,868	−1,517	171	−266	650	−79
Price change	−511	474	−350	−238	−665	710
Year-end value	8,117	7,073	6,894	6,390	6,375	7,006
Netherlands guilder						
Change in holdings	928	−402	−50	−533	147	619
Quantity change	1,159	−226	−23	−275	339	261
Price change	−231	−176	−26	−259	−191	358
Year-end value	3,316	2,914	2,864	2,331	2,478	3,096
Japanese yen						
Change in holdings	2,893	−110	755	1,367	4,184	5,406
Quantity change	1,033	−233	848	580	4,388	3,266
Price change	1,859	123	−92	786	−204	2,140
Year-end value	11,001	10,891	11,646	13,013	17,196	22,602
European currency unit						
Change in holdings	14,952	−4,727	−5,007	4,074	−3,959	−297
Quantity change	17,590	19	−2,598	8,441	−429	−4,551
Price change	−2,638	−4,746	−2,408	−4,366	−3,530	4,254
Year-end value	47,658	42,931	37,925	41,999	38,040	37,742
Total identified holdings[2]						
Change in holdings	40,978	−4,012	−10,847	17,677	32,048	−4,005
Quantity change	39,866	−11,839	−15,770	16,287	29,010	3,325
Price change	1,112	7,827	4,924	1,391	3,038	−7,240
Year-end value	281,197	277,185	266,338	284,015	316,063	312,058
Total official holdings[3]						
Change in holdings	43,118	−423	−7,892	22,850	40,455	−1,071
Year-end value	292,766	292,343	284,450	307,301	347,755	346,684

Source: Fund staff estimates.

[1] The currency composition of foreign exchange is based on the Fund's currency survey and on estimates derived mainly, but not solely, from official national reports. The numbers in this table should be regarded as estimates that are subject to adjustment as more information is received. Quantity changes are derived by multiplying the change in official holdings of each currency from the end of one quarter to the next by the average of the two SDR prices of that currency prevailing at the corresponding dates. This procedure converts the change in the quantity of national currency from own units to SDR units of account. Subtracting the SDR value of the quantity change so derived from the quarterly change in the SDR value of foreign exchange held at the end of two successive quarters and cumulating these differences yields the effect of price changes over the years shown.

[2] Each item represents the sum of the eight currencies above.

[3] Include a residual whose currency composition could not be ascertained, as well as holdings of currencies other than those shown.

PLACEMENT OF OFFICIAL HOLDINGS OF FOREIGN EXCHANGE RESERVES

While official holdings of foreign exchange changed very little in 1985, the continuing diversification of the currency composition of reserves was reflected in the placement of official holdings. For example, while U.S. dollar claims on residents of the United States fell by SDR 14 billion, claims on residents of other countries denominated in the debtor's own currency increased by SDR 10 billion (Table I.4). In addition, although total identified official holdings of Eurocurrencies declined only slightly during 1985, the relative importance of Eurodollars in Eurocurrency holdings has continued the decline that has been evident since the late 1970s. During the period 1978–85, official Eurodollar holdings have fallen from nearly 70 percent of official Eurocurrency holdings to less than 60 percent.

Table I.4.

Placement of Official Holdings of Foreign Exchange Reserves, End of Year 1978–85[1]

(In billions of SDRs)

	1978	1979	1980	1981	1982	1983	1984	1985
Liabilities of residents of the United States to foreign official institutions	120	109	123	139	149	163	178	159
Items not included in reported official U.S. dollar holdings[2]	−7	−13	−22	−36	−50	−52	−46	−41
Reported official U.S. dollar claims on residents of the United States	113	96	101	103	99	111	132	118
Reported official claims on residents of other countries denominated in the debtor's own currency	27	30	41	39	38	40	46	56
Subtotal	140	126	142	142	137	151	178	174
Identified official holdings of Eurocurrencies								
Eurodollars	47	49	54	58	56	57	66	60
Other currencies	21	25	34	32	30	33	38	41
Subtotal	68	74	88	90	86	90	104	101
European currency units	—	33	48	43	38	42	38	38
Residual[3]	16	17	15	18	24	24	28	34
Total official holdings of foreign exchange	224	250	293	292	284	307	348	347

Sources: International Monetary Fund, *International Financial Statistics;* U.S. Treasury Department, *Bulletin;* and Fund staff estimates.

[1] Official foreign exchange reserves of Fund members and certain other countries and areas, including Switzerland. Beginning in April 1978, Saudi Arabian holdings exclude the foreign exchange cover against a note issue, which amounted to SDR 4.3 billion at the end of March 1978.

[2] Mainly U.S. dollars deposited with the European Monetary Cooperation Fund in connection with the issuance of European currency units, U.S. obligations to official institutions in countries not reporting to the Fund, and U.S. obligations that are not classified as foreign exchange reserves in the reports provided to the Fund by the holders.

[3] Part of this residual occurs because some member countries do not classify all the foreign exchange claims that they report to the Fund. Includes identified official claims on the International Bank for Reconstruction and Development, on the International Development Association, and the statistical discrepancy.

Appendix II

The Fund in 1985/86

FUND MEMBERSHIP, PARTICIPATION IN THE SDR DEPARTMENT, AND QUOTAS

During the year ended April 30, 1986, the membership of the Fund increased from 148 to 149; all members are participants in the SDR Department. The Kingdom of Tonga became a member on September 13, 1985 with a quota of SDR 3.25 million, raising the total of Fund quotas to SDR 89,305.1 million. Kiribati became the one hundred fiftieth member of the Fund on June 3, 1986 with a quota of SDR 2.5 million. Poland became the one hundred fifty-first member of the Fund on June 12, 1986, with a quota of SDR 680 million, raising the total of members' quotas in the Fund to SDR 89,987.6 million. Both Kiribati and Poland are also participants in the SDR Department.

It is intended to initiate the preliminary discussions of the Executive Board on the Ninth General Review of Quotas in the latter part of 1986. The Executive Board is required, under Rule D-3 of the Fund's By-Laws, Rules and Regulations, to appoint, not later than March 31, 1987, a Committee of the Whole to prepare a report on the matter.

GENERAL RESOURCES ACCOUNT

PURCHASES

During 1985/86 only three members (all developing countries) made reserve tranche purchases, for a total of SDR 160 million, compared with purchases of SDR 229 million (by 17 members) in the previous financial year. Credit tranche purchases (by 33 developing countries) were about the same level as in the previous year at SDR 2.8 billion, of which nearly half (SDR 1.1 billion) was financed from borrowed resources under the enlarged access policy (Tables II.2, II.4, and II.10). The largest purchases were by Argentina (SDR 709.5 million), Yugoslavia (SDR 322.5 million), and the Philippines (SDR 318.0 million). Mexico made a first credit tranche purchase of SDR 291.4 million under the provision for emergency financial assistance to members in cases of natural disaster.

STAND-BY ARRANGEMENTS

Stand-by arrangements were approved for 18 members for a total of SDR 2.1 billion, compared with SDR 3.2 billion for 24 members in 1984/85. The amounts approved ranged from SDR 400 million (Thailand) to SDR 9.2 million (Equatorial Guinea). Twelve arrangements (Central African Republic, Côte d'Ivoire, Jamaica, Mali, Morocco, Niger, Panama, Thailand, Togo, Uruguay, Yugoslavia, and Zambia) were partially financed with borrowed resources totaling SDR 841.4 million under the enlarged access policy (Tables II.3 and II.6). New commitments of ordinary resources under all arrangements amounted to SDR 1.3 billion as against new commitments of borrowed resources amounting to SDR 0.8 billion. Five stand-by arrangements expired with undrawn balances and two were canceled prior to the expiration dates during 1985/86.

EXTENDED FUND FACILITY

The Executive Board decided in January 1986 that it was appropriate to retain the facility[1] and will review further the decision on the facility at an appropriate future date. Total purchases under extended arrangements during 1985/86 amounted to SDR 0.5 billion, a considerable fall in comparison with the level of purchases during 1984/85 (SDR 2.0 billion) and 1983/84 (SDR 4.7 billion) (Tables II.2 and II.10). Mexico's extended arrangement expired at end-December 1985 and Brazil's at end-February 1986. In 1985/86 a new three-year extended arrangement was approved for Chile (SDR 750.0 million, financed equally from ordinary and borrowed resources). Besides this, only one other extended arrangement (Malawi) was in effect at the end of April 1986 (Table II.7).

COMPENSATORY FINANCING FACILITY

Under the compensatory financing facility, which was established in 1963 and was expanded in 1981,

[1] Executive Board Decision No. 4377-(74/114), adopted September 13, 1974, as amended by Decisions Nos. 6339-(79/179), adopted December 3, 1979, and 6830-(81/65), adopted April 22, 1981, effective May 1, 1981, *Selected Decisions*, Twelfth Issue, pages 32–36.

the Fund provides assistance to members experiencing balance of payments difficulties arising from temporary export shortfalls or from increases in the cost of cereal imports caused by factors largely beyond their control. The facility for members facing excesses in cereal import costs was extended by the Executive Board in May 1985 for a four-year period.[2]

During 1985/86 eight members purchased a total of SDR 490 million under the decision relating to export fluctuations. The steady decline in purchases from the peak of SDR 3.7 billion (1982/83) and the levelling off to SDR 1.2 billion in the two subsequent years reflects an improvement in the export earnings of many members since the world recession in 1981–82. During 1985/86 only two members (Kenya and Morocco) made purchases, totaling SDR 111 million, under the decision relating to cereal import excesses as against purchases of SDR 87 million in the previous year. The outstanding purchases under both elements of the facility as of April 1986 amounted to SDR 6.4 billion, as against a total of SDR 7.5 billion outstanding at end-April 1985 (Table II.9).

BUFFER STOCK FINANCING FACILITY

Assistance under this facility, which was established in 1969, is extended to members with a balance of payments need for financing their contributions to approved international commodity agreements. At present two agreements qualify for Fund support, the Sixth International Tin Agreement (1981) and the 1979 International Natural Rubber Agreement (extended until October 1987). No purchases under this facility have been made during the last two years. The purchases outstanding totaled SDR 73.4 million as of April 30, 1986 (Bolivia, Côte d'Ivoire, Sri Lanka, and Thailand) as against SDR 236.9 million at April 30, 1985; this reduction reflected repurchases totaling SDR 163.4 million made during 1985/86, of which SDR 150 million represented repurchases by Indonesia and Malaysia.

REPURCHASES

Repurchases during 1985/86 totaled SDR 4,289 million, compared with SDR 2,730 million in 1984/85 (Tables II.5, II.8 and II.10), and represented the third largest amount of repurchases in any one financial year, exceeded only in 1978 (SDR 4,485 million) and 1979 (SDR 4,859 million). Of this total, SDR 2,929 million, or 70 percent, related to purchases financed from ordinary resources and the remaining 30 percent (SDR 1,345 million) was in respect of purchases financed with borrowed resources. About one third of total scheduled repurchases (SDR 1,286 million) was in respect of purchases under the compensatory financing facility, which reflected the extensive recourse to this facility in 1981 and 1982 on account of shortfalls in export earnings of primary exporting countries in the global recession during that period. Two members, Indonesia (SDR 265 million) and Malaysia (SDR 260 million), made repurchases in accordance with the guidelines for early repurchase, under which members are expected to repurchase amounts in advance of the normal schedule if their balance of payments and reserve positions have improved.[3] The total repurchases also included repurchases in advance of the due dates by three members, Ethiopia, Hungary, and Sri Lanka, of SDR 4.5 million, SDR 88 million, and SDR 0.123 million, respectively.

FUND LIQUIDITY

The Fund's liquid resources comprise its usable currencies and SDRs in the General Resources Account, supplemented as and when necessary by borrowed resources[4] (Table II.10). Of these liquid resources, usable currencies represent the largest component, comprising currencies of members whose balance of payments and gross reserve positions are considered by the Executive Board to be sufficiently strong for their currencies to be sold through the quarterly operational budget. While financial assistance to members is the principal use of the Fund's resources, due allowance is also made in assessing the adequacy of Fund liquidity for the need to maintain the liquidity of members' reserve positions and loan claims on the Fund (which are encashable upon representation of balance of payments need), and the need to service the Fund's outstanding borrowing. The decline in the stock of ordinary usable resources from SDR 41.9 billion as of April 30, 1985 to SDR 37.1 billion as of April 30, 1986 reflects mainly reductions in the list of usable currencies. Several members that had earlier been considered sufficiently strong subsequently experienced a weakening in their balance of payments and reserve positions. Borrowed resources available to finance the policy on enlarged access totaled SDR 4.2 billion. Liquid claims on the Fund amounted to SDR 40.6 billion, made up of SDR 14.5 billion in loan claims and SDR 26.1 billion in reserve tranche positions; these claims were held principally by members in strong balance of payments positions.

BORROWING

The Fund has from time to time temporarily supplemented its ordinary resources by borrowing from official

[2] Executive Board Decision No. 6860-(81/81), adopted May 13, 1981, as amended by Decisions Nos. 7602-(84/3), January 6, 1984, and 7967-(85/69), May 3, 1985, *Selected Decisions*, Twelfth Issue, pages 88–93.

[3] Executive Board Decisions Nos. 5704-(78/39), adopted March 22, 1978, effective April 1, 1978, and 6172-(79/101), adopted June 28, 1979, *Selected Decisions*, Twelfth Issue, pages 117–21.

[4] The Fund's holdings of gold (103 million ounces) are not included in the category of readily usable resources. The sale of any of this gold for any purpose requires an 85 percent majority of the total voting power of the Fund, and the use of the value in excess of SDR 35 an ounce is also subject to special majorities.

sources. Under the current guidelines the ratio of the Fund's outstanding borrowing, plus unused credit lines, to the total of Fund quotas should not exceed the range of 50 to 60 percent,[5] and as of April 30, 1986 this ratio was 35 percent.

Nearly three fourths of the total resources borrowed under the policy on enlarged access (SDR 15.3 billion) has been made available under the medium-term borrowing arrangement with the Saudi Arabian Monetary Agency (SAMA) for SDR 8.0 billion agreed in May 1981,[6] and the supplementary short-term borrowing arrangement with SAMA for SDR 3.0 billion agreed in April 1984. The drawdown period under the medium-term agreement ends on May 6, 1987 and repayments are due in four annual installments beginning four years after each call is made. As of April 30, 1986, the Fund had borrowed SDR 6.8 billion under this agreement, leaving an undrawn balance of SDR 1.2 billion. The first repayments commenced in May 1985 and a total of SDR 0.4 billion had been repaid through end-April 1986. The Fund had also arranged for a total loan of SDR 7.3 billion under short-term borrowing agreements from several official lenders concluded in 1981 and 1984.[7] As of April 30, 1986, all but SDR 3 billion available under these agreements had been fully utilized. The undrawn balance of SDR 3 billion represents the amount available under the short-term credit line with SAMA, which is a supplement to its 1981 medium-term borrowing agreement with the Fund. The drawdown period under this agreement also expires on May 6, 1987.

During 1985/86, the Fund borrowed SDR 2.0 billion and repaid SDR 1.6 billion under existing credit lines, with a net increase in outstanding borrowing of SDR 0.4 billion. Total outstanding borrowing rose marginally from SDR 14.2 billion at end-April 1985 to SDR 14.6 billion at end-April 1986. All new borrowing has been to finance the policy on enlarged access, whereas repayments have included borrowings both under enlarged access and the supplementary financing facility.[8] As of April 30, 1986 the Fund had available credit lines totaling SDR 22.7 billion, representing unused credit lines of SDR 4.2 billion to finance the policy on enlarged access and credit arrangements under the General Arrangements to Borrow of SDR 18.5 billion.[9]

[5] Executive Board Decision No. 7040-(82/7), adopted January 13, 1982, as amended by Decision No. 7589-(83/181), adopted December 23, 1983, *Selected Decisions*, Twelfth Issue, pages 271–72. In computing this ratio, the amount included for the General Arrangements to Borrow (GAB) and borrowing arrangements associated with the GAB is outstanding borrowing under these arrangements (nil as of April 30, 1986), or two thirds of the total of credit lines under these arrangements, whichever is the greater.

[6] For the text of this agreement, see *Selected Decisions*, Twelfth Issue, pages 198–223.

[7] For further details regarding these arrangements, see *Annual Report, 1985*, page 73.

[8] For further details, see *Annual Report, 1985*, page 72.

[9] For details regarding the General Arrangements to Borrow, see *Annual Report, 1985*, page 72.

Unlike the Fund's ordinary resources, which are available on demand, the borrowings to finance purchases under the policy on enlarged access require advance notice ranging downward from 90 days prior to the drawdown date. This and other features of the borrowing arrangements, coupled with the need to hold funds received in repurchases pending repayment to lenders, create a need for the temporary investment of borrowed funds to minimize net borrowing costs and exchange risk. Consequently, borrowed resources suspense accounts were established in May 1981 to hold such funds in SDR-denominated assets at prevailing SDR interest rates in order to protect their capital value in terms of the SDR, and to generate income to offset borrowing costs. During 1985/86 assets in these accounts consisted wholly of deposits with the Bank for International Settlements and totaled SDR 0.6 billion as of April 30, 1986.

SDR DEPARTMENT

Total SDRs issued remained at SDR 21.4 billion, as there have been no allocations or cancellations since January 1, 1981. Over the financial year 1985/86, the share of SDRs held by the Fund fell from 22 percent to 13 percent while that of participants rose from 78 percent to 87 percent and the share held by prescribed holders remained at less than ½ of 1 percent. The total volume of SDR transfers in 1985/86 remained at roughly the same level as in 1984/85. For the third consecutive year, transactions by agreement exceeded those under designation, with the margin between the two types of SDR transfers increasing. Transfers among participants and prescribed holders declined by 8.1 percent to SDR 4,910 million, largely owing to a further decline in the amount of transactions with designation (Table II.12). The volume of SDR transfers involving prescribed holders almost doubled from SDR 235 million in 1984/85 to SDR 439 million in 1985/86.

The amount of SDRs transferred between participants and the Fund increased modestly over the previous financial year and resulted in a net outflow of SDR 1,894 million. Transfers from participants to the General Resources Account (mainly for charges and repurchases) rose by 3.4 percent to SDR 4,415 million, and transfers from the General Resources Account to participants (mainly in purchases, remuneration, and sales to members needing SDRs for charges and interest on repayments of Fund borrowings) rose by 3.6 percent to SDR 6,309 million.

The currency amounts in the SDR's valuation basket were adjusted on January 1, 1986 as part of a regular five-yearly review. The SDR interest rate continued to be set at 100 percent of the combined market interest rate.

PATTERN OF HOLDINGS

SDRs may be held by the Fund's General Resources Account, by Fund members who participate in the SDR

Department (currently all members), and by official entities prescribed by the Fund. The number of institutions so prescribed by the Fund as eligible to accept, hold, and use SDRs remained unchanged at 14 during the year under review.[10] In April 1986 the Fund received applications from two development institutions to become prescribed holders.[11] Prescribed holders cannot receive allocations of SDRs, nor use them in transactions with designation, but they can acquire and use SDRs in transactions and operations with participants in the SDR Department and other prescribed holders under the same terms and conditions as participants.

In the absence of further allocations or cancellations, the pattern of SDR holdings reflects a redistribution of the existing stock. In accordance with the Executive Board's guideline, the Fund's holdings of SDRs fell from SDR 4,616 million at the end of financial year 1985 to SDR 2,722 million at the end of financial year 1986 (Table II.13). The SDR 1,894 million reduction in the Fund's holdings of SDRs was reflected in a corresponding increase in the holdings of participants, while holdings of prescribed holders did not significantly change on balance. The increase in participants' SDR holdings was reflected in the holdings of all major country groupings, with the exception of developing countries in Africa and Europe. As a group, the developing countries increased their SDR holdings by 14.5 percent (to SDR 3,363 million), which was more than the 10.6 percent increase (to SDR 15,352 million) in industrial countries' SDR holdings. The highest level of end-of-month holdings of prescribed holders was SDR 171 million (December 1985) and the lowest was SDR 9 million in March 1986.

TRANSACTIONS AND OPERATIONS AMONG PARTICIPANTS AND PRESCRIBED HOLDERS

Transactions with Designation

Participants with a balance of payments need can use SDRs through the designation mechanism to obtain currency from other participants designated by the Fund. During 1985/86, participants used SDR 1,809 million in transactions with designation, of which about one fourth represented use of SDRs in designation from participants' own holdings, while the other part represented the immediate use of SDRs acquired from the Fund in purchases. About 70 percent of the SDRs received in purchases from the Fund was used in designation and the remainder was added to participants' holdings, mainly to pay charges to the Fund. Of the 20 countries designated to provide currency in exchange for SDRs (26 countries in 1984/85), 15 industrial countries were designated for SDR 1,713 million and 5 developing countries for SDR 96 million. However, over two thirds of the total amount of currencies was provided, in order of magnitude, by only three participants (the United Kingdom, Canada, and France).

Transactions by Agreement

Participants enter into transactions by agreement mainly to acquire SDRs in order to discharge obligations to the Fund, such as charges (which must be paid in SDRs) and repurchases (which may be paid in SDRs). Such transactions (SDR 2,677 million, of which SDR 325 million involved prescribed holders) were marginally lower than in 1984/85. The positive impact on the amount of SDRs acquired in transactions by agreement that resulted from the 65 percent increase—to SDR 1,183 million—in the amount of SDRs used to make repurchases was more than offset by the sharp increase in the amount of SDRs acquired from the Fund to pay charges, thus diminishing the need to acquire SDRs in transactions by agreement. The increase in transfers of SDRs from the General Resources Account to participants needing them to pay charges was a consequence of the need to reduce the Fund's holdings of SDRs to the target level adopted by the Executive Board.

During 1985/86 there was a further rise in the number of standing arrangements that allow the Fund to arrange transactions by agreement on behalf of participants wishing to buy or sell SDRs, thereby facilitating the matching of buyers and sellers of SDRs in voluntary transactions. Under these arrangements, participants specify the maximum amount of SDRs they wish to buy or sell, or a maximum or minimum level of holdings they wish to obtain, through one or more transactions by agreement.

Participants entering into standing arrangements to sell are generally countries with a strong balance of payments position and rising SDR holdings on account of, among other things, receipts of SDRs in designation and in remuneration on creditor positions in the Fund. They can reduce their holdings only by using SDRs in transactions or operations by agreement. Ten participants entered into standing arrangements to sell SDRs in 1985/86. Standing arrangements to buy SDRs are generally entered into by those countries that wish to add to their SDR holdings in advance of payment of charges or of repurchases. Fifteen participants entered into such arrangements in 1985/86.

[10] The category of prescribed holders currently comprises four central banks; three intergovernmental monetary institutions; and seven development institutions: the Andean Reserve Fund, Bogotá; the Arab Monetary Fund, Abu Dhabi; the Asian Development Bank, Manila; the Bank for Central African States, Yaoundé; the Bank for International Settlements, Basle; the Central Bank for West African States, Dakar; the East African Development Bank, Kampala; the Eastern Caribbean Central Bank, Basseterre; the International Bank for Reconstruction and Development, Washington, D.C.; the International Development Association, Washington, D.C.; the International Fund for Agricultural Development, Rome; the Islamic Development Bank, Jeddah; the Nordic Investment Bank, Helsinki; and the Swiss National Bank, Zürich.

[11] These two institutions, the African Development Bank and the African Development Fund, were prescribed as "other holders" on June 25, 1986.

A new development was the establishment of a "two-way" arrangement with one participant, which allows the Fund to sell or buy SDRs on behalf of the participant as long as its holdings are maintained within a range of approximately 25 percent on either side of its net cumulative allocation. As a result of this arrangement, it has been possible since February 1986 to buy and sell modest amounts of SDRs in transactions by agreement on any desired day. If such two-way arrangements became sufficiently numerous and large, they could materially improve the SDR's liquidity and further reduce reliance on the designation mechanism.

Additional Uses of SDRs

The Fund permits a variety of additional uses of SDRs among participants and prescribed holders, namely, for use in settlement of financial obligations, in forward operations, swaps, donations (grants), as security for performance of financial obligations, and to borrow, lend, or pledge SDRs. During 1985/86 further additional uses were authorized whereby prescribed holders are allowed to transfer to participants SDRs held as the counterpart of SDR-denominated investments made by the Supplementary Financing Facility Subsidy Account and the Special Disbursement Account (Structural Adjustment Facility). Such transfers would be made to discharge obligations of the Fund (or the Subsidy Account) to the participant. The Managing Director may make arrangements under which participants may service their loans from the Structural Adjustment Facility in the same way.[12]

The overall activity involving additional uses of SDRs in 1985/86 amounted to 46 transfers totaling SDR 111 million as against 40 transfers for a total of SDR 161 million in 1984/85. This decline in the SDR total was due to the fact that, unlike in 1984/85, there were no uses of SDRs to make loans to new members paying the reserve asset portion of their quota increases and the repayment of such loans. All transfers took place under only two prescriptions, those allowing the use of SDRs in loans and in settlement of financial obligations. The bulk of these transfers was effected by one prescribed holder which uses the SDR as its unit of account and makes loans in SDRs to its members. This institution was the recipient of SDRs in 33 transfers amounting to SDR 56.1 million relating to the repayments of loans and the payment of interest in settlement of financial obligations. The same prescribed holder used SDRs in 7 transfers (SDR 52.4 million) to make loans to four of its members. Another prescribed holder settled its financial obligations in 2 transfers to a participant.

[12] Executive Board Decisions Nos. 8186-(86/9) SBS/S, adopted January 15, 1986, and 8239-(86/56) SAF, adopted March 26, 1986 (reproduced in Appendix III).

TRANSFERS INVOLVING THE FUND

Inflows

Most uses of SDRs are between participants and the Fund. Total transfers to the General Resources Account increased by 3.4 percent in 1985/86 to SDR 4,415 million, reflecting mainly the payment of charges on the use of Fund resources (SDR 2,915 million) and the repurchases made in SDRs, at participants' option, which amounted to SDR 1,183 million, compared with SDR 717 million in 1984/85. Repurchases discharged in SDRs amounted to 28 percent of total repurchases, compared with 26 percent in 1984/85. In addition, the Fund received SDR 312 million in interest income on its holdings of SDRs (Table II.12).

Outflows

Transfers from the General Resources Account to participants increased by 3.6 percent to SDR 6,309 million in 1985/86. SDRs used in purchases, although substantially less than in 1984/85, still represented the largest outflow of SDRs, followed by SDRs acquired to pay charges to the Fund. Remuneration of creditor positions—lower by 22 percent in 1985/86—constituted the third largest outflow. The remaining outflows related to the payment of interest and principal on Fund borrowing. Interest payments in SDRs to six lenders to the Fund totaled SDR 720.9 million in 1985/86, of which SDR 365.5 million represented interest on loans under the supplementary financing facility and SDR 355.4 million, interest on borrowing for the enlarged access policy. The loan repayments of the Fund to seven countries amounted to SDR 340.6 million, of which SDR 323.5 million represented repayments under the supplementary financing facility.

The pattern of inflows and outflows of SDRs resulted in a decline from SDR 4,616 million to SDR 2,722 million in the Fund's holdings of SDRs, which was in accord with the objectives formulated by the Executive Board to reduce progressively the Fund's holdings to about SDR 2.5 billion by the end of May 1986 and to about SDR 1 billion by the end of May 1987.[13] Such a level is deemed to be sufficient to enable the Fund to meet obligations payable in SDRs (remuneration and sales of SDRs to members needing them for charges). This planned reduction would not have a significant impact on the Fund's income position, while being consistent with the policy objective that SDRs should generally be held in members' reserves rather than in the Fund's General Resources Account.

[13] Executive Board Decision No. 7941-(85/50) S, adopted March 29, 1985, *Selected Decisions*, Twelfth Issue, page 111. In April 1986 the Executive Board decided to reduce further the level of the Fund's SDR holdings to SDR 1 billion by the end of May 1987 (Executive Board Decision No. 8265-(86/70) S, adopted April 25, 1986, reproduced in Appendix III).

SDR AS A UNIT OF ACCOUNT AND AS A CURRENCY PEG

The SDR, which is the unit of account for Fund transactions and operations and for its administered accounts, is also used as a unit of account (or as a basis for the unit of account) by a number of international and regional organizations.[14] A number of international conventions also use the SDR to express monetary magnitudes, notably those expressing liability limits in the international transportation of goods and exchange of services. The International Air Transport Association uses movements in the exchange rate of a currency against the SDR as a trigger for a review and possible revision of cargo tariffs, which are specified in local currency.

In addition, the SDR has been used to denominate financial instruments created outside the Fund (so-called private SDRs). The market for private SDR deposits is still very limited and showed only moderate growth in 1985/86; there were no new security issues or bank credits denominated in SDRs.

At the end of April 1986, the currencies of 12 member countries were pegged to the SDR. When a member pegs its currency to the SDR, the value of its currency is fixed in terms of the SDR and is set in terms of currencies by reference to the SDR value of these currencies as calculated and published by the Fund.

ACCOUNTS ADMINISTERED BY THE FUND

TRUST FUND

The Trust Fund (established in May 1976), which provided additional concessionary balance of payments assistance to eligible low-income member countries by using part of the proceeds of gold auctioned by the Fund, was terminated as of April 30, 1981.[15] Thereafter, the responsibilities of the Fund have been confined to the receipt and disposition of interest and loan repayments through the Special Disbursement Account and the completion of any related business. Two installments of semiannual interest totaling SDR 11.9 million were received in June and December 1985. Repayments of loans, which began in July 1982, were made by 49 countries in 1985/86 and amounted to SDR 412.7 million as of April 30, 1986, leaving an outstanding balance of SDR 2,236.9 million.

SUPPLEMENTARY FINANCING FACILITY SUBSIDY ACCOUNT

The Supplementary Financing Facility Subsidy Account was established in December 1980 to reduce the cost for low-income developing members of using the supplementary financing facility. This Account was constituted by transfers from the Special Disbursement Account of interest on, and repayments of, Trust Fund loans (SDR 405.4 million), by donations (SDR 57.4 million) (Table II.14), and by loans and the income on investment of resources held pending disbursement (SDR 46.6 million). On May 28, 1985, the Executive Board decided to suspend further transfers to the Account from the Special Disbursement Account because the assets in hand, or pledged to the Subsidy Account, were estimated to be sufficient to discharge the known liabilities of the Subsidy Account, i.e., subsidy disbursements until 1991 at the maximum possible rates of subsidy estimated at SDR 272.1 million.[16]

Subsidy payments are calculated as a percentage per annum of the average daily balance of the Fund's holdings of an eligible member's currency resulting from purchases outstanding under the supplementary financing facility.[17] Eligible countries are divided into two groups: those with per capita incomes in 1979 equal to or below the per capita income used to determine eligibility for assistance from the International Development Association (IDA), which receive the full rate of subsidy, which does not exceed 3 percent per annum; and those with a per capita income in 1979 above the IDA level, but not more than that of the member that had the highest per capita income of those countries that were eligible to receive assistance from the Trust Fund, which receive subsidies at one half the full rate. All payments to date have been made at the maximum rates of 3 percent and 1.5 percent, respectively. These amounted to SDR 82.4 million in 1985/86 and have totaled SDR 307.1 million since the inception of the Account (Table II.15). Pending further subsidy payments, the investments of the Account are held in SDR-denominated deposits with the Bank for International Settlements (BIS).[18] Since January 1986, part of the Account's short-term assets can also be held in an SDR-denominated investment account with the International Bank for Reconstruction and Development (IBRD).[19] The

[14] The international and regional organizations using the SDR as a unit of account, or as basis for a unit of account, include the African Development Bank, African Development Fund, Arab Monetary Fund, Asian Clearing Union, Asian Development Bank, Great Lakes States Development Bank, East African Development Bank, Economic Community of West African States, European Conference of Postal and Telecommunications Administrations, International Center for Settlement of Investment Disputes, International Development Association, International Fund for Agricultural Development, International Telecommunications Union, Islamic Development Bank, Nordic Investment Bank, and Universal Postal Union.

[15] Executive Board Decision No. 6704-(80/185) TR, adopted December 17, 1980, *Selected Decisions*, Twelfth Issue, pages 360–61.

[16] Executive Board Decision No. 7989-(85/81) SBS, adopted May 28, 1985, *Selected Decisions*, Twelfth Issue, page 369.

[17] No subsidy is paid with respect to charges that accrue after repurchases should have been made.

[18] Executive Board Decision No. 7990-(85/81), adopted May 28, 1985, *Selected Decisions*, Twelfth Issue, page 132.

[19] Executive Board Decision No. 6854-(81/78) SBS, adopted May 8, 1981, as amended by Decision No. 8184-(86/9) SBS, adopted January 15, 1986 (reproduced in Appendix III).

IBRD, being a prescribed holder of SDRs, will cover the Fund's investments by holding official SDRs to be acquired in a transaction by agreement with another participant or prescribed holder. The IBRD's holdings of SDRs will earn the official SDR interest rate, which is generally higher than the rate earned on the Subsidy Account's short-term investments with the BIS, and the IBRD will pass on this higher rate to the Subsidy Account. As of April 30, 1986 the interest-earning deposits of the Subsidy Account amounted to SDR 183.2 million, plus accrued income of SDR 6.1 million.

Following the suspension of transfers to the Subsidy Account, further repayments of and interest on Trust Fund loans have been kept in the Special Disbursement Account under an investment policy, adopted on May 28, 1985, similar to that of the Supplementary Financing Facility Subsidy Account.[20] Under this policy, the assets of the Account are to be invested in SDR-denominated deposits with the BIS pending their use to finance the newly established structural adjustment facility of the Fund. As of April 30, 1986 the interest-earning deposits of the Special Disbursement Account amounted to SDR 427.0 million, plus accrued income of SDR 4.7 million.

NET INCOME POSITION, CHARGES, AND REMUNERATION

The Fund aims at achieving positive income each year, both to cover its expenses and to add a target amount of income to its reserves, while at the same time retaining a concessional element in the rate of charge on the use of ordinary resources and paying appropriate remuneration to creditor members for the use of their currencies in financing the Fund's operations. To this end, the Fund reviews its income position at midyear and at the end of the financial year (May 1 to April 30) and determines the rate of charge in the light of projected developments in the cost and use of Fund resources. Income in excess of the target amount of income may be placed in reserves or used to increase the rate of remuneration or to reduce the rate of charge.

INCOME, EXPENSE, AND RESERVES

The Fund recorded net income of SDR 78 million for the year ended April 30, 1986 as against a deficit of SDR 30 million for the previous year. Income from periodic charges decreased by SDR 229 million, from SDR 2,969 million in 1984/85 to SDR 2,740 million in 1985/86. This decrease occurred primarily because of the decline in market-related interest rates on which the Fund bases the charge for the use of resources financed from Fund borrowing. The average rate of charge levied on use of resources financed from borrowing declined from 11.43 percent in 1984/85 to 9.27 percent in 1985/86. The average balances on which the ordinary rate of charge is levied increased somewhat, from SDR 19,535 million in 1984/85 to SDR 19,657 million in 1985/86. Income from service charges decreased by SDR 8 million, from SDR 35 million in 1984/85 to SDR 27 million in 1985/86, reflecting a smaller additional use of Fund credit than in the preceding year.

The Fund's average holdings of SDRs were reduced from SDR 5,428 million in 1984/85 to SDR 3,538 million in 1985/86, and the average rate of interest on these holdings declined from 8.81 percent in 1984/85 to 7.44 percent in 1985/86. Consequently, the interest earned by the Fund on its SDR holdings declined by SDR 215 million, from SDR 478 million in 1984/85 to SDR 263 million in 1985/86.

Overall, operational income in 1985/86 (SDR 3,029 million) was SDR 453 million less than in 1984/85 (SDR 3,482 million). The Fund's operational expenses, consisting of remuneration on creditor positions and interest on Fund borrowing, decreased from SDR 3,288 million in 1984/85 to SDR 2,728 million in 1985/86.

Remuneration costs were lower by SDR 269 million (SDR 1,721 million in 1984/85 and SDR 1,452 million in 1985/86), primarily because of a lower average rate of remuneration of 6.85 percent in 1985/86, compared with an average rate of 7.77 percent in 1984/85, and also because of somewhat lower average balances on which remuneration is payable. Although the remuneration coefficient increased over the financial year, this was more than offset by the fall in market interest rates to which the SDR interest rate and the rate of remuneration are linked.

Interest costs on borrowing, net of income from temporary investments of the proceeds of borrowing, declined from SDR 1,567 million in 1984/85 to SDR 1,276 million in 1985/86. Average Fund borrowing over the year was relatively unchanged (SDR 14,050 million in 1984/85 and SDR 14,064 million in 1985/86). However, the average rate of interest paid by the Fund on its borrowing declined from 11.14 percent in 1984/85 to 9.09 percent in 1985/86. The Fund's total outstanding borrowing amounted to SDR 14,556 million on April 30, 1986 (SDR 14,203 million on April 30, 1985).

Net administrative expenses of the Fund in 1985/86 amounted to SDR 223 million, compared with SDR 224 million in 1984/85. Details on income and expense are shown in Appendix VIII (Financial Statements, pages 129–62).

CHARGES

Since the financial year 1981/82, the Executive Board, in considering the Fund's income position, has estab-

[20] Executive Board Decision No. 7990-(85/81), adopted May 28, 1985, *Selected Decisions*, Twelfth Issue, page 132.

lished at the beginning of each year a single rate of charge for use of the Fund's ordinary resources. This rate is determined on the basis of estimated income and expenses and the target amount of net income for the coming year. For the financial year that began May 1, 1985, the Executive Board decided to maintain the rate of charge at 7 percent per annum, the rate that prevailed in the previous year. Owing primarily to the uncertainty of the amount of deferred income from members overdue in their financial obligations to the Fund, it was projected at the midyear review of the Fund's income position that a deficit could be expected for the year as a whole. In the absence of an agreement to do otherwise by the Executive Board, and in accordance with the Fund's Rules and Regulations, the rate of charge on the use of the Fund's ordinary resources was raised as of November 1, 1985 from 7 percent per annum to 7.87 percent per annum. This higher rate was calculated as being necessary, based on the projections made at that time, to attain the income target for the year of the equivalent of 5 percent of reserves at the beginning of the financial year. In the light of the improvement in the income position and the payment by some members of some significant amounts of overdue and deferred charges, the Executive Board in April 1986 decided to reduce the rate of charge, retroactively to November 1, 1985, to the previous level of 7 percent per annum. Consequently, for the year as a whole, the rate of charge was 7 percent per annum.

Members making use of borrowed resources pay charges that reflect the Fund's costs of borrowing plus a margin. For purchases financed with borrowing under the supplementary financing facility, the rate of charge is equal to the rate of interest paid by the Fund plus a margin of 0.20 percent for the first three and one-half years a purchase remains outstanding, plus an additional 0.125 percent after three and one-half years. The rate of charge under the policy on enlarged access is the net cost of borrowing by the Fund plus 0.2 percent per annum. The average rates of charge per annum on purchases financed with borrowing in 1985/86 were 9.44 percent (supplementary financing facility) and 9.18 percent (enlarged access policy).

The Executive Board decided that, with effect from February 1, 1986, a special charge would be levied on overdue obligations of members. When the SDR interest rate is greater than the rate of charge, the rate of special charge to be imposed on overdue repurchases would be equal to the difference between the SDR interest rate and the rate of charge on ordinary resources. The rate of special charge levied on overdue charges owing to the General Department is equal to the SDR interest rate. In the last quarter of the financial year—February 1, 1986 through April 30, 1986—the special charges accruing to the Fund amounted to SDR 2.3 million, of which SDR 0.6 million was included in current income and SDR 1.7 million was deferred because the members subject to the special charge were six months or more overdue in their obligations and were also not current in the payment of charges.

REMUNERATION

A member receives remuneration whenever the Fund uses that member's currency to the extent that the holdings of the member's currency are reduced below the "norm" for the member. The norm varies from member to member; for those that were members of the Fund at April 30, 1978 (the time the Second Amendment of the Articles of Agreement entered into effect), it is equal to 75 percent of quota at that date, plus all increases in the member's quota after that date. For a member admitted to membership after that date, it is calculated as the weighted average of the norms of all other members on the date of membership plus all increases in the member's quota paid after the date on which the member joined the Fund. The average norm at the end of April 1986 for all members (91.73 percent) and the norms for individual members (between 88.49 percent and 98.95 percent)[21] remained unchanged from the previous year.

The rate of remuneration is derived by multiplying the remuneration coefficient by the SDR interest rate. Since May 1, 1981, the SDR rate of interest has been maintained at 100 percent of the combined market rate of interest.[22] Since August 1983 the SDR interest rate has been determined weekly, instead of quarterly (as previously), to reflect more closely movements in the combined market interest rate. Under the Articles of Agreement, the rate of remuneration may not be less than 80 percent nor more than 100 percent of the SDR interest rate. In January 1984, the Executive Board decided that this coefficient was to be raised on May 1 in each of the years 1984, 1985, and 1986 to specified levels, with provision for additional quarterly adjustments (increases as well as decreases during each year, within specified limits for that year) depending upon developments in the SDR interest rate, compared with that rate on April 30, 1984 (8.91 percent). The coefficient under the agreed formula in this decision was raised successively from 85 percent to 88.33 percent of the SDR interest rate on May 1, 1984, to 90 percent on February 1, 1985, to 91.66 percent on May 1, 1985, and to 93 percent on August 1, 1985. On February 1, 1986 it was lowered to 92 percent, but was raised on May 1, 1986 to 97.49 percent. The rate of remuneration will be further reviewed before May 1, 1987, taking account of all relevant factors, including the SDR interest rate and the rate of charge. During the financial year 1985/86 the rate of remuneration averaged 6.85 percent per annum (7.77 percent per annum in 1984/85). The SDR rate of interest and the rate of remuneration applicable in 1985/86 are set out in Table II.16.

[21] Except for Democratic Kampuchea, whose norm is 75 percent of quota because there has been no change in its quota since April 1978.

[22] The combined market interest rate is the weighted average of the market yields on three-month U.S. and U.K. Treasury bills; three-month interbank deposits in the Federal Republic of Germany; three-month interbank money against private paper in France; and the discount on two-month (private) bills in Japan.

TECHNICAL ASSISTANCE AND TRAINING

In 1985/86 the technical assistance and advice provided by the Fund to its members continued to be a very important part of its overall activities. This assistance covers a variety of subjects, from broad policy issues to more specialized technical problems. Much of the general technical assistance is provided through the Fund's consultation procedures under Article IV or in connection with adjustment programs. In helping a member to implement and monitor a program, the Fund may use the services of a staff member assigned as resident representative in a country.

The Fund extends technical assistance and training to member countries in specific economic and financial areas either at Fund headquarters or through staff missions. Requests for such assistance and training are met through the provision of staff from virtually every department of the Fund and relate to such topics as general economic policy, balance of payments programs, debt-management systems, problems arising from inflation, exchange and trade systems, tax policy and tax administration, accounting and valuation problems, statistical issues, and data processing.

The IMF Institute offers training to officials from member countries through courses and seminars in Washington and seminars abroad. In 1985/86, the Institute enlarged its activities in Washington by adding an Arabic division to the existing English, French, and Spanish divisions and by conducting up to four courses simultaneously, compared with three in previous years. During the year, it conducted a total of 14 courses, comprising one 18-week course on financial analysis and policy, one 14-week course and two 12-week courses on financial programming and policy, two 10-week courses on public finance, and eight 8-week courses on techniques of economic analysis, balance of payments methodology, and government finance statistics. The courses on public finance were conducted in collaboration with the Fiscal Affairs Department, and those on balance of payments methodology and government finance statistics in collaboration with the Bureau of Statistics.

During the same financial year, the Institute conducted three seminars on general topics at Fund headquarters. The first seminar, held in collaboration with the Central Banking Department, dealt with central banking, the second with the Fund's role in the international monetary system, and the third with pricing policy.

The Institute also carried out external training activities. It conducted three country seminars—in Morocco on exchange rate policy, and in Papua New Guinea and Botswana on financial programming techniques and policy issues. In addition, the Institute provided lecturers to four regional organizations and arranged briefings at Fund headquarters for official visitors from member countries.

During 1985/86, 470 participants attended Institute courses and 86 senior officials attended seminars held in Washington, while 74 officials attended seminars held abroad. Since its inception in 1964, the Institute has provided training for 5,091 officials from 149 member countries in its courses and seminars in Washington.

The provision of technical assistance on fiscal matters to member countries continues to be a major activity of the Fiscal Affairs Department. During 1985/86, advice and assistance again covered a wide range of fiscal subjects, including tax policy and administration, the budget system and procedures, accounting, auditing, expenditure control, financial reporting, and public enterprise policies. Such technical assistance contributed to successful adjustment in a number of countries by promoting the effective implementation of fiscal adjustment measures. In this regard the advice provided included measures to increase revenues, improve tax administration, rationalize expenditure policies, and improve the efficiency of budgetary operations, for which detailed technical analysis was required from the Fiscal Affairs Department and the Legal Department. Technical assistance continued to be given through a mixture of staff missions and the use of members of the panel of fiscal experts, most often through field assignments. In 1985/86 technical assistance was given to 50 countries, compared with 44 in 1984/85 and 45 in 1983/84. During 1985/86, there were 27 long-term and 98 short-term assignments of experts in the field; 48 panel members and 32 Fund staff members participated in this technical assistance work. Support and guidance to experts in the field were provided from headquarters.

The Central Banking Department has continued to provide technical assistance and advisory services to member countries in a wide range of financial sector subjects. These services are furnished both through staff advisory missions and through the assignment of resident experts. During 1985/86, 149 resident experts provided 91 man-years of assistance in both executive and advisory positions to the monetary authorities of 64 member countries and 4 regional organizations. Most of the assistance was in the fields of research, bank supervision, banking operations, and foreign exchange management.The Department has also continued its program of assistance to member countries in establishing proper mechanisms for the reporting, control, and management of external debt and for the collection of debt statistics. Seventeen experts and consultants have been helping member countries under this program. Departmental staff carried out 19 advisory and assessment missions and participated in 3 missions led by area departments and in 1 World Bank mission. Topics on which advice was given included banking and financial sector legislation (in collaboration with the Legal Department), design of monetary policy instruments, development of money markets, promotion of development finance, unregulated financial institutions, and financial reform. A third seminar on central banking, attended by senior central bank officials of member countries, was conducted jointly with the IMF Institute in July 1985.

In connection with its advisory services, the Central

Banking Department has continued to undertake research projects on several aspects of central banking and financial sector development, including monetary instruments and policies, banking crises, selective credit controls, and bond markets. These studies, and the ongoing work on computerized data bases on central bank and commercial banking legislation, are aimed at enhancing the quality of advisory services, as well as at ensuring the timeliness and accuracy of the information provided by the Department to member countries. The Department is now compiling a data base on central bank practices and instruments, which will permit intercountry comparisons on the use of monetary and credit instruments.

The provision of technical assistance in statistics continued to be an important part of the activities of the Bureau of Statistics. During 1985/86, priority was given to meeting requests for assistance from member countries negotiating or implementing adjustment programs with the Fund, from relatively new member countries, and from developing countries at an early stage of statistical development. The assistance was provided primarily through short missions in one or more key areas of economic statistics, but training was also provided at Fund headquarters to visiting national statisticians. Continuing the practice of recent years, the main objective of this assistance was to improve the currentness, coverage, and quality of the data needed to support the Fund's analytical and operational work, and the principal areas of statistics covered were money and banking, government finance, balance of payments, international banking and external debt, and general economic data. During 1985/86, the staff of the Bureau of Statistics participated in 70 technical assistance missions to 53 countries and 2 regional organizations (Banque Centrale des Etats de l'Afrique de l'Ouest and Banque des Etats de l'Afrique Centrale) and provided training at headquarters to 10 officials from member countries. In addition, staff of the Bureau collaborated with the IMF Institute in conducting courses in government finance statistics (in French) and balance of payments methodology (in English and French) and assisted regional and national authorities in conducting 5 seminars in various areas of statistics.

The Bureau of Computing Services continued to receive a number of visiting officials from central banks and other international organizations. The type of technical advice, briefings, and training provided related mostly to the application of large-scale statistical data bases, econometric facilities, and the development and use of microcomputers for desk-top processing. During 1985/86, the Bureau of Computing Services also participated in technical assistance missions to the central banks of four member countries. The electronic data processing assistance provided was in direct support of the economic programs of the Fund. In Ghana, assistance was provided to the Domestic and Foreign Operations Department for the development of an economic data base. The Central Bank of Seychelles required a review of the effective exchange rate computation programs and an analysis of the reporting and storage of economic time series. In Cameroon, assistance was given in formulating a plan for the implementation of a computer system for international banking and accounting applications. The requirements in Tanzania focused on a review of previous consultants' reports on the computerization of the operational and analytical needs of the Bank.

RELATIONS WITH OTHER INTERNATIONAL ORGANIZATIONS

The Fund's central role in the international monetary and financial arena necessitates close and active cooperation with other international and regional organizations having related responsibilities and interests. Enhanced collaboration with the World Bank, with which the Fund has a unique relationship dating back to their shared creation at the Bretton Woods Conference in 1944 and complementary activities, was of particular importance during 1985/86. This collaboration was reflected in the regular exchange of information and expertise, the participation of staff in each other's missions and related activities, and other joint endeavors aimed at furthering the goals of the two institutions. Close ties were also maintained with the United Nations (UN) and its relevant organs, the Organization for Economic Cooperation and Development (OECD), the General Agreement on Tariffs and Trade (GATT), the Commission of the European Communities (CEC), the Bank for International Settlements (BIS), and regional and financial institutions in Africa, Asia and the Pacific, Latin America and the Caribbean, and the Middle East. Liaison with the United Nations is the responsibility of the Fund's Special Representative to the United Nations in New York. The Fund's European Office in Paris has responsibility with respect to the OECD, the BIS, and the CEC; and the Office in Geneva with regard to the UN Conference on Trade and Development (UNCTAD) and the GATT. The work of these offices is supplemented by senior staff and technical experts from headquarters, staff resident representatives in certain member countries, and attendance at and participation in meetings, seminars, and training courses. Documents and other information are also exchanged.

The Managing Director delivered his annual address before the Economic and Social Council of the United Nations (ECOSOC) on July 4, 1985 in Geneva. He also participated in the ceremonies in connection with the Fortieth Anniversary of the United Nations in October 1985, and spoke at the meeting of the UN Administrative Committee on Coordination in New York on October 28. In July 1985 he attended the monthly meeting of the BIS in Basle and on April 17, 1986 he addressed the ministerial meeting of the OECD held in Paris. The Managing Director also took part in the meetings of the ministers and governors of the Group of Ten industrial countries which were held in Tokyo on June 21, 1985, before the Interim Committee sessions in Seoul on October 6, 1985 and in Washington on April 8, 1986. In addition, he attended the thirty-second meeting of the Ministers of the Intergovernmental Group of Twenty-Four on International Monetary Affairs, which took place in Seoul on October 5, 1985. The Fund was represented at the thirty-third meeting of the Group of Twenty-Four Ministers, held in Buenos Aires on March 6, 1985, by the Economic Counsellor. The Deputy Managing Director attended the twenty-fourth high-level meeting of the OECD Development Assistance Committee in Paris on December 2, 1985, and delivered comments on the subject of collaboration between aid agencies and the Fund.

At the invitation of the World Bank, the Fund was represented at meetings of the Bangladesh, Burma, and Nepal Aid Groups, as well as the India, Pakistan, and Sri Lanka and Turkey Consortia, and the Consultative Groups for Ghana, Kenya, Malawi, Mauritania, Mauritius, the Philippines, Somalia, Yugoslavia, and Zaïre. Staff of the Fund also attended a special meeting of aid donors for The Gambia, and relevant documentation was provided to that group. In addition, the Fund provided documents for a meeting of the Intergovernmental Group on Indonesia.

EXTERNAL RELATIONS

During the financial year the Fund intensified its efforts to explain its activities and policies to a wider audience, in line with increased emphasis placed in member countries by the general public and the press on monetary reform issues, multilateral surveillance, and new initiatives to deal with the debt situation. The Managing Director and senior staff participated in a number of international and national forums where they delivered addresses on a range of international economic issues. Members of the Fund staff also delivered papers at a number of conferences, seminars, and symposia. The program of seminars for nonofficials continued to play an important role in the Fund's external relations effort. The eleventh in the series was held in English in Wellington, New Zealand, on February 17–19, 1986. The twelfth seminar was conducted in French in Tunis, from April 28 to 30. The proceedings of these seminars will be published in the languages in which they were conducted.

During the financial year, the Fund expanded its contacts with the news media in Africa, Asia, Latin America, and the Pacific Basin in the continuing effort to improve public understanding of the institution and its role in the international monetary system. Representatives of academic, business, labor, political, and financial institutions visited Fund headquarters under the Visitors' Program to attend presentations on the work and role of the Fund. A 24-minute film "The IMF at Work," describing the Fund's origins, purposes, and activities in layman's terms, was completed and is available in four languages—English, French, German, and Spanish—to the authorities of members, television companies, and other interested parties. Work on the IMF Visitors' Center in Washington, D.C., was also finished during the year. The Center was opened to the public on June 20, 1986.

The Fund continued to expand the number of titles available in its publications program. One highlight of this program was the publication of the third set of volumes of the Fund's history, "The International Monetary Fund 1972–1978: Cooperation on Trial," by the Fund's Historian, Margaret Garritsen de Vries. Toward the end of the financial year, a new series of World Economic and Financial Surveys was established, comprising the *World Economic Outlook* and other staff studies of a periodic nature, dealing with such topics as commodity price developments, export credit policies, and international capital markets. The other publications issued during the financial year, including books, seminar volumes, and Occasional Papers, are listed in Appendix II, Table II.17.

EXECUTIVE DIRECTORS AND STAFF

A list of Executive Directors and their voting power on April 30, 1986 is given in Appendix V. The changes in membership of the Executive Board during 1985/86 are shown in Appendix VI.

In the financial year ended April 30, 1986, there were 114 appointments to the Fund's regular staff and 90 separations. At the end of the financial year, the staff numbered 1,685 and was drawn from 98 countries.

Table II.1.
Exchange Rate Arrangements as of June 30, 1986[1]

Pegged to					Flexibility Limited vis-à-vis a Single Currency or Group of Currencies		More flexible		
Single currency			Currency composite						
U.S. dollar	French franc	Other	SDR	Other	Single currency[2]	Cooperative arrangements	Adjusted according to a set of indicators	Managed floating	Independently floating
Antigua and Barbuda	Benin	Bhutan (Indian rupee)	Burma	Algeria[3]	Afghanistan[1]	Belgium[3]	Brazil[4]	Argentina	Australia
The Bahamas[3]	Burkina Faso	Kiribati (Australian dollar)	Burundi	Austria	Bahrain[5]	Denmark	Chile[3,4]	Costa Rica[3]	Bolivia
Barbados	Cameroon	Lesotho[3] (South African rand)	Iran, Islamic Republic of	Bangladesh[3]	Qatar[5]	France	Colombia	Ecuador[3]	Canada
Belize	Central African Republic	Swaziland (South African rand)	Jordan	Botswana	Saudi Arabia[5]	Germany, Federal Republic of	Portugal	El Salvador[3]	Dominican Republic
Djibouti	Chad	Tonga (Australian dollar)	Kenya[6]	Cape Verde	United Arab Emirates[5]	Ireland	Somalia[3]	Greece	The Gambia
Dominica	Comoros		Libya[10]	China		Italy[7]		Guinea-Bissau	Jamaica
Egypt[3]	Congo		Rwanda	Cyprus		Luxembourg[3]		Iceland	Japan
Ethiopia	Côte d'Ivoire		São Tomé and Principe	Fiji		Netherlands		India[8]	Lebanon
Ghana	Equatorial Guinea		Seychelles	Finland[6]				Indonesia	New Zealand
Grenada	Gabon		Vanuatu	Guyana				Israel	Philippines
Guatemala[3]	Mali			Hungary				Korea	Sierra Leone[3]
Guinea[3]	Niger			Kuwait				Mexico[3]	South Africa[3]
Haiti	Senegal			Madagascar				Morocco	United Kingdom
Honduras	Togo			Malawi				Nigeria[3]	United States
Iraq				Malaysia[6]				Pakistan	Uruguay
Lao People's Democratic Republic[3]				Maldives				Spain	Zaïre
Liberia				Malta				Sri Lanka	Zambia
Nicaragua[3]				Mauritania				Turkey	
Oman				Mauritius				Uganda[3]	
Panama				Mozambique				Western Samoa	
Paraguay[3]				Nepal				Yugoslavia	
Peru[3]				Norway					
St. Christopher and Nevis				Papua New Guinea					
St. Lucia				Poland[11]					
St. Vincent and the Grenadines				Romania					
Suriname				Singapore					
Syrian Arab Republic[3]				Solomon Islands					
Trinidad and Tobago				Sudan[3]					
Venezuela[3]				Sweden[9]					
Viet Nam				Tanzania					
Yemen Arab Republic				Thailand					
Yemen, People's Democratic Republic of				Tunisia					
				Zimbabwe					

[1] No current information is available relating to Democratic Kampuchea.
[2] In all cases listed in this column, the U.S. dollar was the currency against which exchange rates showed limited flexibility.
[3] Member maintains dual exchange markets involving multiple exchange arrangements. The arrangement shown is that maintained in the major market.
[4] Member maintains a system of advance announcement of exchange rates.
[5] Exchange rates are determined on the basis of a fixed relationship to the SDR, within margins of up to ±7.25 percent. However, because of the maintenance of a relatively stable relationship with the U.S. dollar, these margins are not always observed.
[6] The exchange rate is maintained within margins of ±2.25 percent.
[7] Margins of ±6 percent are maintained with respect to the currencies of other countries participating in the exchange rate mechanism of the European Monetary System.
[8] The exchange rate is maintained within margins of ±5 percent on either side of a weighted composite of the currencies of the main trading partners.
[9] The exchange rate is maintained within margins of ±1.5 percent.
[10] The exchange rate is maintained within margins of ±7.5 percent.
[11] The buying and selling rates are set weekly within margins of 0.5 percent about the midpoint rate.

Table II.2.

Purchases Under Tranche Policies and Special Facilities, 1980–86
(In billions of SDRs)

	Financial Year Ended April 30						
	1980	1981	1982	1983	1984	1985	1986
Purchases under tranche policies	1.31	3.60	5.33	6.17	8.88	4.81	3.34
First credit tranche	0.16	0.78	0.02	0.03	—	[1]	0.29[2]
Upper credit tranches	0.93	1.90	2.73	3.68	4.16	2.77	2.55
Extended Fund facility	0.22	0.92	2.58	2.46	4.72	2.04	0.50
Purchases under special facilities	0.89	0.78	1.63	4.09	1.28	1.25	0.60
Compensatory financing facility	0.86	0.78	1.63	3.74	1.18	1.25	0.60
Buffer stock financing facility	0.03	—	—	0.35	0.10	—	—
Total	2.20	4.38	6.96	10.26	10.16	6.06	3.94

[1] Less than SDR 50 million.
[2] Emergency assistance.

Table II.3.

Fund Stand-By Arrangements for Members, Financial Year Ended April 30, 1986

(In millions of SDRs)

Member	Total Number of Stand-Bys Approved for Member Since 1953	Current Arrangement: Date of inception	Current Arrangement: Date of expiration	Amount Approved in 1984/85: Total	Amount Approved in 1984/85: Of which: borrowed resources	Amount Approved in 1985/86: Total	Amount Approved in 1985/86: Of which: borrowed resources	Amount Not Purchased at Expiration or Cancellation	Amount Not Purchased as of April 30, 1986
Argentina	11	Dec. 28, 1984	May 31, 1986[1]	1,182.50	591.25	—	—	—	236.50
Bangladesh	5	Dec. 2, 1985	June 30, 1987	—	—	180.00	—	—	120.00
Belize	1	Dec. 3, 1984	May 31, 1986	7.13	—	—	—	—	1.18
Central African	5	July 6, 1984	July 5, 1985	15.00	—	—	—	—	—
Republic		Sept. 23, 1985	Mar. 22, 1987	—	—	15.00	7.50	—	14.00
Costa Rica	9	Mar. 13, 1985	Apr. 12, 1986	54.00	27.00	—	—	20.00	—
Côte d'Ivoire	2	Aug. 3, 1984	May 2, 1985	82.75	—	—	—	20.69	—
		June 3, 1985	June 2, 1986	—	—	66.20	33.10	—	13.24
Dominica	1	July 18, 1984	July 17, 1985	1.40	—	—	—	0.43	—
Dominican Republic	3	Apr. 15, 1985	Apr. 14, 1986	78.50	—	—	—	—	—
Ecuador	11	Mar. 11, 1985	Mar. 10, 1986	105.50	52.75	—	—	—	—
Equatorial Guinea	2	June 28, 1985	June 27, 1986	—	—	9.20	—	—	3.80
Ghana	7	Aug. 27, 1984	Dec. 31, 1985	180.00	96.53	—	—	—	—
Guinea	2	Feb. 3, 1986	Mar. 2, 1987	—	—	33.00	—	—	24.00
Haiti	20	Nov. 7, 1983	Sept. 30, 1985[2]	(60.00)	(45.23)	—	—	39.00	—
Jamaica	5	June 22, 1984	June 21, 1985	64.00	—	—	—	—	—
		July 17, 1985	May 31, 1987	—	—	115.00	81.62	—	73.40
Kenya	6	Feb. 8, 1985	Feb. 7, 1986	85.20	42.60	—	—	—	—
Korea	16	July 12, 1985	Mar. 10, 1987	—	—	280.00	—	—	160.00
Liberia	18	Dec. 7, 1984	June 6, 1986[3]	42.78	21.39	—	—	34.28	—
Madagascar	6	Apr. 23, 1985	Apr. 22, 1986	29.50	14.75	—	—	—	—
Mali	8	Nov. 8, 1985	Mar. 31, 1987	—	—	22.86	16.17	—	16.36
Mauritania	5	Apr. 12, 1985	Apr. 25, 1986	12.00	—	—	—	—	—
		Apr. 26, 1986	Apr. 25, 1987	—	—	12.00	—	—	12.00
Mauritius	6	Mar. 1, 1985	Aug. 31, 1986	49.00	24.50	—	—	—	14.00
Morocco	10	Sept. 12, 1985	Feb. 28, 1987	—	—	200.00	100.00	—	190.00
Nepal	2	Dec. 23, 1985	Jan. 22, 1987	—	—	18.65	—	—	8.40
Niger	3	Dec. 5, 1984	Dec. 4, 1985	16.00	8.00	—	—	—	—
		Dec. 5, 1985	Dec. 4, 1986	—	—	13.48	6.74	—	8.09
Panama	16	July 15, 1985	Mar. 31, 1987	—	—	90.00	45.00	—	55.00
Philippines	17	Dec. 14, 1984	June 13, 1986	615.00	307.50	—	—	—	212.00
Senegal	5	Jan. 16, 1985	July 15, 1986	76.60	50.42	—	—	—	10.50
Somalia	11	Feb. 22, 1985	Sept. 30, 1986	22.10	11.05	—	—	—	20.10
Sudan	9	June 25, 1984	June 24, 1985	90.00	45.00	—	—	70.00	—
Thailand	4	June 14, 1985	Mar. 31, 1987	—	—	400.00	216.24	—	250.00
Togo	5	May 7, 1984	May 6, 1985	19.00	—	—	—	—	—
		May 17, 1985	May 16, 1986	—	—	15.36	8.71	—	—
Uruguay	14	Sept. 27, 1985	Mar. 26, 1987	—	—	122.85	61.43	—	87.75
Western Samoa	6	July 9, 1984	July 8, 1985	3.38	1.69	—	—	—	—
Yugoslavia	10	Apr. 18, 1984	May 15, 1985[2]	(370.00)	(185.00)	—	—	—	—
		May 16, 1985	May 15, 1986	—	—	300.00	150.00	—	67.50
Zaïre	6	Apr. 24, 1985	Apr. 23, 1986	162.00	—	—	—	—	—
Zambia	6	July 26, 1984	Apr. 30, 1986[4]	225.00	112.50	—	—	145.00	—
		Feb. 21, 1986	Feb. 28, 1988	—	—	229.80	114.90	—	194.80
Total				3,218.34	1,406.93	2,123.40	841.41	329.40	1,792.62

[1]Amount of arrangement reduced to SDR 1,182.50 million from SDR 1,419 million.
[2]Arrangement approved in financial year 1983/84.
[3]Arrangement canceled on December 6, 1985.
[4]Arrangement canceled on February 7, 1986.

Table II.4.

Purchases of Currencies and SDRs from the Fund, Financial Year Ended April 30, 1986

(In millions of SDRs)

	Under Tranche Policies				Under Decision on				Purchases Financed with		
			Under stand-by arrangements		Extended Fund facility				Ordinary resources		
Member Purchasing	Within reserve tranche	Credit tranche	Ordinary resources	Enlarged access resources	Ordinary resources	Enlarged access resources	Compensatory financing	Total Purchases	Currencies	SDRs	Enlarged access resources
Argentina	—	—	354.75	354.75	—	—	—	709.50	135.50	219.25	354.75
Bangladesh	—	—	60.00	—	—	—	—	60.00	37.00	23.00	—
Belize	—	—	3.57	—	—	—	—	3.57	0.90	2.67	—
Central African Republic	—	—	7.50	0.50	—	—	—	8.00	—	7.50	0.50
Chad	—	—	—	—	—	—	7.00	7.00	—	7.00	—
Chile	—	—	—	—	93.75	93.75	70.60	258.10	41.21	123.14	93.75
Costa Rica	—	—	5.00	5.00	—	—	—	10.00	1.00	4.00	5.00
Côte d'Ivoire	—	—	26.48	26.48	—	—	—	52.96	—	26.48	26.48
Dominican Republic	—	—	50.48	—	—	—	15.50	65.98	20.00	45.98	—
Ecuador	—	—	42.20	42.20	—	—	—	84.40	6.00	36.20	42.20
Equatorial Guinea	—	—	5.40	—	—	—	—	5.40	—	5.40	—
Ethiopia	—	—	—	—	—	—	35.30	35.30	35.30	—	—
Ghana	—	—	53.47	66.53	—	—	—	120.00	2.00	51.47	66.53
Guinea	—	—	9.00	—	—	—	—	9.00	—	9.00	—
Jamaica	—	—	56.80	20.80	—	—	—	77.60	8.00	48.80	20.80
Kenya	—	—	27.70	27.70	—	—	37.90	93.30	20.50	45.10	27.70
Korea	—	—	120.00	—	—	—	—	120.00	80.00	40.00	—
Madagascar	—	—	13.00	13.00	—	—	—	26.00	0.35	12.65	13.00
Malawi	—	—	—	8.00	—	15.00	—	23.00	—	—	23.00
Mali	—	—	3.25	3.25	—	—	—	6.50	—	3.25	3.25
Mauritania	—	—	9.60	—	—	—	—	9.60	2.80	6.80	—
Mauritius	—	—	10.50	10.50	—	—	—	21.00	3.50	7.00	10.50
Mexico	—	291.38	—	—	20.06	275.74	—	587.18	—	311.44	275.74
Morocco	—	—	5.00	5.00	—	—	115.10	125.10	30.00	90.10	5.00
Nepal	—	—	10.25	—	—	—	—	10.25	—	10.25	—
Niger	—	—	7.50	7.50	—	—	—	14.99	—	7.50	7.50
Pakistan	88.57	—	—	—	—	—	—	88.57	38.57	50.00	—
Panama	—	—	17.50	17.50	—	—	—	35.00	6.00	11.50	17.50
Philippines	—	—	159.00	159.00	—	—	—	318.00	25.00	134.00	159.00
Senegal	—	—	14.88	28.62	—	—	—	43.50	—	14.88	28.62
South Africa	69.98	—	—	—	—	—	—	69.98	—	69.98	—
Swaziland	1.76	—	—	—	—	—	—	1.76	—	1.76	—
Thailand	—	—	75.00	75.00	—	—	185.00	335.00	40.00	220.00	75.00
Togo	—	—	6.65	8.71	—	—	—	15.36	—	6.65	8.71
Uruguay	—	—	17.55	17.55	—	—	66.10	101.20	30.00	53.65	17.55
Western Samoa	—	—	0.42	0.42	—	—	—	0.84	—	0.42	0.42
Yugoslavia	—	—	161.25	161.25	—	—	—	322.50	54.00	107.25	161.25
Zaïre	—	—	122.00	—	—	—	—	122.00	13.00	109.00	—
Zambia	—	—	17.50	17.50	—	—	68.80	103.80	44.00	42.30	17.50
Total	160.30	291.38	1,473.18	1,076.76	113.81	384.49	601.30[1]	4,101.22	674.63	1,965.34	1,461.25

[1] Of which, SDR 111.3 million was purchased in accordance with the decision on compensatory financing of fluctuations in the cost of cereal imports, Executive Board Decision No. 6860-(81/81), adopted May 13, 1981, as amended by Decisions Nos. 7602-(84/3), January 6, 1984, and 7967-(85/69), May 3, 1985, *Selected Decisions*, Twelfth Issue, pages 88–93.

Table II.5.

Summary of Members' Purchases and Repurchases, Financial Years Ended April 30, 1948–86

(In millions of SDRs)

Year	Total Purchases by Members	Total Repurchases by Members
1948	606.04	—
1949	119.44	—
1950	51.80	24.21
1951	28.00	19.09
1952	46.25	36.58
1953	66.12	184.96
1954	231.29	145.11
1955	48.75	276.28
1956	38.75	271.66
1957	1,114.05	75.04
1958	665.73	86.81
1959	263.52	537.32
1960	165.53	522.41
1961	577.00	658.60
1962	2,243.20	1,260.00
1963	579.97	807.25
1964	625.90	380.41
1965	1,897.44	516.97
1966	2,817.29	406.00
1967	1,061.28	340.12
1968	1,348.25	1,115.51
1969	2,838.85	1,542.33
1970	2,995.65	1,670.69
1971	1,167.41	1,656.86
1972	2,028.49	3,122.33
1973	1,175.43	540.30
1974	1,057.72	672.49
1975	5,102.45	518.08
1976	6,591.42	960.10
1977	4,910.33	868.19
1978	2,503.01	4,485.01
1979	3,719.58	4,859.18
1980	2,433.26	3,775.83
1981	4,860.01	2,852.93
1982	8,040.62	2,009.88
1983	11,391.89	1,555.12
1984	11,517.73	2,017.65
1985	6,288.87	2,730.39
1986	4,101.22	4,289.01
Total	97,319.54[1]	47,790.70[2]

[1] Includes reserve tranche purchases.
[2] Excludes sales of currency and adjustments that have the effect of repurchase.

Table II.6.

Summary of Stand-By Arrangements That Became Effective During the Financial Years Ended April 30, 1953–86[1]

(In millions of SDRs)

Year	Number	Amount
1953	2	55.00
1954	2	62.50
1955	2	40.00
1956	2	47.50
1957	9	1,162.28
1958	11	1,043.78
1959	15	1,056.63
1960	14	363.88
1961	15	459.88
1962	24	1,633.13
1963	19	1,531.10
1964	19	2,159.85
1965	24	2,159.05
1966	24	575.35
1967	25	591.15
1968	32	2,352.36
1969	26	541.15
1970	23	2,381.28
1971	18	501.70
1972	13	313.75
1973	13	321.85
1974	15	1,394.00
1975	14	389.75
1976	18	1,188.02
1977	19	4,679.64
1978	18	1,285.09
1979	14	507.85
1980	24	2,479.36
1981	21	5,197.93
1982	19	3,106.21
1983	27	5,449.98
1984	25	4,287.33
1985	24	3,218.33
1986	18	2,123.40
Total	588	54,660.06

[1] Includes renewals and extensions for one year or less, except the renewals each six months of the stand-by arrangement for Belgium granted in June 1952 until that member purchased the full amount of the equivalent of SDR 50 million in April 1957.

Table II.7.

Extended Fund Facility Arrangements for Members, July 7, 1975–April 30, 1986

(In millions of SDRs)

Member	Date of Inception	Date of Expiration	Total Amount of Arrangement	Of Which: Borrowed Resources	Amount Not Purchased at Expiration or Cancellation	Of Total Amount Approved Amount Not Purchased as of April 30, 1986
Approved in previous financial years						
Bangladesh	12/8/80	12/7/83	800.00[1]	480.80	580.00	—
Brazil	3/1/83	2/28/86	4,239.38	2,842.88	1,496.25	—
Costa Rica	6/17/81	6/16/84	276.75[2]	190.65	254.25	—
Côte d'Ivoire	2/27/81	2/22/84	484.50	324.90	38.47	—
Dominica	2/6/81	2/5/84	8.55	4.49	—	—
Dominican Republic	1/21/83	1/20/86	371.25[3]	255.75	247.50	—
Egypt	7/28/78	7/27/81	600.00	—	525.00	—
Gabon	6/27/80	12/31/82	34.00	—	34.00	—
Grenada	8/24/83	8/23/86	13.50[4]	8.98	12.37	—
Guyana	6/25/79	6/24/82	62.75[5]	35.00	52.75	—
	7/25/80	7/24/83	150.00[6]	116.37	98.27	—
Haiti	10/25/78	10/24/81	32.20	—	21.40	—
Honduras	6/28/79	6/27/82	47.60	—	23.70	—
India	11/9/81	11/8/84	5,000.00[7]	2,595.50	1,100.00	—
Jamaica	6/9/78	6/8/81	200.00[8]	—	130.00	—
	6/11/79	6/10/81	260.00[9]	227.10	175.00	—
	4/13/81	4/12/84	477.70[10]	390.55	74.90	—
Kenya	7/7/75	7/6/78	67.20	—	59.50	—
Malawi	9/19/83	9/18/86	81.00[11]	62.47	—	24.00
Mexico	1/1/77	12/31/79	518.00[12]	—	518.00	—
	1/1/83	12/31/85	3,410.63	2,287.13	907.95	—
Morocco	10/8/80	10/7/83	810.00[13]	600.00	663.00	—
	3/9/81	10/7/83	817.05[14]	567.00	680.55	—
Pakistan	11/24/80	11/23/83	1,268.00[15]	869.00	919.00	—
	12/2/81	11/23/83	919.00	490.12	189.00	—
Peru	6/7/82	6/6/85	650.00[16]	311.56	385.00	—
Philippines	4/2/76	4/1/79	217.00[17]	—	—	—
Senegal	8/8/80	8/7/83	184.80[18]	126.00	143.70	—
Sierra Leone	3/30/81	2/22/84	186.00[19]	121.81	152.50	—
Sri Lanka	1/1/79	12/31/81	260.30	—	—	—
Sudan	5/4/79	5/3/82	427.00[20]	303.80	176.00	—
Zaïre	6/22/81	6/21/84	912.00[21]	632.94	737.00	—
Zambia	5/8/81	5/7/84	800.00[22]	674.00	500.00	—
Subtotal			24,586.16	14,518.80	10,895.06	24.00
Approved during financial year 1985/86						
Chile	8/15/85	8/14/88	750.00	375.00	—	562.50
Total			25,336.16	14,893.80	10,895.06	586.50

[1] Arrangement canceled as of June 21, 1982.
[2] Canceled as of December 20, 1982 and replaced by a stand-by arrangement.
[3] Arrangement canceled as of January 17, 1985.
[4] Arrangement canceled as of January 23, 1984.
[5] Canceled as of June 24, 1980.
[6] Arrangement augmented by SDR 50.00 million in July 1981 to a total of SDR 150.00 million. Arrangement canceled as of July 22, 1982.
[7] Arrangement canceled as of May 1, 1984.
[8] Canceled as of June 10, 1979.
[9] Canceled as of April 12, 1981.
[10] Arrangement augmented by SDR 241.30 million in June 1981 to a total of SDR 477.70 million.
[11] Amount of arrangement decreased from SDR 100 million.
[12] Includes augmentation by repurchase equivalent to SDR 100.00 million.
[13] Canceled as of March 8, 1981.
[14] Arrangement canceled as of April 25, 1982 and replaced by a stand-by arrangement.
[15] Canceled as of December 1, 1981.
[16] Arrangement canceled as of April 24, 1984 and replaced by a stand-by arrangement.
[17] Includes augmentation by repurchase equivalent to SDR 38.75 million.
[18] Canceled as of September 10, 1981 and replaced by a stand-by arrangement.
[19] Arrangement augmented by SDR 22.30 million in June 1981 to a total of SDR 186.00 million. Arrangement canceled as of April 6, 1982.
[20] Arrangement augmented by SDR 227.00 million in November 1980, canceled on February 17, 1982, and replaced by a stand-by arrangement.
[21] Arrangement canceled as of June 21, 1982.
[22] Arrangement canceled as of July 3, 1982.

Table II.8.

Repurchases of Currencies from the Fund, Financial Year Ended April 30, 1986

(In millions of SDRs)

	Repurchases in Respect of Purchases of							
	Borrowed Resources		Ordinary Resources					
Member Repurchasing	Supplementary financing facility	Enlarged access resources	Credit tranche	Extended Fund facility	Compen- satory financing	Buffer stock	Under guidelines for early repurchase	Total
Argentina	—	—	25.1	—	65.0	—	—	90.1
Bangladesh	27.5	—	3.5	16.1	31.4	—	—	78.5
Barbados	—	0.4	1.8	—	2.9	—	—	5.1
Bolivia	6.4	—	2.2	—	2.2	9.2	—	20.0
Brazil	—	—	—	—	62.3	—	—	62.3
Burma	—	—	13.5	—	3.2	—	—	16.7
Central African Republic	—	—	4.9	—	3.3	—	—	8.2
Chad	—	—	—	—	2.7	—	—	2.7
Chile	—	—	10.2	—	36.9	—	—	47.0
Costa Rica	4.1	—	1.6	0.9	15.1	—	—	21.7
Côte d'Ivoire	29.3	—	14.3	7.4	57.0	—	—	107.9
Cyprus	—	—	2.1	—	—	—	—	2.1
Dominica	0.5	—	—	0.1	1.0	—	—	1.6
Dominican Republic	—	—	—	—	18.8	—	—	18.8
Egypt	—	—	—	12.5	—	—	—	12.5
El Salvador	—	—	8.5	—	28.2	—	—	36.7
Equatorial Guinea	—	—	1.6	—	3.1	—	—	4.7
Ethiopia	—	7.3	16.8	—	11.3[1]	—	—	35.4
Fiji	—	—	—	—	6.8	—	—	6.8
Gambia, The	—	0.3	1.2	—	1.3	—	—	2.8
Grenada	—	—	1.5	—	0.7	—	—	2.2
Guatemala	—	—	9.6	—	38.3	—	—	47.8
Guinea	—	—	1.4	—	—	—	—	1.4
Guinea-Bissau	—	—	—	—	0.9	—	—	0.9
Haiti	—	0.5	3.7	1.8	6.4	—	—	12.5
Honduras	—	—	6.9	1.7	14.5	—	—	23.2
Hungary	—	11.7[2]	49.6[2]	—	27.0[2]	—	—	88.3
Iceland	—	—	—	—	2.7	—	—	2.7
India	37.5	112.5	—	—	66.5	—	—	216.5
Indonesia	—	—	—	—	—	—	264.9	264.9
Jamaica	45.3	2.1	8.2	16.5	12.7	—	—	84.8
Kenya	21.7	—	36.0	—	22.6	—	—	80.3
Korea	154.0	—	88.1	—	73.1	—	—	315.2
Lao People's Democratic Republic	—	—	5.4	—	—	—	—	5.4
Liberia	0.6	—	3.7	—	1.4	—	—	5.7
Madagascar	5.6	1.2	15.7	—	11.8	—	—	34.3
Malawi	7.0	—	8.0	—	0.8	—	—	15.8
Malaysia	—	—	—	—	—	—	259.6	259.6
Mali	—	—	7.0	—	—	—	—	7.0
Mauritania	4.0	—	8.7	—	—	—	—	12.7
Mauritius	14.0	—	9.6	—	20.3	—	—	43.8
Mexico	—	—	25.1	—	—	—	—	25.1
Morocco	34.4	9.3	45.7	12.9	118.2	—	—	220.5
Nepal	—	—	—	—	2.6	—	—	2.6
Pakistan	92.1	—	31.4	19.0	45.1	—	—	187.6
Panama	9.4	—	18.9	—	—	—	—	28.2
Peru	24.4	—	3.2	—	25.0	—	—	52.6
Philippines	83.2	—	20.8	24.8	—	—	—	128.8
Romania	—	14.0	62.1	—	99.9	—	—	176.0
St. Lucia	—	—	0.9	—	0.8	—	—	1.6
St. Vincent	—	—	0.2	—	0.7	—	—	0.8
Senegal	10.3	—	12.2	3.4	21.0	—	—	47.0
Sierra Leone	1.3	—	1.6	—	—	—	—	2.9
Solomon Islands	—	—	0.4	—	0.4	—	—	0.8
Somalia	—	6.2	12.9	—	—	—	—	19.2

Member Repurchasing	Repurchases in Respect of Purchases of: Borrowed Resources: Supplementary financing facility	Borrowed Resources: Enlarged access resources	Ordinary Resources: Credit tranche	Ordinary Resources: Extended Fund facility	Ordinary Resources: Compensatory financing	Ordinary Resources: Buffer stock	Ordinary Resources: Under guidelines for early repurchase	Total
South Africa	—	—	—	—	79.5	—	—	79.5
Sri Lanka	—	—	—	24.6	15.9	0.2[3]	—	40.6
Swaziland	—	—	—	—	1.1	—	—	1.1
Tanzania	—	—	1.1	—	1.9	—	—	3.0
Thailand	—	44.9	85.5	—	93.0	4.3	—	227.6
Togo	1.8	—	3.3	—	—	—	—	5.1
Turkey	257.5	—	4.8	—	—	—	—	262.3
Uganda	—	16.9	29.9	—	22.5	—	—	69.3
Uruguay	—	—	11.8	—	11.0	—	—	22.8
Western Samoa	—	—	0.4	—	1.0	—	—	1.4
Yemen, People's Democratic Republic of	—	—	5.8	—	—	—	—	5.8
Yugoslavia	162.9	—	167.1	—	—	—	—	330.1
Zaïre	—	26.9	24.5	2.5	53.5	—	—	107.3
Zambia	—	55.8	1.2	—	41.3	—	—	98.3
Zimbabwe	—	—	18.7	—	—	—	—	18.7
Total	1,034.8	309.9	959.9	144.3	1,286.4	13.6	524.5	4,289.0

NOTE: Total includes repurchases equivalent to SDR 15.6 million relating to purchases made prior to the Second Amendment and attributed to the reserve tranche.
[1]Of which, SDR 4.500 million was repurchased in advance of the regular schedule.
[2]Repurchases made in advance of the regular schedule.
[3]Of which, SDR 0.123 million was repurchased in advance of the regular schedule.

Table II.9.

Outstanding Fund Credit by Facility and Policy, 1980–86

(In millions of SDRs)

	Financial Year Ended April 30: 1980		1981		1982		1983		1984		1985		1986	
	Amount	As percent of total	Amount	As percent of total	Amount	As percent of total	Amount	As percent of total	Amount	As percent of total	Amount	As percent of total	Amount	As percent of total
Regular facilities	1,606	20.0	2,349	24.6	3,206	21.7	4,721	20.0	5,197	16.4	5,511	15.8	6,315	18.2
Compensatory financing facility	2,875	35.8	2,617	27.4	3,643	24.6	6,837	29.0	7,304	23.0	7,490	21.4	6,430	18.6
Buffer stock financing facility	74	0.9	—	—	—	—	307	1.3	375	1.2	237	0.7	73	0.2
Oil facility	2,494	31.0	1,581	16.6	565	3.8	27	0.1	—	—	—	—	—	—
Extended Fund facility	487	6.1	980	10.3	2,115	14.3	3,317	14.1	5,568	17.5	6,529	18.7	6,498	18.8
Supplementary financing facility	502	6.2	2,018	21.1	4,112	27.8	6,039	25.6	6,920	21.8	6,310	18.0	5,276	15.2
Enlarged access policy	—	—	—	—	1,160	7.8	2,342	9.9	6,378	20.1	8,896	25.4	10,047	29.0
Total	8,038	100.0	9,545	100.0	14,802	100.0	23,590	100.0	31,742	100.0	34,973	100.0	34,640	100.0

Table II.10.

Flow of Transactions in the General Resources Account and Resulting Stocks, 1980–86

(In millions of SDRs)

Type of Transaction	Financial Year Ended April 30 1980	1981	1982	1983	1984	1985	1986
Total purchases	2,433	4,860	8,041	11,392	11,518	6,289	4,101
Reserve tranche	222	474	1,080	1,134	1,354	229	160
Credit tranches	1,106	2,682	2,748	3,703	4,164	2,768	2,841
Buffer stock financing facility	26	—	—	352	102	—	—
Compensatory financing facility	863	784	1,635	3,740	1,180	1,248	601
Extended Fund facility	216	920	2,578	2,463	4,718	2,044	498
Total repurchases	3,776	2,853	2,010	1,555	2,018	2,730	4,289
Outstanding Fund credit	8,306	9,545	14,802	23,590	31,742	34,973	34,640
Outstanding borrowings	3,753	4,323	6,773	10,952	13,791	14,203	14,556
In connection with oil facility	2,474	1,528	526	18	—	—	—
Under General Arrangements to Borrow	777	777	777	777	—	—	—
Supplementary financing facility	502	2,018	4,112	6,037	6,915	6,239	5,038
Under policy on enlarged access	—	—	1,358	4,120	6,876	7,964	9,518
Holdings of the General Resources Account at end of year[1]							
Usable currencies[2]	10,600	23,000	17,000	14,400	32,900	37,300	34,400
SDRs	1,407	5,445	5,456	4,335	6,437	4,616	2,722
Gold[3]	3,636	3,620	3,620	3,620	3,620	3,620	3,620
Reserve tranche positions of members at end of year	8,380	13,125	15,621	20,592	27,415	28,290	26,087

[1] Total excludes Fund's gold holdings.
[2] "Usable currencies" are those that are available to the Fund for net sales through the operational budget, except for those currencies held by the Fund in excess of quota. Since the Second Amendment became effective on April 1, 1978, the criterion for including currencies for net sales is that the members concerned have a balance of payments and reserve position that the Fund considers "sufficiently strong" for that purpose.
[3] Valued at SDR 35 a fine ounce (0.888671 gram of fine gold per SDR).

Table II.11.

Borrowing in Connection with Purchases Under the Supplementary Financing Facility and Repayments to Lenders, May 29, 1980–April 30, 1986

(In millions of SDRs)

Lender	Total Amount of Agreement	Amount Borrowed	Amount Undrawn at Expiration of Agreements[1]	Amount Repaid[2]	Borrowing Outstanding as of April 30, 1986
Abu Dhabi	150.00	105.22	44.78	38.79	66.43
Austrian National Bank	50.00	50.00	—	12.36	37.64
Banque Nationale de Belgique	150.00	12.34	137.66	9.26	3.08
Canada	200.00	173.61	26.39	12.68	160.93
Deutsche Bundesbank	1,050.00	1,050.00[3]	—	230.16	647.83
Banco de Guatemala	30.00	8.36[4]	21.64	8.36	—
Japan	900.00	886.69	13.31	262.54	624.15
Central Bank of Kuwait	400.00	400.00	—	107.33	292.67
De Nederlandsche Bank, N.V.	100.00	100.00	—	26.48	73.52
Central Bank of Nigeria	220.00	69.85[5]	150.15	69.85	—
Saudi Arabian Monetary Agency	1,934.00	1,906.74[3]	27.26	689.77	1,388.98
Swiss National Bank	650.00	650.00	—	181.96	468.04
United States	1,450.00	1,450.00	—	404.77	1,045.23
Central Bank of Venezuela	500.00	369.42	130.58	139.45	229.97
Total	7,784.00	7,232.22	551.78	2,193.75	5,038.47

[1] Agreements lapsed on February 22, 1984.
[2] Repayments began on November 24, 1982.
[3] Claims totaling SDR 172.01 million under the supplementary financing facility were transferred by the Deutsche Bundesbank to the Saudi Arabian Monetary Agency against U.S. dollars on November 13, 1980.
[4] Claims totaling SDR 8.36 million were repaid in advance to the Banco de Guatemala on February 8, 1982. This encashment was refinanced by a call on the Swiss National Bank.
[5] Claims totaling SDR 69.85 million were repaid in advance to the Central Bank of Nigeria on April 8 and 9, 1982. This encashment was financed by calls in equal amounts under the supplementary financing facility borrowing agreements with Japan and the United States, in agreement with these lenders.

Table II.12.

Transfers of SDRs, January 1, 1970–April 30, 1986

(In millions of SDRs)

	Annual Average January 1, 1970–April 30, 1980	Financial Year Ended April 30						Total January 1, 1970–April 30, 1986
		1981	1982	1983	1984	1985	1986	
Transfers among participants and prescribed holders								
Transactions with designation								
From own holdings	215	503	661	968	89	98	449	4,989
From purchases of SDRs from Fund	235	1,379	1,213	1,745	2,313	2,055	1,360	12,492
Transactions by agreement	537	418	1,242	1,281	3,175	2,706	2,677	17,050
Prescribed operations	—	—	158	396	1,194	161	111	2,021
Net interest on SDRs	59	223	245	273	188	326	313	2,175
Total	1,045	2,525	3,520	4,664	6,959	5,345	4,910	38,726
Transfers from participants to General Resources Account								
Repurchases	392	930	838	566	392	717	1,183	8,672
Charges	332	587	968	1,497	2,168	2,927	2,915	14,494
Quota payments	21	5,091	266	83	6,195	14	1	11,871
Interest received on General Resources Account holdings	26	266	657	444	147	606	312	2,706
Assessments	1	2	2	2	3	4	4	28
Total	773	6,875	2,732	2,593	8,905	4,268	4,415	37,771
Transfers from General Resources Account to participants and prescribed holders								
Purchases	399	2,033	2,035	2,419	3,876	2,595	1,965	19,040
Repayments of Fund borrowings	10	161	144	28	787	129	533	1,885
Interest on Fund borrowings	6	50	143	224	202	446	721	1,852
In exchange for other members' currencies								
Acquisitions to pay charges	1	—	27	162	330	953	1,550	3,031
Acquisitions to make quota payments	—	341	—	—	—	—	—	341
Reconstitution	149	20	—	—	—	—	—	1,555
Remuneration	48	219	348	861	1,573	1,952	1,531	6,979
Other	24	13	23	20	35	14	10	365
Total	636	2,837	2,721	3,714	6,803	6,089	6,309	35,049
Total transfers	2,454	12,237	8,972	10,970	22,667	15,703	15,634	111,546
General Resources Account holdings at end of period	1,407	5,445	5,456	4,335	6,437	4,616	2,722	2,722

Table II.13.
Summary of Transactions and Operations in SDRs, Financial Year Ended April 30, 1986
(In thousands of SDRs)

Holders	Total Holdings April 30, 1985	Receipts from Participants and Prescribed Holders: Designated	Receipts from Participants and Prescribed Holders: Other	Transfers to Participants and Prescribed Holders: Designated	Transfers to Participants and Prescribed Holders: Other	Receipts from the General Resources Account	Transfers to the General Resources Account	Interest, Charges, and Assessment (Net)	Positions as at April 30, 1986: Holdings	Positions as at April 30, 1986: Net cumulative allocations	Positions as at April 30, 1986: Holdings as percent of cumulative allocations
PARTICIPANTS											
Afghanistan	13,222	—	—	—	—	—	—	−1,085	12,137	26,703	45.5
Algeria	115,268	7,750	—	—	—	9,158	—	−777	131,399	128,640	102.1
Antigua and Barbuda	2	—	—	—	—	—	—	—	2	—	—
Argentina	28,189	—	132,341	200,666	—	244,464	145,233	−24,556	34,539	318,370	10.8
Australia	237,665	57,024	—	—	—	1,595	—	−17,048	279,236	470,545	59.3
Austria	179,039	17,502	52,000	—	52,985	22,654	—	+597	218,807	179,045	122.2
Bahamas, The	604	—	—	—	—	421	—	−761	264	10,230	2.6
Bahrain	13,211	—	—	—	—	—	—	+561	13,772	6,200	222.1
Bangladesh	6,365	—	6,000	11,000	—	40,556	31,206	−3,457	7,258	47,120	15.4
Barbados	661	—	1,647	—	—	2,855	3,910	−615	638	8,039	7.9
Belgium	418,800	60,540	—	—	196,043	23,158	—	−7,745	298,709	485,246	61.6
Belize	107	—	—	2,646	—	3,086	548	+2	2	—	—
Benin	208	—	—	—	—	550	—	−732	25	9,409	0.3
Bhutan	59	—	—	—	—	26	—	+5	90	—	—
Bolivia	74	—	1,226	—	—	5,266	4,457	−2,076	33	26,703	0.1
Botswana	8,807	654	—	—	—	825	—	+380	10,666	4,359	244.7
Brazil	7,438	—	181,223	—	—	238,114	338,542	−27,595	60,639	358,670	16.9
Burkina Faso	5,627	—	—	—	—	306	—	−296	5,638	9,409	59.9
Burma	2,222	—	2,026	—	—	4,311	5,109	−3,381	69	43,474	0.2
Burundi	215	—	599	—	—	767	—	−1,055	527	13,697	3.8
Cameroon	5,350	—	—	—	—	—	—	−1,533	3,817	24,463	15.6
Canada	53,518	333,153	—	—	211,594	16,508	—	−53,780	137,805	779,290	17.7
Cape Verde	97	—	—	—	—	41	—	−41	97	620	15.6
Central African Republic	1,109	—	2,700	—	—	7,522	10,228	−507	595	9,325	6.4
Chad	228	—	1,163	2,365	—	7,000	3,037	−627	2,360	9,409	25.1
Chile	12,189	—	37,819	122,164	—	167,476	70,654	−9,356	15,311	121,924	12.6
China	419,533	—	—	—	—	11,802	—	+14,947	446,282	236,800	188.5
Colombia	2,391	—	116,315	—	—	4,400	—	−8,905	114,201	114,271	99.9
Comoros	239	—	—	—	—	—	—	−38	201	716	28.0
Congo	1,968	—	—	—	—	—	—	−623	1,346	9,719	13.8
Costa Rica	178	—	4,155	3,988	—	17,805	14,048	−1,810	2,292	23,726	9.7
Côte d'Ivoire	6,263	—	5,700	19,860	—	68,364	51,699	−2,699	6,069	37,828	16.0
Cyprus	605	—	300	—	—	1,000	58	−1,505	342	19,438	1.8
Denmark	163,676	13,500	—	—	—	10,291	—	−781	186,686	178,864	104.4
Djibouti	390	—	—	—	—	37	—	−62	366	1,178	31.0

Table II.13 (*continued*).
Summary of Transactions and Operations in SDRs, Financial Year Ended April 30, 1986
(In thousands of SDRs)

Holders	Total Holdings April 30, 1985	Receipts from Participants and Prescribed Holders: Designated	Receipts from Participants and Prescribed Holders: Other	Transfers to Participants and Prescribed Holders: Designated	Transfers to Participants and Prescribed Holders: Other	Receipts from the General Resources Account	Transfers to the General Resources Account	Interest, Charges, and Assess-ment (Net)	Positions as at April 30, 1986: Holdings	Positions as at April 30, 1986: Net cumulative allocations	Positions as at April 30, 1986: Holdings as percent of cumulative allocations
Dominica	116	—	—	—	—	887	851	−45	107	592	18.1
Dominican Republic	3,666	—	3,500	24,848	—	52,503	28,596	−2,089	4,136	31,585	13.1
Ecuador	4,130	—	11,735	—	—	36,411	22,039	−2,107	28,129	32,929	85.4
Egypt	3,699	—	6,150	—	—	6,700	2,955	−10,573	3,021	135,924	2.2
El Salvador	6	—	42,554	—	—	4,541	43,358	−1,924	1,820	24,985	7.3
Equatorial Guinea	4	—	2,027	—	480	5,414	5,132	−422	1,410	5,812	24.3
Ethiopia	1,204	—	10,666	—	—	900	10,974	−818	979	11,160	8.8
Fiji	8,816	—	4,000	—	—	327	7,884	−22	5,236	6,958	75.3
Finland	149,622	4,194	654	—	—	6,103	—	+737	161,309	142,690	113.0
France	627,800	310,990	—	—	130,726	64,261	—	31,531	840,793	1,079,870	77.9
Gabon	4,758	—	500	—	3,798	—	—	−824	636	14,091	4.5
Gambia, The	—	—	—	—	—	1,538	1,132	−406	—	5,121	—
Germany, Federal Republic of	1,400,909	58,118	—	—	337,663	360,581	—	+15,173	1,497,118	1,210,760	123.7
Ghana	7,283	—	250	12,000	—	59,857	42,868	−4,241	8,281	62,983	13.1
Greece	2,149	—	—	—	—	7,663	—	−8,023	1,789	103,544	1.7
Grenada	26	—	—	—	—	312	264	−71	2	930	0.2
Guatemala	2,449	—	30,892	—	—	11,397	40,870	−2,146	1,721	27,678	6.2
Guinea	559	—	—	8,955	—	10,762	958	−1,376	32	17,604	0.2
Guinea-Bissau	6	—	—	—	—	316	227	−95	—	1,212	—
Guyana	—	—	—	—	—	1,862	725	−1,137	—	14,530	—
Haiti	50	—	—	—	—	7,517	6,502	−1,065	—	13,697	—
Honduras	76	—	1,917	—	—	9,746	10,254	−1,463	22	19,057	0.1
Hungary	9,141	—	9,436	—	—	61,954	80,047	+142	625	—	—
Iceland	857	—	1,600	—	—	1,100	1,552	−1,255	749	16,409	4.6
India	196,368	—	540,000	—	—	18,019	555,153	−37,974	161,260	681,170	23.7
Indonesia	11,419	64,563	—	—	—	531	13,411	−16,675	46,426	238,956	19.4
Iran, Islamic Republic of	322,259	—	121	—	—	1,627	—	+6,273	330,281	244,056	135.3
Iraq	1,436	—	1,269	—	—	2,634	—	−5,338	1	68,464	—
Ireland	92,216	4,148	—	—	—	6,462	—	+599	103,425	87,263	118.5
Israel	2,246	—	4,000	—	—	3,900	—	−8,289	1,857	106,360	1.7
Italy	737,725	84,443	—	425,000	120,000	59,083	—	−62	336,189	702,400	47.9
Jamaica	—	—	—	38,910	—	103,154	61,008	−3,134	102	40,613	0.3
Japan	2,016,365	—	—	—	308,548	104,726	—	+89,605	1,902,148	891,690	213.3
Jordan	15,322	—	16,570	—	6,870	—	4,144	−186	20,692	16,887	122.5
Kampuchea, Democratic	—	—	—	—	—	—	—	—	—	15,417	—
Kenya	3,839	—	94,215	16,900	—	45,245	118,198	−2,415	5,786	36,990	15.6
Korea	10,685	—	349,875	—	—	109,650	454,110	−3,998	12,102	72,911	16.6
Kuwait	83,086	—	—	—	—	23,147	—	+5,197	111,430	26,744	416.6
Lao People's Democratic Republic	351	—	—	—	—	912	310	−731	221	9,409	2.4
Lebanon	1,049	—	—	—	—	1,186	—	−234	2,001	4,393	45.5

Lesotho	914	—	246	—	—	—	—	−223	937	3,739	25.1
Liberia	—	—	—	—	—	11,960	10,665	−1,295	—	21,007	—
Libyan Arab Jamahiriya	138,400	—	—	—	—	16,979	—	+6,866	162,246	58,771	276.1
Luxembourg	16,703	—	—	—	—	515	—	−8	17,211	16,955	101.5
Madagascar	1,738	—	1,800	7,328	—	19,379	12,274	−1,477	1,839	19,270	9.5
Malawi	1,667	—	10,200	455	—	8,414	17,755	−768	1,304	10,975	11.9
Malaysia	95,616	21,461	—	—	—	8,068	14,149	−3,394	107,602	139,048	77.4
Maldives	7	—	25	—	—	—	—	−21	11	282	3.7
Mali	1,125	—	—	1,635	—	7,404	5,658	−1,211	24	15,912	0.2
Malta	36,647	—	—	—	—	1,842	—	+2,084	40,573	11,288	359.4
Mauritania	1,533	—	18,898	7,197	13,693	6,973	2,871	−682	2,960	9,719	30.5
Mauritius	1,275	—	995	7,000	—	20,882	13,911	−1,171	1,069	15,744	6.8
Mexico	73	—	87,700	242,439	—	433,655	220,503	−22,368	36,117	290,020	12.5
Morocco	8,944	—	41,642	58,400	9,744	154,038	127,538	−6,195	2,748	85,689	3.2
Nepal	225	—	302	10,199	—	10,922	283	−628	339	8,105	4.2
Netherlands	530,640	23,500	—	—	12,229	50,348	—	+1,232	593,491	530,340	111.9
New Zealand	4,030	—	10,000	—	—	—	—	−10,639	3,392	141,322	2.4
Nicaragua	—	—	—	—	—	1,650	107	−1,543	—	19,483	—
Niger	1,420	—	1,100	6,846	—	10,163	3,930	−682	1,225	9,409	13.0
Nigeria	7,488	—	2,500	—	—	4,721	—	−11,966	2,743	157,155	1.7
Norway	258,693	7,460	1,604	—	29,009	28,530	—	+6,860	274,137	167,770	163.4
Oman	9,218	1,878	—	—	6,690	2,139	—	+253	6,798	6,262	108.6
Pakistan	18,362	—	54,000	40,000	—	99,793	103,521	−12,839	15,795	169,989	9.3
Panama	5,997	—	42,485	—	—	11,638	52,331	−1,649	6,140	26,322	23.3
Papua New Guinea	6,614	—	—	—	—	26	763	−244	5,632	9,300	60.6
Paraguay	35,961	—	—	—	—	1,958	—	+1,839	39,757	13,697	290.3
Peru	10,805	—	35,100	—	—	16,159	55,144	−6,920	—	91,319	—
Philippines	9,908	—	15,650	88,358	—	153,526	70,053	−8,802	11,872	116,595	10.2
Portugal	9,191	—	49,000	—	—	30	44,122	−3,881	10,219	53,320	19.2
Qatar	16,859	—	—	—	—	2,267	—	+388	19,514	12,822	152.2
Romania	644	—	—	—	—	79,996	73,227	−5,906	1,507	75,950	2.0
Rwanda	8,266	—	—	—	—	329	—	−428	8,166	13,697	59.6
St. Lucia	—	—	—	—	—	138	75	−58	5	742	0.7
St. Vincent	—	—	22	—	—	71	43	−27	23	354	6.5
São Tomé and Principe	69	—	—	—	—	—	—	−44	24	620	3.9
Saudi Arabia	425,467	—	—	—	1,008,523	981,645	—	+24,218	422,807	195,527	216.2
Senegal	2,651	—	2,400	8,876	—	27,003	18,787	−1,826	2,564	24,462	10.5
Seychelles	14	—	20	—	—	30	—	−31	34	406	8.2
Sierra Leone	—	—	—	—	—	2,806	1,424	−1,381	—	17,455	—
Singapore	59,962	—	—	—	—	4,616	—	+3,610	68,188	16,475	413.9
Solomon Islands	1,196	—	—	—	—	8	1,013	+30	221	654	33.7
Somalia	345	—	—	—	—	11,809	11,111	−1,040	2	13,697	—
South Africa	18,760	—	33,500	69,976	—	105,476	53,784	−16,964	17,012	220,360	7.7
Spain	185,107	85,100	960	—	—	18,893	—	−6,856	283,204	298,805	94.8
Sri Lanka	330	—	12,680	—	—	21,803	22,934	−5,480	6,399	70,868	9.0
Sudan	—	—	—	—	—	29,005	25,930	−3,076	—	52,192	—
Suriname	1,151	—	—	—	—	—	—	−530	621	7,750	8.0
Swaziland	1,056	—	—	—	—	1,755	1,776	−442	594	6,432	9.2
Sweden	189,845	35,430	—	—	—	12,355	—	−3,506	234,124	246,525	95.0
Syrian Arab Republic	4,676	—	2,500	—	2,502	—	—	−2,552	2,122	36,564	5.8

Table II.13 (*concluded*).
Summary of Transactions and Operations in SDRs, Financial Year Ended April 30, 1986
(In thousands of SDRs)

Holders	Total Holdings April 30, 1985	Receipts from Participants and Prescribed Holders		Transfers to Participants and Prescribed Holders		Receipts from the General Resources Account	Transfers to the General Resources Account	Interest, Charges, and Assess-ment (Net)	Positions as at April 30, 1986		
		Designated	Other	Designated	Other				Holdings	Net cumulative allocations	Holdings as percent of cumulative allocations
Tanzania	—	—	—	—	—	2,650	131	−2,519	—	31,372	—
Thailand	20,676	—	216,999	129,000	—	220,600	300,964	−5,878	22,432	84,652	26.5
Togo	3,235	—	750	6,554	—	8,592	4,356	−753	915	10,975	8.3
Tonga	—	—	738	—	—	5	738	—	5	—	—
Trinidad and Tobago	104,297	—	—	—	—	—	—	+4,644	108,942	46,231	235.6
Tunisia	1,548	—	—	—	—	1,412	—	−2,591	369	34,243	1.1
Turkey	6,633	—	69,538	—	—	71,125	132,485	−8,518	6,292	112,307	5.6
Uganda	2,288	—	17,614	—	—	23,939	40,244	−2,240	1,358	29,396	4.6
United Arab Emirates	66,593	—	—	—	—	—	—	+2,225	68,818	38,737	177.7
United Kingdom	579,572	617,376	—	—	91,550	84,591	—	−96,070	1,093,920	1,913,070	57.2
United States	6,024,652	—	—	—	—	750,877	—	+110,648	6,886,177	4,899,530	140.5
Uruguay	3,560	—	23,200	30,900	—	58,473	40,363	−3,593	10,378	49,977	20.8
Vanuatu	101	—	—	—	—	53	—	+10	164	—	—
Venezuela	392,441	—	—	—	—	69,136	—	+8,085	469,662	316,890	148.2
Viet Nam	—	—	—	—	—	—	—	—	—	47,658	—
Western Samoa	147	—	2,257	—	—	424	2,026	−71	731	1,142	64.0
Yemen Arab Republic	8,733	—	34,708	—	9,507	—	704	+536	33,765	6,160	548.1
Yemen, People's Democratic Republic of	11,710	—	6,139	—	13,874	—	1,054	−1,205	1,717	22,583	7.6
Yugoslavia	9,629	—	18,480	105,790	—	282,706	191,438	−11,796	1,790	155,161	1.2
Zaïre	9,154	—	40,021	56,230	—	142,191	128,146	−6,450	541	86,309	0.6
Zambia	111	—	—	42,300	—	107,292	59,421	−5,366	315	68,298	0.5
Zimbabwe	3,341	—	42,500	—	—	—	39,062	−539	6,240	10,200	61.2
Total Participants	16,805,218	1,808,783	2,575,419	1,808,783	2,566,028	6,309,067	4,099,066	−312,709	18,711,901	21,433,330	87.3
PRESCRIBED HOLDERS											
Arab Monetary Fund	3,606	—	153,274	—	153,980	—	—	+2,164	5,064	—	—
Bank of Central African States	1,211	—	480	—	1,572	—	—	+70	189	—	—
East African Development Bank	1,233	—	—	—	654	—	—	+69	648	—	—
Eastern Caribbean Central Bank	1,018	—	—	—	—	—	—	+82	1,100	—	—
Islamic Development Bank	1,163	—	—	—	—	—	—	+93	1,256	—	—
Nordic Investment Bank	8	—	59,260	—	59,199	—	—	+567	636	—	—
Swiss National Bank	9,473	—	—	—	7,000	—	—	+629	3,102	—	—
Total Prescribed Holders	17,713	—	213,014	—	222,405	—	—	+3,672	11,994	—	—
GENERAL RESOURCES ACCOUNT	4,615,747	—	4,099,066	—	6,309,067	—	—	+315,896	2,721,642	—	—
Total	21,438,678	1,808,783	6,887,499	1,808,783	9,097,500	6,309,067	4,099,066	+6,859	21,445,537	21,433,330	—

Table II.14.

Supplementary Financing Facility Subsidy Account: Donations Received to April 30, 1986

(In millions of SDRs)

Donor	Amount of Donation
Australia	2.0
Austria	1.2
Denmark	1.5
Finland	1.3
France	9.3
Netherlands	4.1
Norway	1.4
Saudi Arabia	32.0
Sweden	2.2
Switzerland	2.4
Total	57.4

Table II.15.

Purchases Under Supplementary Financing Facility by Eligible Members, and Subsidy Payments

(In millions of SDRs)

	Purchases	Subsidy Payments
Recipients of subsidy at 3 percent		
Bangladesh	110.0	13.93
Bolivia	25.5	3.59
Dominica	4.5	0.38
Gambia, The	4.8	0.37
Guyana	30.9	3.49
India	1,200.0	82.79
Kenya	94.8	10.91
Liberia	42.9	4.91
Madagascar	22.2	2.79
Malawi	28.1	3.57
Mauritania	16.0	1.82
Pakistan	537.1	53.56
Philippines	333.0	41.06
Senegal	54.2	5.83
Sierra Leone	17.2	1.65
Sri Lanka	—	0.59[1]
Sudan	171.4	16.79
Tanzania	16.3	1.81
Togo	7.3	0.91
Zambia	—	3.52[2]
Subtotal	2,716.2	254.27
Recipients of subsidy at 1.5 percent		
Côte d'Ivoire	286.4	11.78
Jamaica	227.1	13.77
Mauritius	69.2	4.27
Morocco	137.5	8.77
Peru	195.1	14.24
Subtotal	915.3	52.83
Total	3,631.5	307.10

[1] Subsidy paid in respect of Fund holdings in excess of 140 percent of quota under the Fund's policy on exceptional use.

[2] Subsidy paid in respect of Fund holdings in excess of 200 percent of quota under the Fund's policy on exceptional use.

Table II.16.

SDR Interest Rate and Rate of Remuneration

Period Beginning	SDR Interest Rate	Rate of Remuneration
1985		
May 1[1]	8.09	7.42
May 6	8.05	7.38
May 13	8.03	7.36
May 20	7.83	7.18
May 27	7.70	7.06
June 3	7.67	7.03
June 10	7.66	7.02
June 17	7.38	6.76
June 24	7.60	6.97
July 1	7.50	6.87
July 8	7.44	6.82
July 15	7.55	6.92
July 22	7.52	6.89
July 29	7.51	6.88
August 1[2]	7.51	6.98
August 5	7.54	7.01
August 12	7.44	6.92
August 19	7.39	6.87
August 26	7.35	6.84
September 2	7.40	6.88
September 9	7.48	6.96
September 16	7.44	6.92
September 23	7.31	6.80
September 30	7.24	6.73
October 7	7.29	6.78
October 14	7.41	6.89
October 21	7.42	6.90
October 28	7.56	7.03
November 4	7.64	7.11
November 11	7.62	7.09
November 18	7.72	7.18
November 25	7.65	7.11
December 2	7.60	7.07
December 9	7.67	7.13
December 16	7.53	7.00
December 23	7.53	7.00
December 30	7.49	6.97
1986		
January 6	7.61	7.08
January 13	7.69	7.15
January 20	7.63	7.10
January 27	7.60	7.07
February 1[3]	7.60	6.99
February 3	7.35	6.76
February 10	7.39	6.80
February 17	7.32	6.73
February 24	7.26	6.68
March 3	7.23	6.65
March 10	6.99	6.43
March 17	6.79	6.25
March 24	6.76	6.22
March 31	6.75	6.21
April 7	6.62	6.09
April 14	6.31	5.81
April 21	6.17	5.68
April 28	6.27	5.77

[1] Week began April 29, 1985. However, the first day of the financial year was May 1, 1985, at which time the remuneration coefficient increased from 90 percent to 91.66 percent of the SDR interest rate.

[2] The remuneration coefficient increased from 91.66 percent to 93 percent of the SDR interest rate as from the first day of the financial quarter that began August 1, 1985.

[3] The remuneration coefficient decreased from 93 percent to 92 percent of the SDR interest rate as from the first day of the financial quarter that began February 1, 1986.

Table II.17.

Publications Issued, Financial Year Ended April 30, 1986

Reports and Other Documents

Annual Report of the Executive Board for the Financial Year Ended April 30, 1985
(English, French, German, and Spanish). Free

Annual Report on Exchange Arrangements and Exchange Restrictions, 1985
One copy free; additional copies US$12.00 each

By-Laws, Rules and Regulations
Forty-Second Issue (English, French, and Spanish). Free

Selected Decisions of the International Monetary Fund and Selected Documents, Eleventh Issue. Free

Summary Proceedings of the Fortieth Annual Meeting of the Board of Governors. Free

World Economic Outlook, October 1985: A Survey by the Staff of the International Monetary Fund
US$10.00. US$6.00 to university libraries, faculty members, and students.

Subscription Publications

Balance of Payments Statistics
Vol. 37. A two-part yearbook and 12 monthly booklets. US$38.00 a year. US$19.00 to university libraries, faculty members, and students. US$12.00 for yearbook only.

Direction of Trade Statistics
Monthly, with yearbook.
US$36.00 a year. US$18.00 to university libraries, faculty members, and students. US$10.00 for yearbook only.

Government Finance Statistics Yearbook
Vol. VIII, 1984. (Introduction and title of lines in English, French, and Spanish.) US$20.00. US$10.00 to university libraries, faculty members, and students.

International Financial Statistics
Monthly, with yearbook (English, French, and Spanish) and two supplements (English). US$100.00 a year. US$50.00 to university libraries, faculty members, and students. Yearbook, US$25.00. Supplements separately, US$10.00 each.

Staff Papers
Four times a year. US$15.00 a year. US$7.50 to university libraries, faculty members, and students.

University libraries, faculty members, and students may obtain the five publications listed above at a special rate of US$80.00 for all five publications.

For users of Fund publications that have access to a computer, tape subscriptions to *Balance of Payments Statistics, Direction of Trade Statistics, Government Finance Statistics Yearbook,* and *International Financial Statistics* are available at US$1,500.00 a year each for single users and US$7,000.00 a year for time-sharing companies. This price includes the book version. The price to universities is US$500.00 a year for each publication.

Occasional Papers

No. 35 *The West African Monetary Union: An Analytical Review*
By Rattan J. Bhatia

No. 36 *Formulation of Exchange Rate Policies in Adjustment Programs*
By a Staff Team Headed by G.G. Johnson

No. 37 *Export Credit Cover Policies and Payments Difficulties*
By Eduard H. Brau and Chanpen Puckahtikom

No. 38 *Trade Policy Issues and Developments*
By Shailendra J. Anjaria, Naheed Kirmani, and Arne B. Petersen

No. 39 *A Case of Successful Adjustment: Korea's Experience During 1980–84*
By Bijan B. Aghevli and Jorge Márquez-Ruarte

No. 40 *Recent Developments in External Debt Restructuring*
By K. Burke Dillon, C. Maxwell Watson, G. Russell Kincaid, and Chanpen Puckahtikom

No. 41 *Fund-Supported Adjustment Programs and Economic Growth*
By Mohsin S. Khan and Malcolm D. Knight

No. 42 *Global Effects of Fund-Supported Adjustment Programs*
By Morris Goldstein

No. 43 *International Capital Markets: Developments and Prospects*
By Maxwell Watson, Donald Mathieson, Russell Kincaid, and Eliot Kalter

Occasional Papers Nos. 35–43 are available for US$7.50 each, with a special price of US$4.50 each for university libraries, faculty members, and students.

World Economic and Financial Surveys

World Economic Outlook: A Survey by the Staff of the International Monetary Fund, April 1986 US$15.00 US$11.00 to university libraries, faculty members, and students.

Books

The International Monetary Fund, 1972–1978: International Monetary Cooperation on Trial
By Margaret Garritsen de Vries. US$60.00 for the three-volume set. US$25.00 a volume if purchased separately.

External Debt Management
Edited by Hassanali Mehran. Cloth US$17.50 Paper US$11.50.

Ajustamento e Crescimento na Actual Conjuntura Económica Mundial
Edited by José da Silva Lopes. US$10.00.

Croissance et Ajustement: Les problèmes de l'Afrique de l'Ouest
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(English) Free.

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Finance & Development
Issued jointly with World Bank; quarterly (English, Arabic, Chinese, French, German, Portuguese, and Spanish). Free

IMF Survey
Twice monthly but only once in December (English, French, and Spanish). Private firms and individuals are charged for delivery at an annual rate of US$30.00.

Table II.18.

Members That Have Accepted the Obligations of Article VIII, April 30, 1986

Member	Effective Date of Acceptance	Member	Effective Date of Acceptance
Antigua and Barbuda	November 22, 1983	Japan	April 1, 1964
Argentina	May 14, 1968	Kuwait	April 5, 1963
Australia	July 1, 1965	Luxembourg	February 15, 1961
Austria	August 1, 1962	Malaysia	November 11, 1968
Bahamas, The	December 5, 1973	Mexico	November 12, 1946
Bahrain	March 20, 1973	Netherlands	February 15, 1961
Belgium	February 15, 1961	New Zealand	August 5, 1982
Belize	June 14, 1983	Nicaragua	July 20, 1964
Bolivia	June 5, 1967	Norway	May 11, 1967
Canada	March 25, 1952	Oman	June 19, 1974
Chile	July 27, 1977	Panama	November 26, 1946
Costa Rica	February 1, 1965	Papua New Guinea	December 4, 1975
Denmark	May 1, 1967	Peru	February 15, 1961
Djibouti	September 19, 1980	Qatar	June 4, 1973
Dominica	December 13, 1979	St. Christopher and Nevis	December 3, 1984
Dominican Republic	August 1, 1953	St. Lucia	May 30, 1980
Ecuador	August 31, 1970	St. Vincent	August 24, 1981
El Salvador	November 6, 1946	Saudi Arabia	March 22, 1961
Fiji	August 4, 1972	Seychelles	January 3, 1978
Finland	September 25, 1979	Singapore	November 9, 1968
France	February 15, 1961	Solomon Islands	July 24, 1979
Germany, Fed. Rep. of	February 15, 1961	South Africa	September 15, 1973
Guatemala	January 27, 1947	Suriname	June 29, 1978
Guyana	December 27, 1966	Sweden	February 15, 1961
Haiti	December 22, 1953	United Arab Emirates	February 13, 1974
Honduras	July 1, 1950	United Kingdom	February 15, 1961
Iceland	September 19, 1983	United States	December 10, 1946
Ireland	February 15, 1961	Uruguay	May 2, 1980
Italy	February 15, 1961	Vanuatu	December 1, 1982
Jamaica	February 22, 1963	Venezuela	July 1, 1976

Appendix III

Principal Policy Decisions of the Executive Board

A. Surveillance over Members' Exchange Rate Policies

(a) Review of Surveillance over Exchange Rate Policies

The Executive Board has reviewed the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63),[1] adopted April 29, 1977, as required by paragraph 2 of that decision. The next review of the document shall be conducted not later than April 1, 1988.

Decision No. 8248-(86/60)
April 1, 1986

(b) Review of Implementation of Procedures for Surveillance

The Executive Board has reviewed the general implementation of the Fund's surveillance over members' exchange rate policies, as required by paragraph VI of Procedures for Surveillance contained in the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63),[2] adopted April 29, 1977, including the procedures for the conduct of consultations under Article IV, which consultations shall comprehend the consultations under Article VIII and Article XIV, and approves the continuation of the procedures as described in SM/86/4, in the light of the Managing Director's summing up, until the next review, which shall be conducted not later than April 1, 1987.

Decision No. 8249-(86/60)
April 1, 1986

B. Structural Adjustment Facility Within the Special Disbursement Account

(a) Chairman's Summing Up at Executive Board Meeting

Most Directors wished the new facility to be called the structural adjustment facility and found the general thrust of the staff paper to be acceptable, the staff having on the whole fairly reflected in its paper the spirit of the Board's February discussion.

1. *Eligibility*

Members eligible to use the facility will be the low-income countries that are currently eligible to receive IDA loans. Later changes in the list of IDA countries

[1] *Selected Decisions,* Twelfth Issue, pages 9–10.
[2] Ibid.

will not have an automatic effect on their eligibility, but will be a matter for decision by the Board. Commitments made will be honored, even if a particular member were to cease to be eligible in the course of a three-year arrangement.

2. *Qualification*

The resources shall be made available to eligible countries that are facing protracted balance of payments problems and that enter into annual arrangements with the Fund in support of a medium-term program of structural adjustment. In the assessment of a protracted balance of payments problem, the member's situation will be reviewed against a wide range of indicators, including, as a number of Directors suggested, the recent and the prospective behavior of the current account, reserves, indebtedness, arrears, and growth performance. The assessment should be made on a case-by-case basis, and avoid the mechanical application of statistical indicators. In addition, there will be the assessment of balance of payments need at the time of approval of annual arrangements.

3. *Policy framework paper and collaboration with the World Bank*

It was agreed, although with a certain reluctance by some Directors, that it would be useful to prepare a policy framework paper which will describe the major economic problems and challenges facing a country; the objectives of a three-year medium-term program; the priorities and the broad thrust of macroeconomic and structural adjustment policies; and references to the likely external financing requirements and, as far as possible, the available sources of such financing.

The framework paper is to be developed in close collaboration with the authorities—who are after all responsible for policy formulation—and the staffs of the Fund and the World Bank, who will work closely on these matters, including through joint missions. It is the expectation of the Fund that these framework papers will be reviewed by the Boards of the two institutions at an early stage before commitments are made on use of the resources of the structural adjustment facility by eligible countries.

The policy framework paper will have to be updated as the program is implemented and normally reviewed by the two Boards, at the time of presentation of the second and the third annual programs, as far as the Fund is concerned.

The suggestions by . . . [an Executive Director] would go a long way toward making the procedures as practical and as flexible as possible. I will take two illustrative cases. When discussions on the formulation of medium-term structural policies with a member country are well advanced, as they are in a number of cases, it may well be possible to present a medium-term framework paper and the program for the first year of an arrangement to the Board at the same time. In such cases the Board of the Bank would be expected to take up the policy framework paper first, which would be followed by appropriate agreements on structural adjustment or sectoral loans. Quite often, when the two institutions are already collaborating deeply on medium-term structural policies in some countries, the joint mission could be extremely short; the essence of the work could even perhaps be conducted at headquarters. The modalities must be kept flexible, not with the intention of bringing the jointness of the operation into question, but to avoid unnecessary delays and to reduce costs and travel.

In the second case . . . , of a country that was less advanced in the formulation of medium-term structural policies, a separate set of talks would probably have to be conducted with the country by the two staffs in order to arrive at a common understanding that would lead to a framework paper for review by the two Boards. Later on, the Fund would take up the specific program according to its own schedule and procedures, as hopefully would the World Bank.

These procedures will have to be introduced at the outset . . . in an experimental fashion with considerable pragmatism and with a view to avoiding rigidities, complications, and undue delays. Of course, each institution will have to be very vigilant to help the other. For instance, to take again the case of a country that has had a series of Fund-supported programs, so that the Fund is well acquainted with its medium-term structural problems and is ready to move quickly forward with a framework paper and a first program. The jointness of the operation . . . would necessitate prior review by the World Bank of the framework paper; the Board of the Bank must be able to have an input based on its review of the country's framework paper. In such a case, the Fund would hope that the World Bank Board would act in a way that would not delay action by the Fund. The deeper and closer the collaboration, the more each institution will have to be receptive to the schedule, procedures, and constraints of the other, and in particular of the one that happens to be the most advanced in its work.

While closer Fund/Bank collaboration is of the essence, it is fair to say that Directors have stressed that the competence, mandate, and expertise of each of the two institutions must be respected. The Fund would pay particular attention to what it was most well equipped to look at: macroeconomic developments and policies, fiscal policies, monetary policies, exchange rates, exchange systems, tax reforms, and price realignments, but in conjunction with the World Bank, which has particular expertise and competence in development and sectoral policies, investment priorities, microeconomic reforms, and the like.

Cooperation is of the essence, but it will be conducted in a manner that will not give rise to cross-conditionality. I also want to stress that these framework paper procedures will apply only in the case of the structural adjustment facility. There is no intention to set a precedent and extend them to other facilities and arrangements or to countries not using the structural adjustment facility . . . .

4. *Conditionality*

The first annual program will have to be described in a written document from the authorities to the management, which will contain a request for a commitment of resources from the structural adjustment facility for a three-year period.

The document will describe in general terms the policies to be followed over the medium term, making reference to the policy framework paper, and will delineate more precisely the objectives of the authorities and the policies they will implement during the first year. Subsequent documents will review and update the medium-term policy plans and describe, also in specific terms, the policies to be implemented during the subsequent one-year periods.

We have no intention of overloading this conditionality with prior measures, but it needs to be understood that, especially in some cases where there is much to be done and where performance has been somewhat unsatisfactory, an annual program can be credible and can work only if the country is ready to take some measures that will be consistent with the unfolding of the program.

The question takes on added importance beyond the first year. As there will be no performance criteria governing disbursements and no phasing within a year, it will be necessary to make sure, after the first year, to capture correctly the progress that has been made under the structural program. The whole exercise is designed precisely to help a country to move toward that progress.

If, after the first year, the Fund believes that the program has not worked and that corrective policies are necessary to make the second year consistent, at least with the general architecture of the medium-term framework, stock will have to be taken of those observations in the negotiation with the member country of the second program year.

Benchmarks or indicators will have to be constructed in a flexible way; they will not necessarily all be quantified and will essentially be devised to help monitor progress in policy implementation and in reaching the objectives of the program that have been described in the authorities' document. I want to make it very clear that these benchmarks or indicators will not be associated with disbursements.

Deviations from benchmarks will of course be noted, and an effort will be made to understand why they have happened. If the reasons are such that they could derail the direction of a program, policy adjustments may well be necessary, and they will be taken up in discussions leading to the arrangement in support of the next annual program.

5. Disbursements

Upon endorsement of the overall policy framework and approval of the program for the first year, the Fund will disburse to the member an amount of resources equivalent to 20 percent of the member's quota in the Fund and will make a commitment to the member to disburse additional resources in two additional tranches on approval of subsequent programs. Given the flexibility inherent in the procedure, an initial calculation has been made of each of the two additional tranches, at the equivalent of 13½ percent of the member's quota. These amounts will be recalculated as the program unfolds; in light of the resources available to the facility, the amounts may be enlarged under the procedures described in EBS/86/53. Because of the uncertainties associated with Trust Fund reflows, commitments will have to be made contingent on the availability of resources.

March 26, 1986

(b) Income from Investment and Loans: Availability for Use

Pursuant to Article V, Section 12(*f*), the income from investment of resources available for the Structural Adjustment Facility within the Special Disbursement Account, and the interest on loans disbursed under the Facility, accruing to the Special Disbursement Account for the period December 17, 1980 to June 30, 1991, shall be available, as they accrue, for use under the Facility.

Decision No. 8237-(86/56) SAF
March 26, 1986

(c) Regulations for Administration

Pursuant to Article V, Section 12(*j*), the Fund adopts the Regulations set forth in the Annex to this decision for the administration of the Structural Adjustment Facility within the Special Disbursement Account.

Decision No. 8238-(86/56) SAF
March 26, 1986

ANNEX

Structural Adjustment Facility
Within Special Disbursement Account

Paragraph 1. Purposes

The Structural Adjustment Facility within the Special Disbursement Account shall provide balance of payments assistance on concessional terms, on a uniform basis, to low-income developing members of the Fund in need of such assistance, in accordance with these Regulations.

Paragraph 2. Resources

The resources of the Special Disbursement Account available for the Structural Adjustment Facility ("the Facility") shall consist of the assets that have been made, or will be, available for the Facility pursuant to Executive Board Decision No. 6704-(80/185) TR[3] and Decision No. 8237-(86/56) SAF.

Paragraph 3. Conditions for Assistance

Balance of payments assistance shall be provided in the form of loans on the terms specified in paragraph 7 to eligible members that qualify for assistance under paragraph 5.

[3] *Selected Decisions,* Twelfth Issue, pages 360–61.

Paragraph 4. Amount of Assistance

(1) The potential access of all eligible members to the resources of the Facility shall be expressed as a uniform proportion of their quotas in the Fund. It shall be determined from time to time, at least annually, by the Fund.

(2) Whenever a member has notified the Fund that it does not intend to make use of the resources available under the Facility, the member shall not be included in the calculations under subparagraph (1) above.

(3) If, after resources have been committed to a member under paragraph 5(2), the member's potential access is increased or decreased pursuant to subparagraph (1) or (2) above, the total amount available to the member under the three-year commitment will be proportionately modified and subsequent disbursements will be modified accordingly.

(4) Access to the Fund's resources under other policies of the Fund will remain available in accordance with the terms of those policies.

Paragraph 5. Qualifications for Assistance

(1) An eligible member shall consult the Managing Director before making an initial request for a committment of resources for a three-year period.

(2) Resources shall be committed to a qualifying member, subject to these Regulations, for a three-year period upon approval by the Fund of an arrangement in support of a three-year macroeconomic and structural adjustment program presented by the member. The arrangement will prescribe the total amount, and the annual amounts within the total, available in accordance with the original or any modified terms of the arrangement, subject to these Regulations.

(3) Before approving a three-year arrangement, the Fund shall be satisfied that the member has a protracted balance of payments problem and is making a reasonable effort to strengthen its balance of payments position.

(4) A member shall be deemed to be making a reasonable effort within the meaning of subparagraph (3) of this paragraph if the member has presented to the Fund (i) a three-year adjustment program which seeks to correct macroeconomic and structural problems that have impeded balance of payments adjustment and economic growth, and (ii) the first of three annual programs setting forth the objectives for the year and the policies to be followed during the year to meet those objectives.

(5) Resources under three-year commitments shall be made available annually in the form of loans under three successive, but not necessarily contiguous, annual arrangements approved by the Fund. The approval of an annual arrangement under a three-year commitment must precede the expiration of the commitment period.

(6) An annual arrangement shall be approved only for a member that has submitted a satisfactory program for the corresponding year and has a need for balance of payments assistance.

(7) If, during a three-year commitment period, a member ceases to be eligible for assistance under the Facility, a commitment of resources under the Facility, made to the member for that period, shall remain in effect, subject to these Regulations.

Paragraph 6. Disbursements

(1) One disbursement shall be made for each annual arrangement upon approval of the arrangement.

(2) Disbursements to a member under the Facility shall be suspended while the member has an overdue financial obligation to the Fund in the General Resources Account, the Special Disbursement Account, or the SDR Department, or to the Fund as Trustee under the Trust Instrument. The disbursements shall be made when the overdue financial obligation has been discharged.

(3) No disbursement under a three-year commitment shall be made after the expiration of the commitment period.

Paragraph 7. Terms of Loans

(1) Interest shall be charged at the rate of ½ of 1 percent per annum on the outstanding balance of a loan and shall be paid on June 30 and December 31 of each year, or the next day if the day when payment is due is not a business day.

(2) A member shall repay each loan in ten equal semiannual installments, which shall begin not later than the end of the first six months of the sixth year, and be completed at the end of the tenth year, after the date of the disbursement.

(3) On the request of a member when repayment of an installment is due under a loan, the Fund may reschedule the repayment to a date not later than two years after the due date if the Fund finds that repayment on the due date would result in serious hardship for the member and that such rescheduling would not impair the ability of the Special Disbursement Account to meet the liabilities of the Facility.

Paragraph 8. Unit of Account

The SDR shall be the unit of account for commitments, loans, and all other operations under the Facility.

Paragraph 9. Media of Payment

Loans shall be disbursed and repaid, and interest paid, in U.S. dollars. The Managing Director is authorized to make arrangements under which, at the request of a member, SDRs may be used for disbursements to the member or payment of interest or repayments of loans by it to the Fund.

Paragraph 10. Reimbursement of Expenses

The General Resources Account of the Fund shall be reimbursed annually by the Special Disbursement Account in respect of the expenses of administration of the Facility that are paid from the General Resources Account. Reimbursement shall be made on the basis of a reasonable estimate of these expenses by the Fund.

Paragraph 11. Reserves

The Fund may establish, in the Special Disbursement Account, such reserves for the purposes of the Facility as it deems appropriate.

Paragraph 12. Modifications

Any modification of these Regulations will affect only loans made after the effective date of the modification, provided that a modification of the interest rate shall apply to interest accruing after the effective date of the modification.

Paragraph 13. Identification of Decisions

Decisions and other actions taken by the Fund in the administration of the Facility shall be identified as such.

(d) Use of SDRs in Operations

In accordance with Article XVII, Section 3, the Fund prescribes that:

1. A prescribed holder, by agreement with a participant and at the instruction of the Fund, may transfer SDRs to the participant in disbursement of a loan payable from the Structural Adjustment Facility within the Special Disbursement Account ("the Facility").
2. A participant, by agreement with a prescribed holder and at the instruction of the Fund, may transfer SDRs to the prescribed holder in repayment of loans, and/or payment of interest on loans, under the Facility.
3. The Fund shall record operations pursuant to these prescriptions in accordance with Rule P-9.

Decision No. 8239-(86/56) SAF
March 26, 1986

(e) List of Eligible Members and Amounts of Assistance

1. The members on the list annexed to this decision are eligible to receive balance of payments assistance under the Structural Adjustment Facility within the Special Disbursement Account ("the Facility").
2. The potential access of each eligible member to the resources of the Facility as of March 26, 1986 shall be 47 percent of quota; no more than 20 percent of quota shall be disbursed under the first annual arrangement.

Decision No. 8240-(86/56) SAF
March 26, 1986

ANNEX

Low-Income Developing Members Eligible for Assistance Under Structural Adjustment Facility Within Special Disbursement Account

Member	Quota (In SDR millions)	Member	Quota (In SDR millions)
China, People's Rep. of[1]	2,390.9	Maldives	2.0
India[1]	2,207.7	Mali	50.8
Subtotal	4,598.6	Mauritania	33.9
		Mozambique	61.0
		Nepal	37.3
Afghanistan	86.7	Niger	33.7
Bangladesh	287.5	Pakistan	546.3
Benin	31.3	Rwanda	43.8
Bhutan	2.5	St. Christopher and Nevis	4.5
Bolivia	90.7	St. Lucia	7.5
Burkina Faso	31.6	St. Vincent	4.0
Burma	137.0	São Tomé and Principe	4.0
Burundi	42.7	Senegal	85.1
Cape Verde	4.5	Sierra Leone	57.9
Central African Rep.	30.4	Solomon Islands	5.0
Chad	30.6	Somalia	44.2
Comoros	4.5	Sri Lanka	223.1
Djibouti	8.0	Sudan	169.7
Dominica	4.0	Tanzania	107.0
Equatorial Guinea	18.4	Togo	38.4
Ethiopia	70.6	Uganda	99.6
Gambia, The	17.1	Vanuatu	9.0
Ghana	204.5	Viet Nam	176.8
Grenada	6.0	Western Samoa	6.0
Guinea	57.9	Yemen Arab Rep.	43.3
Guinea-Bissau	7.5	Yemen, People's Dem. Rep. of	77.2
Guyana	49.2	Zaïre	291.0
Haiti	44.1	Zambia	270.3
Kampuchea, Democratic	25.0	Subtotal	4,186.0
Kenya	142.0		
Lao People's Dem. Rep.	29.3	Total	8,784.6
Lesotho	15.1		
Liberia	71.3		
Madagascar	66.4		
Malawi	37.2		

[1] China and India have indicated that they do not intend to make use of the resources of the Structural Adjustment Facility.

(f) Review of Operation of Facility

The Fund shall review the operation of the Structural Adjustment Facility within the Special Disbursement Account not later than May 31, 1988.

Decision No. 8241-(86/56) SAF
March 26, 1986

C. Special Disbursement Account: Investment

Pending placement in SDR-denominated investments with the Bank for International Settlements in accordance with Executive Board Decision No. 7990-(85/81),[4] adopted May 28, 1985, the Managing Director is hereby authorized to invest with the Federal Reserve Bank of New York the U.S. dollars held by the Special Disbursement Account.

Decision No. 8029-(85/105)
July 11, 1985

D. Policy on Enlarged Access to the Fund's Resources: Extension of Period, and Access Limits for 1986

The Fund, having reviewed the decisions on the policy on enlarged access and the limits on access to the Fund's resources under that policy and under the special facilities of the Fund (No. 6783-(81/40),[5] No. 7599-(84/3) as amended by Decision No. 7841-(84/165),[6] No. 7600-(84/3) as amended by Decision No. 7841-(84/165),[7] and No. 7602-(84/3)),[8] decides that:

1. In paragraph a. of Decision No. 7599-(84/3) as amended by Decision No. 7841-(84/165),[6] "1985" shall be replaced by "1986."

2. (a) The following sentence shall be added after the second sentence of paragraph a. of Decision No. 7600-(84/3) as amended by Decision No. 7841-(84/165):[7]

> "Access by members to the Fund's general resources under arrangements approved under Decision No. 6783-(81/40)[5] during 1986 shall be subject to annual limits of 90 or 110 percent of quota, three-year limits of 270 or 330 percent of quota, and cumulative limits of 400 or 440 percent of quota net of scheduled repurchases, depending on the seriousness of the member's balance of payments need and the strength of its adjustment effort."

(b) In paragraph b. of Decision No. 7600-(84/3) as amended by Decision No. 7841-(84/165),[7] "1985" shall be replaced by "1986."

Decision No. 8147-(85/177)
December 9, 1985

E. Conditionality: Review

1. Pursuant to Decision No. 7857-(84/175),[9] adopted December 5, 1984, the Fund has reviewed the conditionality that the Fund applies for transactions in the upper credit tranches with particular reference to the Fund's experience from recent programs supported by stand-by and extended arrangements from the Fund. In the context, the Fund has also reviewed the provisions of the extended Fund facility and the guidelines on conditionality.

2. The Fund finds that the conditionality of the Fund, including provisions of the extended Fund facility and the guidelines on conditionality, remains appropriate in the present circumstances.

3. The Fund will again review the experience relating to programs supported by stand-by and extended arrangements, and the provisions of the extended Fund facility and the guidelines on conditionality, at an appropriate time pursuant to paragraph 12 of the guidelines on conditionality.

Decision No. 8192-(86/13)
January 27, 1986

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[4] See *Selected Decisions*, Twelfth Issue, page 132.
[5] *Selected Decisions,* Twelfth Issue, pages 46–49 and 340.
[6] Ibid., pages 49–50.
[7] Ibid., pages 50–51.
[8] See *Annual Report, 1984*, page 138, and *Selected Decisions*, Twelfth Issue, pages 83, 91, 92, and 94.
[9] *Selected Decisions,* Twelfth Issue, page 37.

F. Overdue Financial Obligations to the Fund

Chairman's Summing Up at Executive Board Meeting

. . . [M]ember countries in arrears should be induced to give priority to actions that are designed specifically to enable them to repay the Fund. In addition, they should introduce corrective measures at an early stage to improve their economic policies and to avoid the emergence and further accumulation of arrears to the Fund.

. . . [T]he Fund should keep open its channels of communication with countries in arrears in order to help them formulate adjustment policies and to catalyze external assistance so that these concerted efforts can ultimately be supported by Fund assistance and lead—prior to the Fund's formal commitment to providing such assistance—to settlement of the arrears.

. . . [I]ntervals between Board reviews should be put to good use; they should never be seen as grace periods or as periods in which a member is excused from making every effort to settle its arrears to the Fund.

. . .

A majority of Directors favor reducing the period between the emergence of arrears and the first substantive consideration of a complaint. These Directors felt that the present five-month period was too long, as it has tended to coincide with a buildup of arrears that has made it more difficult to tackle the matter; earlier involvement by the Board would have been helpful. Although some Directors favor taking a flexible approach to this period, a majority clearly supports limiting the period to three months. Issuing the complaint two months after arrears have arisen instead of three months would certainly be consistent with today's discussion. The review period following the first substantive consideration would remain three months, but the three months would be considered an outer limit: the decision on the actual timing in each case should take into account the particular circumstances and the performance of the member.

. . .

A majority of Directors felt that once a member has been declared ineligible to use the Fund's resources the Board should not wait as long as the next Article IV consultation to discuss the member's arrears situation. The majority of Directors would like to review the member's situation every six months.

November 25, 1985

G. Special Charges on Overdue Financial Obligations to the Fund

I. *Overdue Repurchases*

1. Pursuant to Rule I-6(8) the Fund has reviewed the rates of charge to be levied under Article V, Section 8(c) on its holdings of a member's currency that have not been repurchased in accordance with the requirements of the Articles or decisions of the Fund.

2. Within three business days after (i) the due date for the repurchase by a member of the Fund's holdings of its currency resulting from purchases of the Fund's ordinary resources or (ii) the effective date of this Decision, whichever is the later, the Fund shall consult with the member on the reduction of the Fund's holdings of the member's currency that should have been repurchased. The consultation shall take place by rapid means of communication.

3. Unless the Fund's holdings of the member's currency are reduced within the period referred to in Section IV below by the amount that should have been repurchased, the rate of charge on the holdings that should have been repurchased shall be increased by a percentage equal to the excess, if any, of the rate of interest on the SDR over the rate of charge levied on the holdings under Rule I-6(4) or (11).

II. *Overdue Charges in the General Resources Account*

A special charge equal to the rate of interest on the SDR shall be paid by a member on the unpaid amount of charges owed by it under Article V, Section 8(*a*) and (*b*).

III. *Overdue Interest and Repayments on Trust Fund Loans*

The Fund shall levy a special charge on (i) the amount of overdue interest on Trust Fund loans, at a rate equal to one-half of the sum of the rate of interest on Trust Fund loans and the rate of interest on the SDR, and (ii) the overdue amounts of repayments of Trust Fund loans, at a rate equal to one-half of the sum of the rate of interest on Trust Fund loans and the rate of interest on the SDR, less ½ of 1 percent.

IV. *Waiver of Special Charges*

Special charges under Sections I, II, and III above shall be levied in respect of an overdue financial obligation as of the due date or the effective date of this Decision, whichever is the later, unless the obligation is discharged within ten business days after the applicable date.

V. *Notification and Payment of Special Charges*

1. Special charges levied under this Decision shall be payable following the end of each of the Fund's financial quarters and the member shall be notified promptly of any special charges due. The charges shall be payable on the third business day following the dispatch of the notification.
2. Special charges in respect of overdue repurchases and charges in the General Resources Account shall be paid in SDRs to that Account. Special charges in respect of overdue repayments and interest on Trust Fund loans shall be paid in U.S. dollars to the Special Disbursement Account.

VI. *Entry into Effect and Review*

This Decision will enter into effect on February 1, 1986. It will be reviewed shortly after October 31, 1986 at the time of the midyear review of the Fund's income position for the financial year ending April 30, 1987, and thereafter annually in connection with the annual reviews of the Fund's income position.

Decision No. 8165-(85/189) G/TR
December 30, 1985, effective February 1, 1986

H. Supplementary Financing Facility: Subsidy Account

(a) Investment

Decision No. 6854-(81/78) SBS,[10] May 8, 1981 shall be amended to read:

The Managing Director shall place in deposits, denominated in SDRs, with the Bank for International Settlements, or in investments in a call account, denominated in SDRs, with the International Bank for Reconstruction and Development, the currencies received by the SFF Subsidy Account, unless the Managing Director considers that the terms offered are not sufficiently attractive. In that event the Managing Director shall inform the Executive Board promptly and make other proposals to it for investment in SDR-denominated obligations.

Decision No. 8184-(86/9) SBS
January 15, 1986

[10] *Selected Decisions*, Twelfth Issue, page 369.

(b) Means of Subsidy Payments

Subsidy payments made after the effective date of this Decision with respect to charges paid on holdings of currency referred to in Section 7 of the Instrument establishing the SFF Subsidy Account[11] may be made, at the discretion of the Fund, in SDRs to beneficiaries agreeing to receive them, or in U.S. dollars, or in a combination of these two assets. Subsidy payments in U.S. dollars shall be made on the basis of the SDR/U.S. dollar exchange rate in effect three business days before the payment date.

Decision No. 8185-(86/9) SBS/S
January 15, 1986

(c) Use of SDRs in Payment of Subsidy

In accordance with Article XIX, Section 2(c), the Fund prescribes that:

1. A prescribed holder, by agreement with a participant, may transfer SDRs to the participant in discharge of subsidy payable from the Supplementary Financing Facility Subsidy Account, at the instruction of the Fund as Trustee of that Account.
2. The Fund shall record operations pursuant to this prescription in accordance with Rule P-9.

Decision No. 8186-(86/9) SBS/S
January 15, 1986

I. Valuation of SDR

(a) SDR Valuation Basket: Revised Guidelines for the Calculation of Currency Amounts

(1) Under all circumstances, the currency units will be determined in a manner which would ensure that the value of the SDR calculated on December 31 on the basis of the new basket will be the same as that actually prevailing on that day.

(2) The currency amounts calculated for the new basket will be expressed in two significant digits provided that the deviation of the percentage share of each currency in the value of the SDR, resulting from the application of the average exchange rates for October–December, from the percentage weight as determined under paragraph 3(c) of Executive Board Decision No. 6631-(80/145) G/S[12] adopted September 17, 1980 is the minimum on average and will not exceed ½ of 1 percentage point for any currency.

(3) If a solution cannot be obtained by the application of the principles set forth in (2) above, the calculation shall be made applying the same principles but expressing the amount of each currency in three significant digits, and if no solution is found with three significant digits then the calculation shall be made applying the same principles but expressing the amount of each currency in four significant digits.

(4) If more than one solution is found in the calculation at the level of two, three, or four significant digits, the solution that has the smallest average deviation will be employed.

Decision No. 8160-(85/186) G/S
December 23, 1985

[11] *Selected Decisions*, Twelfth Issue, pages 362–68.

[12] Ibid., pages 307–308.

(b) Amendment of Rule O-1

Rule O-1. The value of the SDR shall be the sum of the values of the following amounts of the following currencies:

U.S. dollar	0.452
Deutsche mark	0.527
Japanese yen	33.4
French franc	1.02
Pound sterling	0.0893

Decision No. 8169-(86/1) G/S
December 31, 1985

J. Level of Fund's SDR Holdings

In determining the amounts of SDRs to be transferred in purchases under the operational budgets, the Fund will be guided by the aim of reducing the Fund's SDR holdings to a level of approximately SDR 1 billion by May 31, 1987. Prior to April 30, 1987, the Fund will again review the level of its SDR holdings.

Decision No. 8265-(86/70) S
April 25, 1986

K. Fund's Income Position

(a) Rate of Charge as of November 1, 1985

The Fund has reviewed the rate of charge on the Fund's holdings of currency acquired as a result of the purchases referred to in Rule I-6(4) and decides that the rate shall be reduced to 7 percent per annum, effective November 1, 1985.

Decision No. 8270-(86/74)
April 30, 1986

(b) Setoff in Connection with Retroactive Reduction of Charges Due by Members in Arrears

1. When the Fund decides upon a retroactive reduction in the rate of charge specified in Rule I-6(4), the amount to be paid to a member that has charges or repurchases overdue in the General Resources Account, on the effective date of the payment by the Fund, shall be set off pro tanto, as of that date, against such overdue obligations in the following manner: the member shall be requested to specify which overdue obligations, among the categories listed in paragraph 2, it wishes to discharge by the setoff; in the absence of a response by the member within seven business days after the request, the setoff shall apply to the member's overdue obligations, within the categories listed in paragraph 2, in the descending order of maturities.

2. The setoff under paragraph 1 shall apply to:

(a) special charges due on the amount of overdue charges under Executive Board Decision No. 8165-(85/189) G/TR,[13] December 30, 1985;

(b) special charges due on the amount of overdue repurchases under Article V, Section 8(*c*);

(c) charges due under Article V, Section 8(*a*) or (*b*);

(d) overdue repurchase obligations.

Decision No. 8271-(86/74)
April 30, 1986

[13] See item G, pages 100–101, above.

L. Principles of "Burden Sharing," the Fund's Income Target for FY 1987 and 1988, Rate of Charge, and Rate of Remuneration

Section 1. Principles of "Burden Sharing"

1. The financial consequences for the Fund which stem from the existence of overdue financial obligations shall be shared between debtor and creditor member countries.

2. This sharing shall be applied in a simultaneous and symmetrical fashion.

Section II. Income Target for FY 1987 and FY 1988

1. During financial year 1987 and financial year 1988, the Fund's net income target shall be raised from 5 percent to 7.5 percent of the Fund's reserves at the beginning of each year. The additional net income shall be generated in accordance with the provisions of Section V. It shall be recorded separately in the financial statements of the Fund.

2. For financial year 1988, the Fund may decide to add supplemental income to be generated in accordance with the provisions of Section V. It shall be recorded separately in the financial statements of the Fund.

Section III. Rate of Charge

1. (a) The rate of charge referred to in Rule I-6(4) shall be determined at the beginning of financial year 1987 and financial year 1988. This determination shall be made on the basis of the estimated income and expense of the Fund during the year and the target amount of net and supplemental income for the year, and shall include the adjustment necessary to generate one half of the additional net income and of the supplemental income for the year.

(b) During financial year 1987 and financial year 1988, when estimating income, no deduction shall be made for projected deferred income.

2. During financial year 1987 and financial year 1988, the rate of charge shall be further adjusted in accordance with the provisions of Section V.

3. The rate of charge in force as of the end of a financial year, as adjusted under Section V, shall continue to apply subsequently unless it is otherwise decided.

Section IV. Rate of Remuneration

1. Effective August 1, 1986, Rule I-10(d) shall cease to apply.

2. Effective February 1, 1987, Rule I-10 shall read as follows:

> I-10. (a) The rate of remuneration shall be equal to 100 percent of the rate of interest on holdings of SDRs under Rule T-1 (hereafter referred to as "SDR interest rate").
>
> (b) The relationship of the rate of remuneration to the SDR interest rate will be referred to as the "remuneration coefficient."

3. During financial year 1987 and financial year 1988, the rate of remuneration shall be adjusted in accordance with the provisions of Section V.

Section V. "Burden Sharing" in FY 1987 and FY 1988

1. In financial year 1987 and financial year 1988, and notwithstanding Rule I-6(4)(a) and (b) and Rule I-10, the rate of charge referred to in Rule I-6(4), and the rate of remuneration prescribed in Rule I-10 shall be adjusted in accordance with the provisions of this Section.

2. (a) In order to generate the additional net income referred to in Section II.1, and the supplemental income referred to in Section II.2, the rate of charge shall be adjusted in accordance with the provisions of Section III.1(a), and the rate of remuneration shall be adjusted, subject to the limitation in (c), in accordance with the provisions of this paragraph, so as to produce equal amounts of income.

(b) If income from charges becomes deferred during an adjustment period as defined in (d), the rate of charge and the rate of remuneration shall be further adjusted, subject to the limitation in (c), in accordance with the provisions of this paragraph, so as to generate, in equal amounts, an additional amount of income equal to the amount of deferred charges. For the purposes of this provision, special charges on overdue financial obligations under Decision No. 8165-(85/189)G/TR, adopted December 30, 1985, shall not be taken into consideration.

(c) No reduction in the rate of remuneration under this paragraph shall be carried to the point where the average remuneration coefficient would be reduced below 85 percent for an adjustment period.

(d) Subject to the provisions of Section III.1(a), the adjustments under this paragraph shall be made as of May 1 and as of November 1 of each year:

shortly after October 31 for the period from May 1 to October 31;

shortly after April 30 for the period from November 1 to April 30.

(e) Notwithstanding the provisions of (d), any adjustment made in respect of the first half of financial year 1987 shall affect the rate of remuneration only as of August 1, 1986.

(f) The operation of this decision shall be reviewed when the remuneration coefficient is reduced to 85 percent under (c).

3. A midyear review of the Fund's income position shall be held shortly after October 31 of each year. If, after any adjustment under paragraph 2, the actual net income for the first six months of the financial year, on an annual basis, is below the target amount for the year by an amount equal to, or greater than, 2 percent of the Fund's reserves at the beginning of the financial year, the Executive Board will consider how to deal with the situation. If on December 15 no agreement has been reached as a result of this consideration, the rate of charge shall be increased as of November 1 to the level necessary to reach the target amount of net income for the year.

4. (a) An amount equal to the proceeds of any adjustment made under paragraph 2(a) in order to generate supplemental income in financial year 1988 shall be distributed, in accordance with the provisions of this paragraph, to members that have paid additional charges or have received reduced remuneration as a result of the adjustment, when there are no outstanding overdue charges and repurchases, or at such earlier time as the Fund may decide.

(b) An amount equal to the proceeds of any adjustment made under paragraph 2(b) in financial year 1987 or 1988 shall be distributed, in accordance with the provisions of this paragraph, to members that have paid additional charges or have received reduced remuneration as a result of the adjustment, when, and to the extent that, charges, the deferral of which had given rise to the same adjustment, are paid to the Fund. Distributions under this provision shall be made semiannually.

(c) Distributions under (a) or (b) shall be made in proportion to the amounts that have been paid or have not been received by each member as a result of the respective adjustments.

(d) If a member that is entitled to a payment under this paragraph has any overdue obligation to the Fund in the General Department at the time of payment, the member's claim under this paragraph shall be set off against the Fund's claim in accordance with Decision No. 8271-(86/74), adopted April 30, 1986, or any subsequent decision of the Fund.

Decision No. 8348-(86/122)
July 25, 1986

M. Rate of Charge

Effective May 1, 1986, the rate of charge referred to in Rule I-6(4), determined in accordance with the provisions of Section III.1(a) of Decision No. 8348-(86/122), adopted July 25, 1986, shall be 6.0 percent.

Decision No. 8349-(86/122)
July 25, 1986

Appendix IV

Press Communiqués of the Interim Committee and the Development Committee

Interim Committee of the Board of Governors on the International Monetary System

PRESS COMMUNIQUÉS

Twenty-Fifth Meeting, Seoul, Korea, October 6–7, 1985

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its twenty-fifth meeting in Seoul, Korea, on October 6–7, 1985, under the chairmanship of Mr. H. Onno Ruding, Minister of Finance of the Netherlands. Mr. Jacques de Larosière, Managing Director of the International Monetary Fund, participated in the meeting. The meeting was also attended by observers from a number of international and regional organizations and from Switzerland.

2. In reviewing the world economic situation, the Committee noted that progress had been made on a number of fronts: inflation had been further reduced, interest rates had continued to fall, recent efforts had been made to ensure a better adjustment of the major exchange rates to economic fundamentals, economic growth had become more convergent across countries, and balance of payments deficits in the developing countries had been considerably reduced. However, the Committee recognized that the pace of economic recovery in industrial countries as a whole had slowed down in the first half of 1985 by more than had been expected and unemployment had remained high, both in developed and developing countries. There had been a significant decline in primary commodity prices and a weakening in developing countries' export earnings and growth prospects. While economic activity was expected to strengthen in the second half of 1985 and in 1986, a number of uncertainties in the outlook were underlined. These included the persistence of high fiscal deficits in a number of countries; an unsustainable pattern of current account positions; weak commodity prices; the fragility in the external position of a number of indebted countries; structural inflexibilities that inhibit growth in many economies; and the resurgence of protectionist pressures.

3. The Committee stressed the importance of noninflationary policies consistent with sustained output growth in industrial countries, the renewal of growth in the developing world through adjustment efforts, and adequate flows of finance to support such efforts. It was generally agreed that fiscal and monetary policies in industrial countries should be framed in a medium-term context, having in mind the importance of reducing governments' claims on real and financial resources, and consolidating progress toward price stability. Particular stress was placed on the need for substantial and sustained reductions of budget deficits by those countries where they are excessive. In addition, the need to broaden further the basis of expansion in the world economy was emphasized. In this connection, countries that had strong external positions and good inflation records were considered well placed to contribute to growth in the world economy. Concerning policies in developing countries, the Committee considered it particularly important to stress

actions that would enhance prospects for durable growth. Such actions would include the achievement and maintenance of an appropriate structure of relative prices, the promotion of investment and domestic savings, and a vigorous attack on inflation. Effective adjustment programs of this type should be supported, in the view of the Committee, by actions on the part of industrial countries to encourage adequate flows of external finance.

4. In reviewing the debt situation, the Committee noted that a number of countries had carried out prudent policies that had allowed them to maintain access to capital markets, and that some others had made policy improvements which strengthened their external position. Nevertheless, several recent developments had adversely affected the external positions of developing countries. Among these developments were the recent weakening of export markets, lower commodity prices, problems in domestic economic management, and difficulties in re-establishing access to capital markets. For a return to a higher and sustainable rate of growth in the indebted countries, which was essential to make debt servicing more manageable, it continued to be necessary that certain conditions be met. These conditions included the maintenance of satisfactory growth in the industrial countries, a policy mix that permitted a further decline in interest rates, effective adjustment in developing countries themselves, appropriate flows of finance, both official and commercial, and firm resistance to protectionist pressures.

5. The Committee reaffirmed the key role of the Fund in promoting the process of adjustment, in providing balance of payments financing, and in helping to mobilize financial resources for the debtor countries.

6. All members of the Committee agreed that protectionism constituted a major threat. They stressed that, unless protectionist measures were resisted, the prospects for sustainable recovery in the world economy would be undermined and the management of the external position of heavily indebted countries would be severely complicated. Protectionist pressures also make more difficult the task of countries that are taking steps to reduce restrictions and open their markets. The members of the Committee expressed the firm determination of their governments to preserve an open trading system in which all countries would have effective access to world markets. The Committee noted with satisfaction the positive development of discussions within GATT with a view to opening a new trade round.

7. The Committee discussed the question of the Fund's policy on enlarged access and the limits on access to the Fund's resources in 1986. It was recalled that enlarged access is a facility of a temporary character, and that this policy and the limits under it, as well as the access limits under the Fund's special facilities, were to be reviewed before the end of 1985.

The Committee recognized that, in view of the uncertainties that remained in the world economy and the serious payments difficulties that many member countries continued to face, there was a need to continue the enlarged access policy, with only modest adjustments for the coming year. It was agreed that the access limits for 1986 should be as follows:

(a) Access under the enlarged access policy in 1986 should be subject to annual limits of 90 or 110 percent of quota, three-year limits of 270 or 330 percent of quota, and cumulative limits of 400 or 440 percent of quota, depending on the seriousness of the balance of payments need of the member country and the strength of its adjustment effort. As at present, the Executive Board should retain the flexibility to approve stand-by or extended arrangements for amounts above these access limits in special circumstances.

(b) The present access limits under the special facilities should be retained.

As at present, access limits should not be regarded as targets. These limits, and the enlarged access policy itself, should be reviewed before the end of 1986, and yearly thereafter, in light of all relevant factors, including the magnitude of members' payments problems and developments in the Fund's liquidity position.

The Committee requested the Executive Board to complete, before the end of this year, the necessary action in order to implement the agreement reached in the Committee.

8. The Committee had a brief discussion on the question of an SDR allocation in the current basic period. It was confirmed that there was no change in the

positions of Committee members on this subject since the Committee's previous meeting and that, therefore, the degree of required support for such an allocation was lacking. The Committee reiterated that the SDR constitutes an integral part of the structure of the Fund and agreed to consider the matter again at its next meeting in the light of developments. The Committee also urged the Executive Board to pursue its planned review on the role of the SDR, in all its aspects, in the international monetary system as a matter of priority, and to submit to the Committee a progress report for consideration by the Committee at its next meeting.

9. The Committee considered the question of the use of the resources that will become available over the period 1985–91, following repayments pertaining to loans made by the Trust Fund. Its conclusions were as follows:

(a) The total amount of these resources (about SDR 2.7 billion), which might be supplemented with funds from other sources, should be used to provide additional balance of payments assistance on concessional terms to the low-income countries eligible for IDA resources that are in need of such assistance and face protracted balance of payments problems. In this connection, the Committee welcomed the statements made by the representatives of China and India that they would not avail themselves of the facility in the period 1985–91.

(b) This assistance should be made available to countries implementing economic programs designed to promote structural adjustment and growth in a medium-term framework. These economic programs should be reviewed periodically. Given the emphasis on structural adjustment, it was important that the Fund should work in close collaboration with the World Bank, while avoiding cross-conditionality.

(c) The terms for the use of the resources, such as the rate of interest and the period of repayment, should be similar to those applied to loans from the Trust Fund.

(d) Such arrangements would not adversely affect the availability of concessional development finance for low-income countries not utilizing Trust Fund reflows.

The Committee urged the Executive Board to complete its work on this matter before the Committee's next meeting, in the light of the guidance provided by the Committee.

10. The Committee had a preliminary exchange of views on the reports on the international monetary system presented by the Group of Ten and the Group of Twenty-Four. It was agreed to request the Executive Board to study the issues raised in these reports with a view to facilitating a substantive consideration by the Committee at its next meeting. The Committee welcomed the commitment of its Chairman to communicate with the Chairman of the Development Committee with a view to seeing to what extent arrangements could be made for cooperation on matters pertaining to development.

11. The Committee expressed its appreciation to the Government and the people of the Republic of Korea, and to the City of Seoul for their warm hospitality and for the excellent arrangements provided for the meeting.

The Committee agreed to hold its next meeting in Washington, D.C., on April 9–10, 1986.

Annex: Interim Committee Attendance, October 6–7, 1985

Chairman

H.O. Ruding, Minister of Finance, Netherlands

Managing Director

J. de Larosière

Members or Alternates

Hamad Al-Sayari, Governor, Saudi Arabian Monetary Agency (Alternate for Mohammad Abalkhail, Minister of Finance and National Economy, Saudi Arabia)

Abdul Malik Al Hamar, Governor, United Arab Emirates Central Bank (Alternate for Hikmat M. Al-Azzawi, Governor, Central Bank of Iraq)

Joe Amara-Bangali, Minister of Finance, Sierra Leone

James A. Baker, III, Secretary of the Treasury, United States

Pierre Bérégovoy, Minister of Economy, Finance and Budget, France
Rachid Bouraoui, Governor, Banque Centrale d'Algérie
Daim Zainuddin, Minister of Finance, Malaysia
Dilson Domingos Funaro, Minister of Finance, Brazil
Giovanni Goria, Minister of the Treasury, Italy
Franz Vranitzky, Minister of Finance, Austria (Alternate for Frans Grootjans, Vice Prime Minister, Minister of Finance, and Minister of Middle Classes, Belgium)
Christopher Hurford, Minister for Immigration and Ethnic Affairs and Minister Assisting the Treasurer, Australia (Alternate for Paul J. Keating, Treasurer, Australia)
Ian Stewart, Economic Secretary, H.M. Treasury, United Kingdom (Alternate for Nigel Lawson, Chancellor of the Exchequer, United Kingdom)
LIU Hongru, Vice-Chairman of the Council and Deputy Governor, People's Bank of China
PAY PAY wa Syakassighe, Governor, Banque du Zaïre
Hermod Skånland, Governor, Norges Bank (Alternate for Rolf Presthus, Minister of Finance, Norway)
W.F. Duisenberg, President, De Nederlandsche Bank, N.V. (Alternate for H.O. Ruding, Minister of Finance, Netherlands)
Vishwanath Pratap Singh, Minister of Finance, India
Mariano Rubio Jimenez, Governor, Banco de España (Alternate for Carlos Solchaga, Minister of Economy and Finance, Spain)
Juan Vital Sourrouille, Minister of Economy, Argentina
Gerhard Stoltenberg, Federal Minister of Finance, Federal Republic of Germany
Noboru Takeshita, Minister of Finance, Japan
Michael H. Wilson, Minister of Finance, Canada

Observers
Yves Berthelot, Deputy Secretary-General, UNCTAD
Horst Bockelmann, Economic Adviser, Head of the Monetary and Economic Department, BIS
A.W. Clausen, President, World Bank
Arthur Dunkel, Director-General, GATT
Ghulam Ishaq Khan, Chairman, Development Committee
Pierre Languetin, Chairman of the Governing Board, Swiss National Bank
Pedro Malan, Director, General Analysis and Policies Division, Department of International Economic and Social Affairs, UN
Jean-Claude Paye, Secretary-General, OECD
Massimo Russo, Director-General, Economic and Financial Affairs, CEC
Massood V. Samii, Head, Finance Section, Economics and Finance Department, OPEC

Twenty-Sixth Meeting, Washington, April 9–10, 1986

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its twenty-sixth meeting in Washington, D.C., on April 9–10, 1986, under the chairmanship of Mr. H. Onno Ruding, Minister of Finance of the Netherlands. Mr. Jacques de Larosière, Managing Director of the International Monetary Fund, participated in the meeting. The Chairman of the Development Committee, Mr. Ghulam Ishaq Khan, took part in certain of the deliberations. The meeting was also attended by observers from a number of international and regional organizations and from Switzerland.

2. The Committee reviewed the world economic outlook. Attention was drawn to a number of the major developments in the economic setting since the Committee's last meeting, including the strengthened commitment to reducing budgetary deficits in the United States, the further adjustment in the pattern of exchange rates among major currencies, the continued downward movement in international interest rates, continued progress in reducing inflation, and the sharp decline in oil prices. The decline in oil prices from 1985 to 1986 represents a transfer of income from oil exporting developing countries to the industrial world of the order of $60 billion. Committee members felt that these developments had generally improved the outlook for sustainable growth. However, it was noted that the financial position of oil exporting countries had been weakened, with consequences for many other

developing countries. It was important that the opportunities offered by these price developments be fully seized in order to promote noninflationary growth.

The current and prospective reduction in the U.S. fiscal deficit was welcomed. In respect of those countries where the economy is operating below capacity, and the balance of payments is in strong surplus and inflation is largely eliminated, it was noted that there might be room for more growth-oriented policies in the short term, while preserving the credibility of the authorities' medium-term policy stance. Committee members welcomed the decline in interest rates and hoped that further progress in reducing fiscal pressures and inflation would allow this process to continue, thereby helping capital formation and the growth of output and employment and alleviating the debt burden of developing countries. In the view of the Committee, structural policies aimed at improving the efficiency of resource allocation remained of central importance.

The Committee took particular note of the fact that developing countries continue to face a number of serious problems. The exceptionally difficult economic conditions in low-income countries, especially in Africa, continue to be a matter of special concern. In 1985, world trade had been sluggish, commodity prices fell considerably, imports declined in real terms in many countries, and the growth of output slackened. Nevertheless, some progress was made by developing countries in coping with their economic problems. On the whole, and although there remain notable exceptions, the rate of inflation has been contained and a number of countries have adopted particularly bold anti-inflationary policies; current account deficits remain well below their peak figures of the earlier 1980s. Much remains to be accomplished, however, and the Committee considered it particularly important that effective domestic policies for promoting noninflationary growth should be pursued.

3. The Committee welcomed the progress that is being achieved in strengthening the current debt strategy along the lines proposed by the United States at the last Annual Meetings. The strategy must continue to be tailored to individual cases and aim at promoting durable growth in debtor countries and restoring normal relations with creditors in the context of a growing world economy.

While the Committee recognized that substantial progress had been made by a number of debtor countries despite difficult external circumstances, it noted that the basic debt ratios remained at difficult levels. It stressed the need for all debtor countries to follow sound macroeconomic and structural policies which are so important in rebuilding financial confidence and for creating a climate more conducive to encouraging domestic savings and productive investment as well as the repatriation of flight capital and direct investment flows.

The Committee also emphasized the importance of sound policies in industrial countries for the successful implementation of the debt strategy. It was important for these countries to maintain open markets, liberalize trade, and pursue policies aimed at increasing growth, reducing exchange rate instability and, in particular, further lowering interest rates.

It was essential to continue coordinated financial support, involving both official and private creditors, for debtors implementing sound economic policies, including those most affected by the recent substantial decline in world oil prices. In some cases, further concerted lending by commercial banks in support of economic adjustment efforts was needed in amounts and on terms appropriate to the circumstances and prospects of individual countries. This would, over time, improve the quality of banks' existing assets. Flexibility in rescheduling official debt was considered essential in support of sound adjustment programs. In addition, the Committee welcomed the move by official export credit agencies in industrial countries toward resuming or increasing cover, on a case-by-case basis, for countries whose debts have been rescheduled and which are undertaking the policy adjustments necessary to restore their creditworthiness. The Committee stressed the importance of this trend being carried further, but it noted that the resumption of export credit cover must not become a substitute for new funds from commercial banks where these are appropriate.

The Committee reaffirmed the central role of the Fund in providing its members assistance and financing to develop growth-oriented adjustment programs and in serving as a financial catalyst, and noted the increased need for flexibility in the case-by-case application of the policy on enlarged access to Fund resources. The Committee also welcomed the increasingly valuable role being played by the World Bank in the strengthened debt strategy by fostering efficient resources use as well as by providing long-term financial assistance and underlined the importance of close collaboration between the Bank and the Fund in applying this strategy.

4. The Committee had a substantive exchange of views on a number of issues related to the international monetary system. These issues were examined in the reports put before the Committee by the Group of Ten and the Group of Twenty-Four at its last meeting in Seoul, as well as in a report by the Managing Director of the International Monetary Fund on the discussions of these issues in the Executive Board since that time. The Committee's views on the exchange rate system, surveillance, and the role of the SDR are contained in paragraphs 5, 6, and 7.

5. Concerning the exchange rate system, the Committee agreed that the flexibility with which the system had operated had enabled the world economy to adapt to a number of major disturbances; however, the variability of exchange rates and the longer-term misalignments that had emerged remained a source of concern. It was agreed that, if better exchange rate performance were to be achieved on a durable basis, it would be of the essence that economic policies be conducted in a sound and mutually consistent way and that exchange rate considerations should play their part in those policies. The Committee asked the Executive Board to consider further whether there are any modifications in the exchange rate system which could contribute to enhancing exchange rate stability and the mutual consistency of economic policies without sacrificing the essential flexibility of the system.

6. The Committee reconfirmed the key role that Fund surveillance needs to play in the functioning of the international monetary system. The Committee noted that several proposals presented by the Group of Ten and the Group of Twenty-Four to strengthen surveillance are being implemented. To improve the multilateral setting for surveillance, the Committee asked the Executive Board to consider ways in which its regular reviews of the world economic situation could be further adapted to improve the scope for discussing external imbalances, exchange rate developments, and policy interactions among members. An approach worth exploring further was the formulation of a set of objective indicators related to policy actions and economic performance, having regard to a medium-term framework. Such indicators might help to identify a need for discussion of countries' policies. The Committee noted that increased emphasis would be given in the world economic outlook to policy interactions among industrial countries in order to strengthen the basis for assessing the international repercussions of the policies and objectives of the major industrial countries, and also to help promote the further development of recent initiatives to enhance policy coordination among these countries. The Committee stressed the importance of taking into account the views of the whole Fund membership in this multilateral discussion. In addition, the Committee asked the Fund to consider further the ideas in the Group of Ten and Group of Twenty-Four reports regarding the strengthening of the consultation process.

7. The Committee noted the progress made by the Executive Board in studying the functioning of the international reserve system and the role of the SDR in a system in which borrowed reserves play so prominent a part, but are not now readily available to a number of countries with limited access to financial markets. It considered that the SDR, which is an owned reserve asset, can play a useful role as a component of international reserves and as a unit of account. It also recognized the potential use of the SDR as a "safety net" against unexpected contingencies. The Committee stressed the monetary character of the SDR, which should not be a means of transferring resources, and recommended that the Executive Board study possible improvements in the monetary characteristics of the SDR that would increase its attraction and usefulness as a component of monetary reserves.

The Committee again discussed the question of SDR allocations and determined that, although most members favored an allocation, the broad support needed for an allocation was lacking at this time.

The Committee urged the Executive Board to continue its discussions on the role of the SDR in the present international monetary system and on SDR allocation in the light of proposals, aiming at the different possibilities of obtaining a more balanced and stable proportion of SDRs in members' reserves that have been put forward in that Board, and to report to the Committee at its next meeting on the progress in these discussions.

8. The Committee reiterated the key role of the Fund in assisting countries in designing adjustment policies and in providing balance of payments financing. In this context, the Committee welcomed the decisions taken by the Executive Board establishing the structural adjustment facility (SAF) for providing assistance on concessional terms to low-income countries with protracted balance of payments problems in support of medium-term programs of macroeconomic and structural adjustment in order to foster growth and balance of payments viability. The new facility calls for close collaboration between the Fund and the World Bank with a view to assisting members in developing their own comprehensive medium-term policy frameworks as a basis for using SAF resources as well as to ensure the flow of additional external resources to these countries from the World Bank, other lending agencies, and donor countries. In furthering their collaboration, the Fund and the Bank should maintain their respective areas of responsibility, avoid cross-conditionality, and ensure that the policy advice given by the two institutions is consistent.

9. The Committee intends to give further consideration at its next meeting to the issues raised in the reports of the Group of Ten and the Group of Twenty-Four. That consideration will be based on the work the Executive Board will carry out in the coming months on these issues, taking into account the guidance it has been given by the Committee.

10. The Committee agreed to hold its next meeting in Washington, D.C., on September 28, 1986.

Annex: Interim Committee Attendance, April 9–10, 1986

Chairman

H.O. Ruding, Minister of Finance, Netherlands

Managing Director

J. de Larosière

Members or Alternates

Mohammad Abalkhail, Minister of Finance and National Economy, Saudi Arabia

Abdul Malik Al Hamar, Governor, United Arab Emirates Central Bank (Alternate for Hikmat M. Al-Azzawi, Governor, Central Bank of Iraq)

Joe Amara-Bangali, Minister of Finance, Sierra Leone

James A. Baker, III, Secretary of the Treasury, United States

Edouard Balladur, Minister of State for Economy, Finance and Privatization, France

Mark Eyskens, Minister of Finance, Belgium

Erik Åsbrink, Undersecretary of State, Ministry of Finance, Sweden (Alternate for Kjell-Olof Feldt, Minister of Finance, Sweden)

Dilson Domingos Funaro, Minister of Finance, Brazil

Giovanni Goria, Minister of the Treasury, Italy

Paul J. Keating, Treasurer, Australia

Nigel Lawson, Chancellor of the Exchequer, United Kingdom

LIU Hongru, Vice-Chairman of the Council and First Deputy Governor, People's Bank of China

Bader-Eddine Nouioua, Governor, Banque Centrale d'Algérie

PAY PAY wa Syakassighe, Governor, Banque du Zaïre

W.F. Duisenberg, President, De Nederlandsche Bank N.V. (Alternate for H.O. Ruding, Minister of Finance, Netherlands)

Kamchorn Sathirakul, Governor, Bank of Thailand

Jesús Silva Herzog, Secretary of Finance and Public Credit, Mexico

Vishwanath Pratap Singh, Minister of Finance, India

Juan Vital Sourrouille, Minister of Economy, Argentina

Gerhard Stoltenberg, Federal Minister of Finance, Federal Republic of Germany

Satoshi Sumita, Governor, The Bank of Japan (Alternate for Noboru Takeshita, Minister of Finance, Japan)
Michael H. Wilson, Minister of Finance, Canada

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A.W. Clausen, President, World Bank
Kenneth K.S. Dadzie, Secretary-General, UNCTAD
Arthur Dunkel, Director-General, GATT
Ali K. Hussain, International Monetary and Finance Analyst, OPEC
Ghulam Ishaq Khan, Chairman, Development Committee
Pierre Languetin, Chairman of the Governing Board, Swiss National Bank
Göran Ohlin, Assistant Secretary-General for Development Research and Policy Analysis, Department of International Economic and Social Affairs, UN
Jean-Claude Paye, Secretary-General, OECD
Massimo Russo, Director-General, Economic and Financial Affairs, CEC

Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee)

PRESS COMMUNIQUÉS

Twenty-Seventh Meeting, Seoul, Korea, October 7, 1985

1. The Development Committee held its twenty-seventh meeting in Seoul, Korea, on October 7, 1985, under the chairmanship of His Excellency Ghulam Ishaq Khan. Mr. A.W. Clausen, President of the World Bank, Mr. J. de Larosière, Managing Director of the International Monetary Fund, and Mr. Fritz Fischer, Executive Secretary of the Development Committee, participated in the meeting. Observers from a number of international organizations and Switzerland also attended.

2. The Committee heard a report from the IMF Managing Director on the Interim Committee discussions on the world economic outlook.

3. The Committee continued a discussion begun in April concerning the IBRD's lending prospects and implications for its financial requirements. The Committee expressed support for an expanded role for the Bank in helping developing countries implement policies designed to promote efficiency and mobilize domestic savings as they continue to adjust to the adverse external economic environment. The Committee concluded that all countries need to move as quickly as possible toward sustained economic growth. The Committee further agreed that many heavily indebted countries have made considerable progress in their adjustment efforts, but noted that serious difficulties remain. In this context, the Committee stressed that sustained growth in the industrial countries, open markets, together with greater stability in the exchange markets and lower interest rates, are necessary to further advance prospects for growth in such developing countries. Moreover, the Committee agreed that there were other elements which are essential to strengthen growth prospects: comprehensive structural and development policies, provision of substantial net new resources by commercial banks, and enhanced participation of the multilateral development banks and the IMF. These elements must be closely integrated, within a consistent framework, if the goal of growth in these countries is to be achieved. The Committee concluded that in this situation the World Bank has an increasingly important role to play in restoring growth and requested that Bank management prepare, for consideration at the April meeting of the Committee, a report focused on how sustained growth can best be achieved in these countries.

4. The Committee reviewed the response of Bank management to its request for five-year projections of Bank lending, i.e., a three-year lending program (fiscal 1986–88) of $40–45 billion, rising to an annual level in fiscal 1990 of between $16.5 billion and $20 billion. The Committee expressed its strong support for a substantial expansion of the Bank's lending program in order for it to respond more effectively to the needs of its borrowing members and to stimulate the flow of capital from other sources.

5. The Committee discussed the implications of the expanded lending program proposed by management for the resources of the Bank. Ministers agreed that the Bank should be provided with the capacity to increase its quality lending and that the Bank should not be constrained by lack of capital or borrowing authority in meeting future demand. The Committee called upon management to begin discussions with the Executive Board on proposals that would enable the Bank to meet its resource requirements over the next five years, including the possibility of a General Capital Increase, and to report on progress at the next meeting of the Development Committee.

6. The Report of the Task Force on Concessional Flows, comprising representatives from 18 developing and industrialized countries, was presented to the Committee by its Chairman, Professor John P. Lewis. The Committee expressed its

appreciation for this important report and underlined the consensus reached in it on aid effectiveness, public support for aid, and aid volume. The Committee recalled its agreement reached last April that for the low-income countries increasing official development assistance flows deserves the highest priority and expressed its support for the Task Force Report. It urged that the report and its suggestions should be taken into account by all governments concerned. It called on the World Bank to take the lead in following up on the Task Force's conclusions and to report to future Development Committee meetings on progress achieved.

7. Against this background, which emphasized the need for increased aid flows to poor countries, the Committee heard a report on the mid-term review of IDA-7 from the Chairman of the IDA Deputies, following their meeting on October 5, 1985. The Committee urged that a successful and adequate Eighth Replenishment of IDA be achieved by September 1986 following the timetable established by the Deputies.

8. The Committee noted the report from the IMF Managing Director concerning the constructive discussions that had taken place in the Interim Committee on the use of IMF Trust Fund reflows. The Committee welcomed the initiatives proposed that would concentrate the use of those resources in low-income countries with protracted balance of payments problems in support of programs to promote structural adjustment and growth in a medium-term framework. In this regard, the Committee stressed the importance of closer collaboration between the Fund and the Bank while avoiding cross-conditionality.

9. The Committee continued to review the especially difficult economic situation of sub-Saharan African countries. It expressed its pleasure that the Bank's Special Facility for sub-Saharan Africa had become effective July 1, 1985, with over $1.2 billion in anticipated contributions, and noted with satisfaction that several credits had already been made by the Facility in its first three months.

10. The Committee noted with great concern the increasing number of countries in sub-Saharan Africa which face severe debt, and more generally, resource problems. It welcomed the emerging consensus that the use of the IMF Trust Fund reflows would contribute toward the solution of these problems. The Committee also agreed that continued broad-based adjustment efforts, including structural reforms, as well as additional concessional flows, are needed for these countries to recover and resume per capita income growth. In this context, the Committee urged the World Bank and the IMF to improve their cooperation in developing sound and consistent advice on policies designed to reduce poverty and promote growth in these countries. The Committee also requested that World Bank management prepare a study focused on the resource problems of sub-Saharan Africa for discussion at the next Committee meeting.

11. The Committee was informed by the GATT Director-General of the latest developments on international trade issues. The Committee reiterated its call for all governments to resist protectionism and welcomed the unanimous agreement recorded in recent discussions in the GATT concerning preparations for the proposed round of multilateral trade negotiations. It invited the GATT Director-General to continue to keep it informed about further developments.

12. The Ministers noted that, pursuant to the consensus reached at the April Development Committee meeting, the Executive Directors of the World Bank had prepared the draft Convention establishing the Multilateral Investment Guarantee Agency (MIGA), with a view to enhancing the flow of capital and technology for productive purposes to developing countries. Most members of the Committee noted with satisfaction that the Convention had been transmitted to the Bank's Board of Governors recommending that it now be opened for signature by interested governments. Most members of the Committee expressed the hope that the Convention would be signed and ratified by interested members in the near future in order to enable the Agency to start operations as early as possible.

13. The Development Committee noted that a preliminary exchange of views had taken place in the Interim Committee on the reports on the international monetary system prepared by the Group of Ten and the Group of Twenty-Four. It welcomed the commitment of the Interim Committee Chairman to communicate with the Chairman of the Development Committee, with a view to seeing to what

extent arrangements could be made for cooperation on matters pertaining to development.

14. Ministers extended their deepest sympathy to the Mexican people and Government following the tragic earthquake that has caused such great human loss and suffering. They called upon the international community to give its strong support to alleviating the effects of the disaster.

15. The Committee expressed its appreciation to the Government and the people of the Republic of Korea for their warm hospitality and for the excellent arrangements provided for its meeting.

16. The Committee agreed to meet again on April 10–11, 1986, in Washington, D.C., for an extended session.

Twenty-Eighth Meeting, Washington, April 10–11, 1986

1. The Development Committee held its twenty-eighth meeting in Washington, D.C., on April 10–11, 1986, under the chairmanship of His Excellency Ghulam Ishaq Khan. Mr. A.W. Clausen, President of the World Bank, Mr. J. de Larosière, Managing Director of the International Monetary Fund, and Mr. Fritz Fischer, Executive Secretary of the Development Committee, participated in the meeting. Observers from a number of international and regional organizations and Switzerland also attended.

2. The Committee heard a report from the IMF Managing Director on the Interim Committee discussions on the world economic outlook and on the debt situation and strategy and endorsed the Interim Committee's conclusions.

3. The Committee reviewed the progress that had been made in addressing the problems of the most heavily indebted middle-income countries in the period since its Seoul meeting and the announcement of U.S. Treasury Secretary Baker's initiative. In this context, the Committee reviewed the background paper on this subject prepared at its request by the World Bank, and endorsed the general approach set out for achieving sustained growth in the heavily indebted countries. The Committee heard with great interest reports of progress made in recent months by a number of countries in designing such programs and urged all major parties—indebted countries, industrial countries, commercial banks, and international financial and development institutions—to redouble their efforts so that medium-term growth-oriented adjustment programs can be designed and implemented as soon as possible.

4. The Committee recognized that the problems of these countries were deep-seated and would not be resolved quickly as the outstanding debt burden on government finance and balance of payments hampers growth prospects and a return to creditworthiness. The Committee emphasized the need for a rollback in protectionism. It agreed that a lasting solution for the debt problem requires not only sustained adjustment and growth in developing countries, but also industrial country policies which will promote a further decline in real interest rates, expansion in international trade, improvements in commodity prices, greater stability in exchange markets, and increased external capital flows. In this context the Committee urged industrial countries to redouble their efforts in removing these obstacles to a lasting solution to the debt problem.

5. The Committee stressed that even with substantial policy reforms in developing countries and satisfactory rates of noninflationary growth in industrial countries, restoration of growth in developing countries requires large amounts of net flows of capital, including repatriation of flight capital. Success will depend essentially upon the creation of an environment which would help promote timely action by the commercial banks and by all sources of finance providing adequate amounts of resources.

6. In this context, the Committee emphasized the importance of export credit agencies (ECAs) as a major source of financing and endorsed the Interim Committee's conclusions on this topic. Members welcomed the World Bank's intention to work more closely with all parties concerned to encourage timely and adequate support by ECAs in countries undertaking adjustment for growth programs to help ensure their success.

7. The Committee also urged creditor governments to ensure that regulations and guidelines imposed by their bank supervisors do not impede financing arrangements that can provide increased commercial bank flows, consistent with prudential considerations, to countries implementing significant medium-term programs of adjustment and growth. The Committee agreed that new flows of international bank credit in such circumstances can help to improve the quality of outstanding credits.

8. The Committee also recognized the role of the private sector in development and the need for greater flows of foreign investment to developing countries. In this context, members noted that the Convention establishing the Multilateral Investment Guarantee Agency (MIGA) has now been signed by 19 governments, including 4 industrialized countries. The Committee encouraged other interested governments to sign and ratify the Convention so that it may enter into force as soon as possible.

9. The Committee re-emphasized the consensus reached in Seoul on the need for the enhanced participation of the World Bank and the IMF in the design, financing, and monitoring of growth-oriented adjustment programs. The Committee agreed that this would help inspire greater confidence that the heavily indebted countries are taking appropriate steps to restore growth and creditworthiness. The Committee stressed that in furthering their collaboration, the Bank and the Fund should maintain their respective areas of competence and avoid cross-conditionality.

10. Consistent with the Bank's global commitment to development, growth, and poverty alleviation, the Committee reaffirmed its strong support for a substantial expansion of the Bank's lending program. It noted that since the Committee's meeting in Seoul, Bank management had increased projections of lending in fiscal 1986–88 to a range of $40–50 billion, and was now contemplating a lending level of up to $21.5 billion in fiscal 1990. The Committee expressed its strong support for the steps taken by the Bank to assist the heavily indebted countries to develop credible growth-oriented programs. The increase in Bank net disbursements to these countries was welcomed, as was the prospect that in 1986 adjustment-related lending to them will increase substantially. The Committee urged the Bank to take further steps to strengthen its ability to play a leading role in support of programs aimed at adjustment and growth as well as of investment projects throughout the world.

11. Ministers reiterated the understanding reached in Seoul that the Bank should be provided with the capacity to increase its quality lending and that the Bank should not be constrained by lack of capital or borrowing authority in meeting future demand. The Committee welcomed the additional efforts of the Bank in promoting growth-oriented adjustment and the associated increase in financial commitments it has undertaken in support of such programs. The Committee emphasized the essential role of the World Bank, together with the IMF and commercial banks, in supporting comprehensive adjustment programs. It noted that, provided other participants continue to fulfill their obligations in the adjustment programs, Bank lending for fiscal 1987 may possibly exceed the level of lending that could be sustained with the capital at present available to it. The Committee welcomed the forthcoming discussion in the Bank Board of several matters bearing on the calculation of future capital requirements, including the valuation of IBRD capital. Ministers agreed that the Bank's Executive Board should seek an early resolution of these issues so that an agreement on a General Capital Increase can be arrived at promptly. In this context, and in light of these encouraging developments, the Committee stressed the importance of continuing to monitor closely progress in meeting the Bank's capital requirements and the need to ensure adequate capital. The Ministers requested that the World Bank prepare a progress report for discussion at the next meeting on the Bank's lending program and on the continued adequacy of its capital.

12. Members reviewed the World Bank's most recent report, prepared at the Committee's request, on the continuing severe difficulties of sub-Saharan Africa and agreed that concerted action is urgently needed to address the region's problems. The Committee reiterated its strong support for the Joint Program of Action endorsed at its September 1984 meeting. The Committee also requested that a study on the market prospects of raw materials be prepared for a future meeting of the Committee.

13. The Committee noted with satisfaction the growing commitment of African

governments to policy reform, as illustrated by examples in the Bank's report of adjustment measures now being implemented. Some promising results are already evident. The Committee stressed that success of medium-term growth-oriented adjustment programs requires increased external capital flows, particularly in view of continued weakness in commodity prices and heavy debt-service obligations. Members noted the Bank's estimate of $2.5 billion in additional concessional flows that are needed annually, over the next five years, to help meet low-income sub-Saharan Africa's financial needs. Members called upon industrial countries to exert their best efforts to close this gap by providing additional official development assistance, through both bilateral and multilateral channels, to countries in the region undertaking significant reform programs. Furthermore, most Ministers agreed that donor countries should not be net recipients of official capital flows from African countries undertaking adjustment programs.

14. Ministers also agreed on the need to enhance further the effectiveness of aid flows to sub-Saharan Africa and noted the World Bank's suggestions for strengthening donor aid coordination. The Committee reaffirmed that the central responsibility for aid coordination lies with each recipient government. In this context, the Committee urged the Bank to take the leadership role in improving aid coordination, working closely with interested governments as well as with the UNDP, the OECD/DAC, the European Community, and other concerned parties. The Committee asked the Bank to report back at the next meeting on progress achieved in all aspects of coordination, including progress in the establishment of improved monitoring mechanisms.

15. The Committee heard a progress report on current negotiations for the replenishment of IDA. Ministers emphasized the special importance of IDA to the success of development programs in poor countries throughout the world. Virtually all Ministers expressed the strong hope that an IDA-8 replenishment of $12 billion will be achieved. This would maintain in real terms the concessionary resources now available through IDA-7 and the Special Facility for sub-Saharan Africa, and enable IDA to continue its role in poverty alleviation and economic development and also to provide necessary support, in conjunction with the IMF, to IDA-eligible countries undertaking growth-oriented adjustment programs. Ministers urged donors to exert maximum efforts in the coming months to reach a consensus on outstanding issues related to the next replenishment, including fair burden sharing and an equitable allocation of resources, and expressed the wish that negotiations be concluded before the next meeting of the Committee in September.

16. The Committee welcomed the recent decision taken by the IMF Executive Board that established the structural adjustment facility (SAF) in the Fund, which will provide assistance on concessional terms to low-income countries with protracted balance of payments problems in support of medium-term macroeconomic and structural adjustment programs. The Committee noted that the new facility will require close coordination between the Fund and the World Bank to assist eligible members in the formulation of a comprehensive medium-term policy framework. The Committee expressed the hope that the SAF resources would be complemented by additional bilateral and multilateral concessional assistance in support of agreed programs. Ministers reaffirmed that such arrangements would not adversely affect the availability of concessional development finance for low-income countries not utilizing Trust Fund reflows.

17. The Committee recognized that concessional flows are of critical importance to the success of adjustment and growth programs in the poorest developing countries. In this context, the Committee welcomed further Bank reports following up on the conclusions of the Task Force on Concessional Flows. As part of the effort to encourage implementation of the Task Force Report's conclusions, including an increased flow of official development assistance, the Committee requested the World Bank to prepare a report for its next meeting on the volume of official development assistance flows forecast for the period 1986–90.

18. The Ministers took note of the discussion in the Interim Committee on the issues raised in the recent Group of Ten and Group of Twenty-Four reports. The Ministers also recalled the commitment made by the Chairman of the Interim and the Development Committees at the Seoul meetings to communicate with each

other with a view to seeing to what extent arrangements could be made for cooperation on matters pertaining to development. Taking note of the Chairman's intervention in the meeting of the Interim Committee, the Ministers requested him, after holding further consultations with the Chairman of the Interim Committee, to report to the next meeting of the Development Committee his views on the modalities of cooperative arrangements for improvements in the financial and monetary system's impact on growth and development.

19. The Committee was informed by the GATT Director-General of the latest developments on international trade issues and the progress made by GATT's Preparatory Committee in defining the agenda for the proposed new round of trade negotiations. The Committee reiterated its call for all governments to resist protectionism and encouraged governments to launch the new round under GATT auspices at an early date, with a view to further opening markets and strengthening the trading system. Ministers expressed the hope that Contracting Parties would take into account trade liberalization measures adopted in developing country adjustment and growth policies in the context of trade negotiations within the GATT framework. It invited the GATT Director-General to continue to keep it informed about further developments.

20. The Committee expressed its profound appreciation to the retiring President of the World Bank, Mr. A.W. Clausen, for his energetic support and encouragement of the work of the Committee, and for the highly significant contributions he has made during his five years in office to the cause of economic and social progress in the developing world. His imaginative and dedicated leadership of the Bank during a period of considerable stress in the global economy has, the Committee noted, positioned the institution well to build on the expanded role which has rightly been assigned to it. The Committee wished him well for the future.

21. The Committee agreed to meet again in Washington, D.C., on September 29, 1986.

Appendix V

Executive Directors and Voting Power on April 30, 1986

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of Fund Total[2]
APPOINTED				
Charles H. Dallara *Mary K. Bush*	United States	179,433	179,433	19.29
T.P. Lankester *Michael Foot*	United Kingdom	62,190	62,190	6.68
Guenter Grosche *Bernd Goos*	Germany, Fed. Rep. of	54,287	54,287	5.84
Hélène Ploix *Sylvain de Forges*	France	45,078	45,078	4.85
Hirotake Fujino *Masahiro Sugita*	Japan	42,483	42,483	4.57
Yusuf A. Nimatallah *Jobarah E. Suraisry*	Saudi Arabia	32,274	32,274	3.47
ELECTED				
Pedro Pérez (Spain)	Costa Rica	1,091		
Guillermo Ortiz (Mexico)	El Salvador	1,140		
	Guatemala	1,330		
	Honduras	928		
	Mexico	11,905		
	Nicaragua	932		
	Spain	13,110		
	Venezuela	13,965	44,401	4.77
J.J. Polak (Netherlands)	Cyprus	947		
J. de Beaufort Wijnholds (Netherlands)	Israel	4,716		
	Netherlands	22,898		
	Romania	5,484		
	Yugoslavia	6,380	40,425	4.35
Jacques de Groote (Belgium)	Austria	8,006		
Heinrich G. Schneider (Austria)	Belgium	21,054		
	Hungary	5,557		
	Luxembourg	1,020		
	Turkey	4,541	40,178	4.32

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of Fund Total[2]
ELECTED (continued)				
Marcel Massé (Canada)	Antigua and Barbuda	300		
Luke Leonard (Ireland)	The Bahamas	914		
	Barbados	591		
	Belize	345		
	Canada	29,660		
	Dominica	290		
	Grenada	310		
	Ireland	3,684		
	Jamaica	1,705		
	St. Christopher and Nevis	295		
	St. Lucia	325		
	St. Vincent	290	38,709	4.16
Salvatore Zecchini (Italy)	Greece	4,249		
Nikolaos Coumbis (Greece)	Italy	29,341		
	Malta	701		
	Portugal	4,016	38,307	4.12
Mohamed Finaish (Libya)	Bahrain	739		
Tariq Alhaimus (Iraq)	Iraq	5,290		
	Jordan	989		
	Kuwait	6,603		
	Lebanon	1,037		
	Libya	5,407		
	Maldives	270		
	Oman	881		
	Pakistan	5,713		
	Qatar	1,399		
	Somalia	692		
	Syrian Arab Republic	1,641		
	United Arab Emirates	2,276		
	Yemen Arab Republic	683		
	Yemen, People's Democratic Republic of	1,022	34,642	3.72
C.R. Rye (Australia)	Australia	16,442		
Antonio V. Romuáldez (Philippines)	Korea	4,878		
	New Zealand	4,866		
	Papua New Guinea	909		
	Philippines	4,654		
	Seychelles	280		
	Solomon Islands	300		
	Vanuatu	340		
	Western Samoa	310	32,979	3.54
Hans Lundström (Sweden)	Denmark	7,360		
Henrik Fugmann (Denmark)	Finland	5,999		
	Iceland	846		
	Norway	7,240		
	Sweden	10,893	32,338	3.48

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of Fund Total[2]
ELECTED (continued)				
Arjun K. Sengupta (India)	Bangladesh	3,125		
A.S. Jayawardena	Bhutan	275		
(Sri Lanka)	India	22,327		
	Sri Lanka	2,481	28,208	3.03
Alexandre Kafka (Brazil)	Brazil	14,863		
Hernando Arias (Panama)	Colombia	4,192		
	Dominican Republic	1,371		
	Ecuador	1,757		
	Guyana	742		
	Haiti	691		
	Panama	1,272		
	Suriname	743		
	Trinidad and Tobago	1,951	27,582	2.96
E.I.M. Mtei (Tanzania)	Botswana	471		
Ahmed Abdallah (Kenya)	Burundi	677		
	Ethiopia	956		
	The Gambia	421		
	Guinea	829		
	Kenya	1,670		
	Lesotho	401		
	Liberia	963		
	Malawi	622		
	Mozambique, People's Republic of	860		
	Nigeria	8,745		
	Sierra Leone	829		
	Sudan	1,947		
	Swaziland	497		
	Tanzania	1,320		
	Uganda	1,246		
	Zambia	2,953		
	Zimbabwe	2,160	27,567	2.96
J.E. Ismael (Indonesia)	Burma	1,620		
JAAFAR Ahmad (Malaysia)	Fiji	615		
	Indonesia	10,347		
	Lao People's Democratic Republic	543		
	Malaysia	5,756		
	Nepal	623		
	Singapore	1,174		
	Thailand	4,116		
	Viet Nam	2,018	26,812	2.88
HUANG Fanzhang (China)	China	24,159	24,159	2.60
JIANG Hai (China)				

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of Fund Total[2]
ELECTED (concluded)				
Fernando L. Nebbia	Argentina	11,380		
(Argentina)	Bolivia	1,157		
Jaysuño Abramovich (Peru)	Chile	4,655		
	Paraguay	734		
	Peru	3,559		
	Uruguay	1,888	23,373	2.51
Ghassem Salehkhou	Afghanistan	1,117		
(Islamic Republic of Iran)	Algeria	6,481		
Omar Kabbaj (Morocco)	Ghana	2,295		
	Iran, Islamic Republic of	6,850		
	Morocco	3,316		
	Tunisia	1,632	21,691	2.33
Abderrahmane Alfidja	Benin	563		
(Niger)	Burkina Faso	566		
MAWAKANI Samba (Zaïre)	Cameroon	1,177		
	Cape Verde	295		
	Central African Republic	554		
	Chad	556		
	Comoros	295		
	Congo	623		
	Côte d'Ivoire	1,905		
	Djibouti	330		
	Equatorial Guinea	434		
	Gabon	981		
	Guinea-Bissau	325		
	Madagascar	914		
	Mali	758		
	Mauritania	589		
	Mauritius	786		
	Niger	587		
	Rwanda	688		
	São Tomé and Principe	290		
	Senegal	1,101		
	Togo	634		
	Zaïre	3,160	18,111	1.95
			915,227[3]	98.38[2,4]

[1]Voting power varies on certain matters pertaining to the General Department with use of the Fund's resources in that Department.

[2]Percentages of total votes in the General Department and SDR Department (930,300).

[3]This total does not include the votes of Egypt, Democratic Kampuchea, South Africa, and Tonga, which did not participate in the 1984 Regular Election of Executive Directors. The combined votes of those members total 15,073—1.62 percent of those in the General Department and SDR Department.

[4]This figure may differ from the sum of the percentages shown for individual Directors because of rounding.

Appendix VI
Changes in Membership of Executive Board

Changes in membership of the Executive Board between May 1, 1985 and April 30, 1986 were as follows:

Lubin K. Doe (Togo) was appointed Alternate Executive Director to Abderrahmane Alfidja (Niger), effective May 1, 1985.

Lubin K. Doe (Togo) resigned as Alternate Executive Director to Abderrahmane Alfidja (Niger), effective August 4, 1985.

Mawakani Samba (Zaïre) was appointed Alternate Executive Director to Abderrahmane Alfidja (Niger), effective August 5, 1985.

Wang Enshao (China) resigned as Alternate Executive Director to Zhang Zicun (China), effective August 16, 1985.

Xavier Blandin (France) resigned as Alternate Executive Director to Bruno de Maulde (France), effective August 31, 1985.

Nigel Wicks (United Kingdom) resigned as Executive Director for United Kingdom, effective August 31, 1985.

T.P. Lankester (United Kingdom) was appointed Executive Director for United Kingdom, effective September 1, 1985.

T.A. Clark (United Kingdom), formerly Alternate Executive Director to Nigel Wicks (United Kingdom) was appointed Alternate Executive Director to T.P. Lankester (United Kingdom), effective September 1, 1985.

Sylvain de Forges (France) was appointed Alternate Executive Director to Bruno de Maulde (France), effective September 1, 1985.

Jiang Hai (China) was appointed Alternate Executive Director to Zhang Zicun (China), effective September 1, 1985.

Robert Joyce (Canada) resigned as Executive Director for Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Christopher and Nevis, St. Lucia, and St. Vincent, effective October 15, 1985.

Marcel Massé (Canada) was elected Executive Director by Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Christopher and Nevis, St. Lucia, and St. Vincent, effective October 16, 1985.

Luke Leonard (Canada), formerly Alternate Executive Director to Robert Joyce (Canada), was appointed Alternate Executive Director to Marcel Massé (Canada), effective October 16, 1985.

T.A. Clark (United Kingdom) resigned as Alternate Executive Director to T.P. Lankester (United Kingdom), effective November 10, 1985.

Michael Foot (United Kingdom) was appointed Alternate Executive Director to T.P. Lankester (United Kingdom), effective November 11, 1985.

Zhang Zicun (China) resigned as Executive Director for China, effective November 30, 1985.

Huang Fanzhang (China) was elected Executive Director by China, effective December 1, 1985.

Jiang Hai (China), formerly Alternate Executive Director to Zhang Zicun (China), was appointed Alternate Executive Director to Huang Fanzhang (China), effective December 1, 1985.

Bruno de Maulde (France) resigned as Executive Director for France, effective January 24, 1986.

Hélène Ploix (France) was appointed Executive Director for France, effective February 24, 1986.

Sylvain de Forges (France), formerly Alternate Executive Director to Bruno de Maulde (France), was appointed Alternate Executive Director to Hélène Ploix (France), effective February 24, 1986.

Brian Jensen (Peru) resigned as Alternate Executive Director to Fernando Luis Nebbia (Argentina), effective March 25, 1986.

Jaysuño Abramovich (Peru) was appointed Alternate Executive Director to Fernando Luis Nebbia (Argentina), effective March 26, 1986.

Nikolaos Coumbis (Greece) resigned as Alternate Executive Director to Salvatore Zecchini (Italy), effective April 30, 1986.

The following served at certain meetings of the Executive Board during 1985/1986 as Temporary Alternate Executive Directors to the Executive Directors indicated:

Temporary Alternate Executive Director	**Executive Director for whom Temporary Alternate Served**
Ali Asghar Agah (*Iran, Islamic Republic of*)	Ghassem Salehkhou (*Iran, Islamic Republic of*)
Eric Michael Ainley (*United Kingdom*)	Yusuf A. Nimatallah (*Saudi Arabia*)
Hassan Alaoui-Abdallaoui (*Morocco*)	Ghassem Salehkhou (*Iran, Islamic Republic of*)
José Roberto Novaes de Almeida (*Brazil*)	Alexandre Kafka (*Brazil*)
Ignazio Angeloni (*Italy*)	Salvatore Zecchini (*Italy*)
Patrick E. Archibong (*Nigeria*)	E.I.M. Mtei (*Tanzania*)
Mohammad Arif (*Pakistan*)	Mohamed Finaish (*Libya*)
Wolf-Ruediger Bengs (*Germany, Federal Republic of*)	Guenter Grosche (*Germany, Federal Republic of*)
Axel Bertuch-Samuels (*Germany, Federal Republic of*)	Guenter Grosche (*Germany, Federal Republic of*)
S.P. Biswas (*India*) [1]	Arjun K. Sengupta (*India*)
Bo Tao (*China*)	Zhang Zicun (*China*)
Gabriel R. Castellanos (*Guatemala*)	Pedro Pérez (*Spain*)
Mohamed Bahaa Chatah (*Lebanon*)	Mohamed Finaish (*Libya*)
Chen Jian (*China*)	Zhang Zicun (*China*)
Sylvain de Forges (*France*)	Bruno de Maulde (*France*)
Joaquín de la Herrán (*Spain*)	Pedro Pérez (*Spain*)
Alimata Koné Diaby (*Côte d'Ivoire*)	Abderrahmane Alfidja (*Niger*)
Filippo Di Mauro (*Italy*)	Salvatore Zecchini (*Italy*)
Lubin Kobla Doe (*Togo*)	Abderrahmane Alfidja (*Niger*)
J. Julio Dreizzen (*Argentina*)	Fernando L. Nebbia (*Argentina*)
Liam Patrick Ebrill (*Ireland*)	Yusuf A. Nimatallah (*Saudi Arabia*)
Gazi Ercel (*Turkey*)	Jacques de Groote (*Belgium*)
Christian Flamant (*France*)	Bruno de Maulde (*France*)
Richard Fox (*United Kingdom*)	Nigel Wicks (*United Kingdom*)
	T.P. Lankester (*United Kingdom*)
Siri Ganjarerndee (*Thailand*)	J.E. Ismael (*Indonesia*)
Sami Geadah (*Lebanon*)	Yusuf A. Nimatallah (*Saudi Arabia*)
Vinjamuri Govindarajan (*India*)	Arjun K. Sengupta (*India*)
Detlev Hammann (*Germany, Federal Republic of*)	Guenter Grosche (*Germany, Federal Republic of*)
Kai Aaen Hansen (*Denmark*)	Hans Lundström (*Sweden*)
Nadeem Ul Haque (*Pakistan*)	Mohamed Finaish (*Libya*)
Sabir Mohamed Hassan (*Sudan*)	E.I.M. Mtei (*Tanzania*)
Glen David Hodgson (*Canada*)	Robert K. Joyce (*Canada*)
	Marcel Massé (*Canada*)
Jerry Hospedales (*Trinidad and Tobago*)	Alexandre Kafka (*Brazil*)
Luc Hubloue (*Belgium*)	Jacques de Groote (*Belgium*)
Olafur Isleifsson (*Iceland*)	Hans Lundström (*Sweden*)
Abdel Rehman Ismael (*Mauritius*)	Abderrahmane Alfidja (*Niger*)
A.S. Jayawardena (*Sri Lanka*)	Arjun K. Sengupta (*India*)
Joseph Mills Jones (*Liberia*)	E.I.M. Mtei (*Tanzania*)
Antti Kalervo Juusela (*Finland*)	Hans Lundström (*Sweden*)
Stuart Howard King (*United Kingdom*)	T.P. Lankester (*United Kingdom*)
Hirotaka Kobayashi (*Japan*)	Hirotake Fujino (*Japan*)
Serge Kolb (*Luxembourg*)	Jacques de Groote (*Belgium*)
Hak-Sung Lee (*Korea*)	C.R. Rye (*Australia*)
Meg Lundsager (*United States*)	Charles H. Dallara (*United States*)
Rachid Msadek (*Tunisia*)	Ghassem Salehkhou (*Iran, Islamic Republic of*)
James A.K. Munthali (*Malawi*)	E.I.M. Mtei (*Tanzania*)
Kazuya Murakami (*Japan*)	Hirotake Fujino (*Japan*)
Ahmad Mustafa (*Jordan*)	Mohamed Finaish (*Libya*)
Georges E.L. Nguyen (*France*)	Bruno de Maulde (*France*)
	Hélène Ploix (*France*)
Jean-Christian Obame (*Gabon*)	Abderrahmane Alfidja (*Niger*)

[1] Counsellor at the Indian Embassy.

Temporary Alternate Executive Director	**Executive Director for whom Temporary Alternate Served**
Enok Olsen (*Norway*)	Hans Lundström (*Sweden*)
John Kobina Orleans-Lindsay (*Ghana*)	Abderrahmane Alfidja (*Niger*)
Abdessatar Ouanes (*Tunisia*)	Yusuf A. Nimatallah (*Saudi Arabia*)
William Koaya Parmena (*Tanzania*)	E.I.M. Mtei (*Tanzania*)
Pál Péterfalvy (*Hungary*)	Jacques de Groote (*Belgium*)
George W.K. Pickering (*Canada*)	Robert K. Joyce (*Canada*)
	Marcel Massé (*Canada*)
Ilkka Puro (*Finland*)	Hans Lundström (*Sweden*)
Mohammed Zia Masoom Qureshi (*Pakistan*)	Mohamed Finaish (*Libya*)
Mukhlis Rasyid (*Indonesia*)	J.E. Ismael (*Indonesia*)
Janardana Reddy (*Fiji*)	J.E. Ismael (*Indonesia*)
David J. Robinson (*United Kingdom*)	Nigel Wicks (*United Kingdom*)
	T.P. Lankester (*United Kingdom*)
Jesús E. Rodríguez Núñez (*Venezuela*)	Pedro Pérez (*Spain*)
Vincent Rousset (*France*)	Bruno de Maulde (*France*)
	Hélène Ploix (*France*)
Cristian Alfonso Salinas Cerda (*Chile*)	Fernando L. Nebbia (*Argentina*)
A.A. Scholten (*Netherlands*)	J.J. Polak (*Netherlands*)
Sigurd Simonsen (*Norway*)	Hans Lundström (*Sweden*)
Tanya Sirivedhin (*Thailand*)	J.E. Ismael (*Indonesia*)
Song Guangwei (*China*)	Huang Fanzhang (*China*)
Avigdor Steinberg (*Israel*)	J.J. Polak (*Netherlands*)
Elwaleed M. Taha (*Sudan*)	Yusuf A. Nimatallah (*Saudi Arabia*)
Bahram Tamami (*Iran, Islamic Republic of*)	Ghassem Salehkhou (*Iran, Islamic Republic of*)
Donald Charles Templeman (*United States*)	Charles H. Dallara (*United States*)
Norbert Toé (*Burkina Faso*)	Abderrahmane Alfidja (*Niger*)
Livio Tornetta (*Italy*)	Salvatore Zecchini (*Italy*)
Alan Jeffrey Tregilgas (*Australia*)	C.R. Rye (*Australia*)
Huibrecht van der Burg (*Netherlands*)	J.J. Polak (*Netherlands*)
A. Vasudevan (*India*)	Arjun K. Sengupta (*India*)
Emily Landis Walker (*United States*)	Charles H. Dallara (*United States*)
Mario Alejandro Weitz (*Argentina*)	Fernando L. Nebbia (*Argentina*)
Bruce Donald White (*New Zealand*)	C.R. Rye (*Australia*)
Yang Wei-Min (*China*)	Zhang Zicun (*China*)
	Huang Fanzhang (*China*)
Koffi Yao (*Côte d'Ivoire*)	Abderrahmane Alfidja (*Niger*)
Zakaria bin Ismail (*Malaysia*)	J.E. Ismael (*Indonesia*)

Appendix VII

Administrative Budget

Administrative Budget as Approved by the Executive Board for the Financial Year Ending April 30, 1987 Compared with Actual Expenses for the Financial Years Ended April 30, 1985 and 1986

(Values expressed in SDRs)[1]

	Financial Year Ended April 30, 1985	Financial Year Ended April 30, 1986		Financial Year Ending April 30, 1987
	Actual Expenses	Revised Budget	Actual Expenses	Budget
I. PERSONNEL EXPENSES				
Salaries	89,931,088	92,387,343	91,556,162	84,571,267
Other personnel expenses	59,651,824	57,737,583	56,403,447	55,400,530
Total	149,582,912	150,124,926	147,959,609	139,971,797
II. TRAVEL EXPENSES				
Business travel	13,748,780	15,735,398	14,719,511	11,763,769
Other travel	11,317,691	12,127,443	10,920,189	10,246,413
Total	25,066,471	27,862,841	25,639,700	22,010,182
III. OTHER ADMINISTRATIVE EXPENSES				
Communications	6,868,675	5,461,767	5,461,320	4,692,721
Building occupancy	10,356,057	14,082,412	13,364,267	13,076,537
Books and printing	1,862,282	2,254,281	2,253,660	1,798,663
Supplies and equipment	4,388,655	6,503,065	5,971,573	3,895,683
Data processing	24,185,385	18,710,994	18,174,559	16,477,801
Miscellaneous	5,689,423	5,440,664	5,344,562	5,084,846
Total	53,350,477	52,453,183	50,569,941	45,026,251
TOTAL[2]	227,999,860	230,440,950	224,169,250	207,008,230

[1] The administrative budget is expressed in terms of U.S. dollars and converted to SDR equivalents.

[2] Net administrative expenses for the financial year ended April 30, 1985 totaled SDR 224,399,859 after a deduction of the amount reimbursed to the General Resources Account by assessments levied on the net cumulative allocations of participants in the SDR Department (SDR 3,600,001). For the year ended April 30, 1986, net administrative expenses amounted to SDR 220,469,262 after a deduction of SDR 3,699,988 reimbursed to the General Resources Account by assessments levied on the net cumulative allocations of participants in the SDR Department.

Appendix VIII

Financial Statements of the General Department, SDR Department, Supplementary Financing Facility Subsidy Account, Trust Fund, and Staff Retirement Plan

REPORT OF THE EXTERNAL AUDIT COMMITTEE

Washington, D.C.
June 27, 1986

AUTHORITY AND SCOPE OF THE AUDIT

In accordance with Section 20(b) of the By-Laws of the International Monetary Fund we have audited the financial statements of the Fund for the year ended April 30, 1986, covering the

—General Department (including the General Resources Account, Borrowed Resources Suspense Accounts, and Special Disbursement Account),
—SDR Department, and
—Accounts administered by the Fund, which consist of the Supplementary Financing Facility Subsidy Account and the Trust Fund.

The audit was conducted in accordance with international auditing standards and, accordingly, included reviews of accounting and control systems, tests of accounting records, evaluation of the extent and results of work performed by the Internal Auditor, and other audit procedures.

AUDIT OPINION

In our opinion, the financial statements of the General Department (including the related supplemental schedules one through four), the SDR Department, and the Accounts administered by the Fund have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, and give a true and fair view of the respective financial positions and the allocations and holdings of SDRs as at April 30, 1986, and of the financial results of operations and transactions during that year.

EXTERNAL AUDIT COMMITTEE

/s/ Jay M. Weinstein, Chairman (United States)
/s/ Mohamad A. Zawawi (Jordan)
/s/ Gilton Bazilio Chiwaula (Malawi)

INTERNATIONAL MONETARY FUND

General Department

Balance Sheet

as at April 30, 1986

(In thousands of SDRs)

(Note 1)

	1986	1985
ASSETS		
GENERAL RESOURCES ACCOUNT		
Currencies and Securities (Notes 2 and 5)	97,863,026	95,994,219
SDR Holdings (Note 3)	2,721,642	4,615,747
Gold Holdings (Note 4)	3,620,396	3,620,396
Borrowed Resources Held in Suspense	635,254	203,407
Charges Receivable and Accrued (Note 5)	848,943	932,071
Accrued Interest on SDR Holdings	48,100	97,116
Other Assets	19,126	23,489
Total General Resources Account	105,756,487	105,486,445
SPECIAL DISBURSEMENT ACCOUNT		
Currency Deposits Pending Investment	68	—
Interest-Earning Deposits	436,426	—
Accrued Income on Investments	4,677	—
Total Special Disbursement Account	441,171	—
Total General Department	106,197,658	105,486,445
QUOTAS, RESERVES, LIABILITIES, AND SPECIAL DISBURSEMENT ACCOUNT RESOURCES		
GENERAL RESOURCES ACCOUNT		
QUOTAS		
Subscriptions of Members	89,305,050	89,301,800
RESERVES (Note 6)	1,122,051	1,043,919
LIABILITIES		
Borrowing (Note 7)	14,556,474	14,202,990
Remuneration Payable (Note 5)	316,728	413,789
Accrued Interest on Borrowing	279,035	397,076
Other Liabilities and Deferred Credits (Note 5)	177,149	126,871
Total General Resources Account	105,756,487	105,486,445
SPECIAL DISBURSEMENT ACCOUNT		
Accumulated Resources	441,171	—
Total General Department	106,197,658	105,486,445

The accompanying notes and Schedules 1–4 are an integral part of the financial statements.

/s/ W. O. Habermeier
Treasurer

/s/ J. de Larosière
Managing Director

INTERNATIONAL MONETARY FUND

General Department

Statement of Income and Expense

for the year ended April 30, 1986

(In thousands of SDRs)

(Note 1)

GENERAL RESOURCES ACCOUNT

	1986	1985
OPERATIONAL INCOME		
Periodic charges (Note 5)	2,801,577	3,025,565
Special charges (Note 5)	2,316	—
Deduct: Income deferred (Note 5)	64,253	56,417
	2,739,640	2,969,148
Interest on SDR holdings	263,205	478,295
Service charges	19,704	30,299
Other	6,932	4,317
	3,029,481	3,482,059
OPERATIONAL EXPENSE		
Remuneration (Note 5)	1,452,103	1,721,202
Interest on borrowing, net of income from temporary investments held in Borrowed Resources Suspense Accounts (SDR 15,854 in 1986 and SDR 10,571 in 1985)	1,275,802	1,566,518
Other	—	2
	2,727,905	3,287,722
NET OPERATIONAL INCOME	301,576	194,337
ADMINISTRATIVE EXPENSE (Note 9)		
Personnel	147,960	149,583
Travel	25,640	25,066
Other, net	49,440	49,008
Fixed property (Note 1)	404	535
TOTAL ADMINISTRATIVE EXPENSE	223,444	224,192
NET INCOME (LOSS) OF GENERAL RESOURCES ACCOUNT	78,132	(29,855)

SPECIAL DISBURSEMENT ACCOUNT

	1986	1985
Income earned on investments	14,113	—
Net change in SDR value of currency and deposits held pending investment	1,069	—
NET INCOME OF SPECIAL DISBURSEMENT ACCOUNT	13,044	—

The accompanying notes and Schedules 1–4 are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

General Department

Statement of Changes in Reserves and Resources

for the year ended April 30, 1986

(In thousands of SDRs)

(Note 1)

RESERVES—GENERAL RESOURCES ACCOUNT

	1986	1985
SPECIAL RESERVE (Note 6)		
Balance at beginning of the year	678,339	708,194
Net income (loss)	78,132	(29,855)
Balance at end of the year	756,471	678,339
GENERAL RESERVE (Note 6)		
Balance at beginning and end of the year	365,580	365,580
TOTAL RESERVES OF GENERAL RESOURCES ACCOUNT	1,122,051	1,043,919

RESOURCES—SPECIAL DISBURSEMENT ACCOUNT

	1986	1985
Balance at beginning of the year	—	—
Transfers from Trust Fund	424,583	226,273
Transfers from (to) SFF Subsidy Account (net)	3,544	(226,273)
	428,127	—
Net income	13,044	—
TOTAL RESOURCES OF SPECIAL DISBURSEMENT ACCOUNT	441,171	—

The accompanying notes and Schedules 1–4 are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT

NOTES TO THE FINANCIAL STATEMENTS

General Department

Under the Articles of Agreement, the General Department consists of the General Resources Account, the Special Disbursement Account, and the Investment Account. The Investment Account had not been activated at April 30, 1986. The General Department also includes Borrowed Resources Suspense Accounts, the establishment of which was authorized by the Executive Board in May 1981.

General Resources Account

Assets held in the General Resources Account comprise (i) currencies of the Fund's member countries (including securities), (ii) SDR holdings, and (iii) gold.

Each member has been required to pay to the Fund the amount of its initial quota and subsequent increases partly in the member's own currency and the remainder in the form of reserve assets, except that for the increases proposed in 1978, members were permitted to pay the entire increase in their own currencies. A member's quota cannot be increased until it consents to the increase and pays the subscription in full.

The Fund makes its resources available to its members by selling SDRs or currencies to members in exchange for their own currency in accordance with Fund policies on the use of its resources. Use of the Fund's resources by a member is dependent on the member having a balance of payments need.

When members make purchases, they undertake to repurchase, within the periods specified by the Fund, the Fund's holdings of their currencies by the payment to the Fund of SDRs or the currencies of other members specified by the Fund. The Fund's policies on the use of its resources, which indicate the time periods for which purchases may be outstanding, are intended to assure that use of its resources is temporary and will be reversed within time periods specified by the Fund.

The composition of the Fund's holdings of members' currencies changes as a result of the Fund's operations and transactions, including purchase and repurchase transactions in currencies as noted above. The currency holdings reflect both the counterpart of purchases by those members that have a need to use the Fund's resources, and also the currencies of those members whose balance of payments and reserve positions are determined by the Fund on a quarterly basis to be sufficiently strong for their currencies to be used in all the Fund's operations and transactions in accordance with the policies of the Fund.

A member has a reserve tranche in the Fund to the extent that the Fund's holdings of its currency, excluding holdings which reflect the member's use of Fund credit, are less than the member's quota. A member's reserve tranche is regarded as a part of the member's external reserves and a member may purchase up to the amount of its full reserve tranche at any time. Reserve tranche purchases are not regarded as a use of Fund credit.

Members may make use of Fund resources under various policies and the amount of such use is related to a member's quota in the Fund. Under the credit tranche policy, credit is at present made available to members in a range consisting of four tranches or segments each equal to 25 percent of a member's quota. A first credit tranche purchase is defined as one that raises the Fund's holdings of a member's currency in the credit tranche from 0 to 25 percent of quota. Subsequent purchases are made in three successive tranches, each equal to 25 percent of quota, to a level of no more than 100 percent of quota. Purchases in these three tranches are referred to as upper credit tranche purchases. Higher conditionality accompanies the use of Fund credit in the upper tranches.

Members experiencing balance of payments difficulties may enter into stand-by arrangements with the Fund under which the Fund commits itself to provide resources to be made available over periods of up to three years from the date of the arrangements. Purchases under these arrangements in the upper credit tranches depend upon the member's meeting the performance criteria included in the arrangements.

In addition to purchases under the Fund's credit tranche policies, members may use the Fund's resources under decisions on:

- Compensatory financing—to assist members, particularly primary exporters, encountering payments difficulties produced by temporary export shortfalls attributable to circumstances beyond their control and in addition, at their option, to assist members encountering payments difficulties produced by an excess in the cost of their cereal imports.
- Buffer stock financing—to assist members in connection with the financing of international buffer stocks of primary products.
- Extended Fund facility—to provide, through extended arrangements of up to three years, medium-term assistance to members to make structural adjustments in their economies. Purchases under these arrangements depend upon the member's meeting the performance criteria included in the arrangements.
- Supplementary financing facility and the policy on enlarged access—to make resources available under stand-by and extended arrangements, in addition to those available in the credit tranches or under the extended Fund facility, to members facing serious payments imbalances that are large in relation to their quotas. These policies are temporary and may be utilized only in conjunction with the use of resources in the upper credit tranches.

Members that purchase resources from the Fund undertake to repurchase the Fund's holdings of their currencies by the payment to the Fund of SDRs or the currencies of other members specified by the Fund. Reserve tranche purchases made after April 1, 1978, are not subject to repurchase. Under the Fund's repurchase policies, purchases in the credit tranches, purchases under the compensatory financing facility and under the buffer stock facility are to be repurchased in quarterly installments beginning three years and ending not later than five years after the date of purchase; repurchases of purchases financed with borrowed resources under the supplementary financing facility or the enlarged access policy are to be made in semiannual installments beginning three and one-half years and ending not later than seven years after the date of purchase; and repurchases under the extended Fund facility (other than purchases financed with borrowed resources under the supplementary financing facility or policy on enlarged access) are to be made in semiannual installments beginning four years and ending not later than ten years after the date of purchase. However, a member is entitled to repurchase at any time holdings of its currency on which the Fund levies charges, and is expected to make repurchases prior to the periods mentioned above as and when its balance of payments and reserve position improves.

Borrowed Resources Suspense Accounts

Borrowed Resources Suspense Accounts have been established in order to hold, transfer, convert, and invest (i) currencies borrowed by the Fund before they are transferred to the General Resources Account for use in transactions or operations; and (ii) currencies received by the Fund in repurchases financed with borrowed resources before repayments to lenders can be made. Members are not obligated to maintain the SDR value of their currencies held by the Fund in the Borrowed Resources Suspense Accounts, and as far as practicable, the currencies are invested in SDR-denominated obligations.

At April 30, 1986, borrowed resources held in suspense amounted to SDR 635.25 million (SDR 203.41 million at April 30, 1985) and included accrued income of SDR 6.53 million (SDR 0.87 million at April 30, 1985).

Special Disbursement Account

The Fund administers a Trust Fund, established in 1976 to provide balance of payments assistance (loans) on concessional terms to certain members. The Special Disbursement Account was activated on June 30, 1981 to receive transfers from the Trust Fund (repayments of loans and interest), which is in the process of being wound up. Amounts received into the Special Disbursement Account from the Trust Fund were transferred on a same-day pass-through to the Supplementary Financing Facility Subsidy Account, which was established for the purpose of reducing the cost of eligible members that used the Fund's resources under the supplementary financing facility. The Fund has determined that the resources of the Supplementary Financing Facility Subsidy Account are sufficient to meet its estimated needs, and transfers to that account from the Special Disbursement Account have been terminated. Amounts received from the Trust Fund are now being held in the Special Disbursement Account. Resources of the Supplementary Financing Facility Subsidy Account which may be in excess of its estimated needs are to be transferred back to the Special Disbursement Account.

Members are not obligated to maintain the SDR value of their currency held by the Fund in the Special Disbursement Account. Pending use of the resources held in the Special Disbursement Account, these resources are placed in SDR-denominated investments. Prior to an SDR-denominated investment, balances may be placed temporarily in U.S. dollar-denominated investments. Thus, there may be valuation gains and losses in terms of the SDR on these resources from the time they are received until they can be invested in SDR-denominated investments.

The Special Disbursement Account is a part of the General Department of the Fund. However, the assets of the account are to be held separately from other accounts of the General Department and the income of the Account is to be placed to the Special Disbursement Account.

1. Accounting Practices

Unit of Account

The accounts of the General Department are expressed in terms of the SDR. At present, the currency value of the SDR is determined by the Fund each day by summing the values in U.S. dollars, based on market exchange rates, of a basket of five specified currencies. The Fund's procedures require that the SDR valuation basket be revised each five years, and provide that the basket is to include the currencies of the members having the largest exports of goods and services during the five-year period ending one year prior to the date of the revisions. In accordance with these requirements, the SDR valuation basket was revised effective January 1, 1986. The currencies comprising the basket and their amounts in the basket during the year ended April 30, 1986 were as follows:

	Amounts	
Currencies	May 1– December 31, 1985	January 1– April 30, 1986
U.S. dollar	0.54	0.452
Deutsche mark	0.46	0.527
French franc	0.74	1.02
Japanese yen	34	33.4
Pound sterling	0.071	0.0893

Members' currencies are valued in terms of the SDR on the basis of the representative rate of exchange determined in accordance with the Rules of the Fund. Gold with depositories is valued on the basis that one SDR is equivalent to 0.888671 gram of fine gold.

Basis of Accounting

The Fund maintains its accounts on an accrual basis and, accordingly, recognizes income as it is earned and records expenses as they are incurred except that income from charges is deferred from members while they are overdue in their obligations to the Fund by six months or more (see Note 5). It is the practice of the Fund to make all calculations on the basis of the exact number of days in the accounting period.

The established policy of the Fund is to charge as an expense of each accounting period the total costs incurred for fixed property, furniture, and equipment. For the year ended April 30, 1986, the cost of property, furniture, and equipment charged as an expense amounted to SDR 6.6 million (SDR 17 million in 1985), of which SDR 6.2 million is included in other administrative expense (SDR 16.5 million in 1985).

2. Currencies and Securities

Each member has the option to substitute nonnegotiable and non-interest-bearing securities for the amount of its currency held by the Fund in the General Resources Account that is in excess of ¼ of 1 percent of the member's quota. These securities, which are part of the Fund's currency holdings, are encashable by the Fund on demand.

Changes in the Fund's holdings of members' currencies and securities for the year ended April 30, 1986 were as follows:

	In millions of SDRs		
	April 30, 1985	April 30, 1986	Net Change
Members' quotas	89,302	89,305	3
Members' use of Fund credit	34,973	34,640	(333)
Members' reserve tranche positions	(28,290)	(26,087)	2,203
Administrative currency balances	9	5	(4)
Currencies and securities	95,994	97,863	1,869

Each member is obligated to maintain the value of the balances of its currency held by the Fund in terms of the SDR except for holdings which may be held in Borrowed Resources Suspense Accounts, the Special Disbursement Account, and the Investment Account. Whenever the Fund revalues its holdings of a member's currency, an account receivable or an account payable is established for the amount of currency payable by or to the member in order to maintain the value of the Fund's holdings of the currency in terms of the SDR. The balances of the accounts receivable or payable are reflected in the Fund's total currency holdings. At April 30, 1986 accounts receivable to maintain SDR values of currency holdings amounted to SDR 19,418.66 million and accounts payable amounted to SDR 2,965.82 million (SDR 16,990.80 million and SDR 981.99 million at April 30, 1985). At June 25, 1986, the amounts receivable were SDR 5,276.57 million and the amounts payable were SDR 70.63 million.

The Fund's holdings of members' currencies at April 30, 1986 are shown in Schedule 1.

3. SDR Holdings

SDRs are reserve assets created by the Fund and allocated to members participating in the SDR Department. Although SDRs are not allocated to the Fund, the Fund may acquire, hold, and dispose of SDRs through the General Resources Account. SDRs held by the Fund are received from its members in the settlement of their financial obligations to the Fund (quota payments, repurchases, and charges) and may be used by the Fund in transactions and operations between the Fund and its members (sold to members in purchases or transferred to members in the settlement of remuneration and interest on Fund borrowing). The Fund earns interest on its SDR holdings at the same rate as all other holders of SDRs.

4. Gold Holdings

At April 30, 1986 the Fund held 3,217,341 kilograms of gold at designated depositories.

5. Fund Operations

For the year ended April 30, 1986, members' purchases amounted to SDR 4,101 million, of which SDR 160 million were reserve tranche purchases. Over the same period, repurchases by members totaled SDR 4,289 million, including repurchases of SDR 15 million relating to purchases made prior to the Second Amendment and attributed to the reserve tranche. The members' purchases subject to repurchase are shown in Schedule 2.

Changes in the outstanding use of Fund credit under various facilities for the year ended April 30, 1986 were as follows:

	In millions of SDRs			
	April 30, 1985	Purchases	Repurchases	April 30, 1986
Regular facilities	5,511	1,765	961	6,315
Compensatory financing	7,490	601	1,661	6,430
Buffer stock financing	237	—	163	74
Extended Fund facility	6,529	114	145	6,498
Supplementary financing facility	6,310	—	1,034	5,276
Enlarged access	8,896	1,461	310	10,047
Total	34,973	3,941	4,274	34,640

Periodic Charges and Remuneration

The Fund levies charges, which are payable periodically, on its holdings of a member's currency that derive from the member's use of Fund credit. With effect from February 1, 1986, special charges are levied on holdings that are not repurchased when due and on charges that are not settled when due. These special charges are designed to recover the direct financial costs to the Fund arising from members' overdue financial obligations. A service charge is levied by the Fund on each purchase involving use of Fund resources other than reserve tranche purchases.

The Fund also charges a stand-by fee payable at the beginning of each 12-month period on the undrawn balance of a stand-by or extended arrangement. This fee is refunded proportionately to purchases made under the arrangement. If the full amount of the arrangement is not drawn, the balance of the stand-by fee is taken into income by the Fund upon the expiration of the arrangement. Stand-by fees included in other income for the year ended April 30, 1986 amounted to SDR 6.9 million (SDR 4.3 million in 1985).

The Fund pays remuneration on a member's remunerated reserve tranche position. A remunerated reserve tranche position is the amount by which the Fund's holdings of a member's currency (excluding holdings that derive from the use of Fund credit) is below the "norm." The norm is an amount equal to 75 percent of the member's quota on April 1, 1978 plus the total of subsequent increases in the member's quota. For members that joined the Fund after April 1, 1978, the norm is determined by adding the proportion of the member's quota equal to the average of the norm of all other members on the date the member joined the Fund and the total of subsequent increases in the member's quota.

At April 30, 1986, the total holdings on which the Fund levied charges amounted to SDR 34,640 million (SDR 34,973 million in 1985), and total creditor positions on which the Fund paid remuneration amounted to SDR 20,121 million (SDR 22,211 million in 1985).

It is the policy of the Fund to exclude from current income charges owed by members that are overdue in meeting payments to the Fund by six months or more and also are not current in paying charges when due. Such charges are reported as deferred income. At April 30, 1986, eight members were more than six months late in discharging financial obligations to the Fund and also were not current in paying charges (four members at April 30, 1985). At that date, the total amount of charges from these eight members, reflected in the balance sheet as charges receivable and accrued and as deferred credits, amounted to SDR 127 million.

	Changes in Deferred Income In millions of SDRs	
	Year Ended April 30	
	1985	1986
Balance—beginning of the year	6	63
Additions to deferred income	68	173
Payments received	(11)	(109)
Balance—end of the year	63	127

Included in the additions to deferred income in 1986 are SDR 37 million of charges applicable to a prior financial year (SDR 12 million in 1985). Included in payments received in 1986 are SDR 27 million of charges deferred in a prior year (none in 1985).

Overdue Obligations

Obligations to the General Department by the eight members overdue in payments for more than six months at April 30, 1986 (four members at April 30, 1985) were as follows:

	In millions of SDRS	
	1985	1986
Use of Fund resources		
Total	718	1,034
Repurchases overdue	111	309
Repurchases overdue six months or more	58	212
Charges		
Total	63	127
Charges overdue	44	104
Charges overdue six months or more	13	59

6. Reserves

The Fund determines annually what part of its net income shall be placed to the General Reserve or to the Special Reserve, and what part, if any, shall be distributed. The Articles of Agreement permit the Fund to use the Special Reserve for any purpose for which it may use the General Reserve, except distribution. Any administrative deficit for any financial year must be written off first against the Special Reserve.

7. Borrowing

Outstanding borrowing by the Fund was as follows:

	In millions of SDRs			
	April 30, 1985	Borrowing	Repayment	April 30, 1986
Supplementary financing facility	6,239	—	1,201	5,038
Enlarged access	7,964	1,948	394	9,518
	14,203	1,948	1,595	14,556

Scheduled repayments of outstanding borrowing by the Fund are shown in Schedule 3.

Supplementary Financing Facility

The supplementary financing facility became operational in May 1979. The Fund entered into borrowing agreements with 14 members, or institutions within their territories, and with the Swiss National Bank, under which the lenders agreed to make resources available to the Fund, at call, up to SDR 7.784 million through February 1984 to finance purchases by members under this facility. Borrowing by the Fund under these agreements is to be repaid in installments between three and one-half to seven years after the date of borrowing. Interest paid by the Fund on amounts borrowed under the borrowing agreements is based on the average yield on U.S. Government securities with a constant maturity of five years.

Enlarged Access

The policy on enlarged access became operational in May 1981. The Fund has entered into borrowing agreements with various members, or institutions within their territories, the Bank for International Settlements, and the Swiss National Bank, under which the lenders have agreed to make resources available to the Fund, up to SDR 15,305 million, to finance purchases by members under the policy. The maturities of borrowing by the Fund under these agreements vary from three months to seven years. Interest paid by the Fund on amounts borrowed under these agreements is at variable rates of interest which are established periodically, and are related to market interest rates, based on Eurocurrency deposit rates and weighted average yields of domestic instruments denominated in the five currencies in the SDR valuation basket.

General Arrangements to Borrow (GAB)

Under the General Arrangements to Borrow the Fund may borrow up to specified amounts from adherents when supplementary resources are needed to forestall or to cope with an impairment of the international monetary system. The GAB first became effective from October 24, 1962 and has been renewed until December 25, 1988.

In February 1983, the Fund approved an enlargement of the GAB to SDR 17 billion, including provision for the adherence of the Swiss National Bank as a participant, and for associated arrangements with nonparticipants. It also approved amendments that would allow the Fund to borrow under the GAB in certain circumstances in order to finance purchases by nonparticipants. These changes, including one associated agreement with the Saudi Arabian Monetary Agency (SDR 1.5 billion), became effective on December 26, 1983 when all ten participants had notified the Fund of their concurrence in the amendments and in the increased credit limits. The Swiss National Bank adhered to these arrangements in April 1984.

Borrowing Guidelines

The Fund has established guidelines for borrowing, which provide that the Fund will not allow the total of outstanding borrowing, plus unused credit lines, to exceed the range of 50 to 60 percent of the total of Fund quotas. Since all GAB lines of credit are unlikely to be called upon at the same time, the total of outstanding borrowing shall include either outstanding borrowing by the Fund under the GAB, or two thirds of the total credit lines under the GAB and associated agreements, whichever is the greater. The borrowing guidelines are subject to review by the Executive Board. Total outstanding borrowing and unused credit lines, calculated in accordance with these guidelines, at April 30, 1986 were equal to 34.8 percent of quotas (36.6 percent of quotas at April 30, 1985).

8. Commitments Under Stand-By and Extended Arrangements

At April 30, 1986, 26 arrangements were in effect and undrawn balances under these arrangements amounted to SDR 2,379.12 million. These arrangements are listed in Schedule 4.

9. Administrative Expenses

The Fund incurs administrative expenses primarily for salaries, travel, and other administrative needs, which are expended in accordance with an administrative budget approved by the Executive Board. Expenses for building are authorized outside of the annual administrative budget. The Fund is reimbursed for expenses incurred in administering the SDR Department.

The Fund has certain commercial deposits and receivables relating to its administrative activities. These deposits and receivables are not subject to the maintenance of value obligations.

The Fund pays various allowances to or on behalf of Executive Directors and staff, including the employer's contribution to the Staff Retirement Plan. All contributions to the Plan and all other assets, liabilities, and income of the Plan are administered separately outside of the General Department and can be used or incurred only for the benefit of the participants in the Plan and their beneficiaries. The employer contributes that part of the costs and expenses of the Plan not provided by the contributions of the participants. In addition, experience gains and losses of the Plan, as determined by the actuary engaged by the Pension Committee, are amortized over a period of 15 years. The most recent valuation of the Plan by the actuary was made at April 30, 1985. At April 30, 1986, the unamortized experience losses based on that valuation amounted to SDR 24.2 million (calculated at the SDR value of the U.S. dollar on that date). Payments over the next 15 years to amortize the actuarial experience losses are estimated to be SDR 25.4 million (at the SDR value of the U.S. dollar on April 30, 1986), of which SDR 4.8 million was paid on May 1, 1986.

The Fund has also established a Supplemental Retirement Benefits Plan (SRBP) for the purpose of paying certain benefits not payable from the Staff Retirement Plan. Payments to the SRBP are made from the Administrative Budget. The assets of the SRBP are segregated from other assets of the Fund and are held on behalf of the beneficiaries entitled to these payments. The assets and resources of the SRBP are being reflected temporarily in the General Resources Account.

Contributions by the employer to the Staff Retirement Fund for the year ended April 30, 1986 amounted to SDR 30.7 million (SDR 27.6 million in 1985), including SDR 7.9 million for the amortization of actuarial experience losses (SDR 7.7 million in 1985) and SDR 4.7 million to fund cost of living supplements to beneficiaries (SDR 2.2 million in 1985).

The Fund staff is entitled to accumulated annual leave, up to a maximum of 60 days, which may be commuted into a cash payment upon termination of employment. In addition, upon the completion of five years' service, each member of the staff is entitled to a termination grant, subject to maximum amounts based on years of service after July 1979. The Fund has elected to account for these amounts as an expense as they are earned.

Schedule 1

INTERNATIONAL MONETARY FUND

General Department

Quotas, Fund's Holdings of Currencies, Members' Use of Fund Resources, and Reserve Tranche Positions

as at April 30, 1986

(In thousands of SDRs)

	Quotas	Fund's Holdings of Currencies[1] Total	Percent of Quota	Use of Fund Resources	Reserve Tranche Positions
Afghanistan	86,700	81,871	94.4	—	4,831
Algeria	623,100	470,894	75.6	—	152,206
Antigua and Barbuda	5,000	4,999	100.0	—	2
Argentina	1,113,000	3,364,553	302.3	2,251,536	—
Australia	1,619,200	1,430,494	88.3	—	188,724
Austria	775,600	425,944	54.9	—	349,656
Bahamas, The	66,400	55,496	83.6	—	10,908
Bahrain	48,900	23,896	48.9	—	25,008
Bangladesh	287,500	658,008	228.9	392,908	22,403
Barbados	34,100	70,452	206.6	38,514	2,162
Belgium	2,080,400	1,618,050	77.8	—	462,404
Belize	9,500	17,147	180.5	9,540	1,896
Benin	31,300	29,281	93.6	—	2,024
Bhutan	2,500	1,931	77.2	—	570
Bolivia	90,700	129,903	143.2	39,182	4
Botswana	22,100	9,676	43.8	—	12,430
Brazil	1,461,300	5,604,450	383.5	4,143,056	—
Burkina Faso	31,600	24,067	76.2	—	7,535
Burma	137,000	194,304	141.8	57,300	—
Burundi	42,700	33,560	78.6	—	9,156
Cameroon	92,700	92,504	99.8	—	197
Canada	2,941,000	2,467,799	83.9	—	473,222
Cape Verde	4,500	3,550	78.9	—	951
Central African Republic	30,400	53,312	175.4	23,000	111
Chad	30,600	37,341	122.0	7,000	264
Chile	440,500	1,446,560	328.4	1,006,058	—
China	2,390,900	2,088,304	87.3	—	302,608
Colombia	394,200	394,203	100.0	—	—
Comoros	4,500	4,501	100.0	—	—
Congo	37,300	36,832	98.7	—	482
Costa Rica	84,100	249,756	297.0	165,634	—
Côte d'Ivoire	165,500	708,300	428.0	542,800	2
Cyprus	69,700	65,032	93.3	—	4,675
Denmark	711,000	500,612	70.4	—	210,396
Djibouti	8,000	6,765	84.6	—	1,237
Dominica	4,000	12,683	317.1	8,688	9
Dominican Republic	112,100	389,758	347.7	277,656	—
Ecuador	150,700	499,129	331.2	348,400	—
Egypt	463,400	494,653	106.7	31,250	—
El Salvador	89,000	149,019	167.4	60,016	—
Equatorial Guinea	18,400	24,122	131.1	5,713	—
Ethiopa	70,600	140,493	199.0	69,880	—
Fiji	36,500	40,167	110.0	11,500	7,846
Finland	574,900	440,863	76.7	—	134,045
France	4,482,800	3,244,255	72.4	—	1,238,766

Schedule 1
(continued)

	Quotas	Fund's Holdings of Currencies[1] Total	Percent of Quota	Use of Fund Resources	Reserve Tranche Positions
Gabon	73,100	73,074	100.0	—	28
Gambia, The	17,100	39,397	230.4	22,318	39
Germany, Federal Republic of	5,403,700	2,701,908	50.0	—	2,701,800
Ghana	204,500	801,702	392.0	597,200	2
Greece	399,900	324,927	81.3	—	74,977
Grenada	6,000	7,714	128.6	1,713	—
Guatemala	108,000	201,231	186.3	93,225	—
Guinea	57,900	76,972	132.9	19,063	—
Guinea-Bissau	7,500	10,069	134.3	2,569	[2]
Guyana	49,200	120,947	245.8	71,745	—
Haiti	44,100	114,895	260.5	70,839	70
Honduras	67,800	176,941	261.0	109,140	—
Hungary	530,700	1,414,410	266.5	883,706	—
Iceland	59,600	74,396	124.8	18,813	4,025
India	2,207,700	5,470,616	247.8	3,750,000	487,092
Indonesia	1,009,700	979,242	97.0	41,962	72,425
Iran, Islamic Republic of	660,000	589,238	89.3	—	70,770
Iraq	504,000	504,011	100.0	—	—
Ireland	343,400	223,212	65.0	—	120,196
Israel	446,600	446,605	100.0	—	—
Italy	2,909,100	1,895,974	65.2	—	1,013,145
Jamaica	145,500	749,736	515.3	604,170	—
Japan	4,223,300	2,833,670	67.1	—	1,389,642
Jordan	73,900	131,304	177.7	57,400	—
Kampuchea, Democratic	25,000	37,494	150.0	12,500	7
Kenya	142,000	545,458	384.1	415,639	12,192
Korea	462,800	1,838,883	397.3	1,376,726	676
Kuwait	635,300	318,774	50.2	—	316,549
Lao People's Democratic Republic	29,300	30,050	102.6	750	—
Lebanon	78,700	59,869	76.1	—	18,833
Lesotho	15,100	13,849	91.7	—	1,253
Liberia	71,300	276,715	388.1	205,429	20
Libyan Arab Jamahiriya	515,700	272,201	52.8	—	243,505
Luxembourg	77,000	64,786	84.1	—	12,214
Madagascar	66,400	205,075	308.8	138,673	—
Malawi	37,200	153,191	411.8	118,185	2,196
Malaysia	550,600	391,245	71.1	—	159,361
Maldives	2,000	1,998	99.9	—	3
Mali	50,800	112,457	221.4	70,339	8,683
Malta	45,100	14,456	32.1	—	30,675
Mauritania	33,900	60,055	177.2	26,144	—
Mauritius	53,600	189,387	353.3	135,815	30
Mexico	1,165,500	4,135,137	354.8	2,969,602	—
Morocco	306,600	1,301,779	424.6	995,188	18
Mozambique	61,000	61,000	100.0	—	1

Schedule 1
(continued)

	Quotas	Fund's Holdings of Currencies[1] Total	Percent of Quota	Use of Fund Resources	Reserve Tranche Positions
Nepal	37,300	41,853	112.2	10,250	5,699
Netherlands	2,264,800	1,496,150	66.1	—	768,664
New Zealand	461,600	461,529	100.0	—	113
Nicaragua	68,200	68,217	100.0	7	—
Niger	33,700	88,532	262.7	63,392	8,560
Nigeria	849,500	849,496	100.0	—	68
Norway	699,000	227,230	32.5	—	471,744
Oman	63,100	31,068	49.2	—	32,085
Pakistan	546,300	1,608,673	294.5	1,062,385	19
Panama	102,200	376,166	368.1	273,965	14
Papua New Guinea	65,900	70,614	107.2	10,100	5,391
Paraguay	48,400	18,158	37.5	—	30,246
Peru	330,900	942,782	284.9	611,851	—
Philippines	440,400	1,328,668	301.7	919,541	31,326
Portugal	376,600	918,826	244.0	571,900	29,678
Qatar	114,900	79,326	69.0	—	35,581
Romania	523,400	1,246,771	238.2	723,366	—
Rwanda	43,800	34,477	78.7	—	9,324
St. Christopher and Nevis	4,500	4,493	99.8	—	8
St. Lucia	7,500	7,500	100.0	—	[2]
St. Vincent	4,000	4,000	100.0	—	—
São Tomé and Principe	4,000	3,999	100.0	—	2
Saudi Arabia	3,202,400	1,521,329	47.5	—	1,681,079
Senegal	85,100	299,378	351.8	215,245	975
Seychelles	3,000	2,994	99.8	—	9
Sierra Leone	57,900	127,860	220.8	69,970	24
Singapore	92,400	9,396	10.2	—	83,010
Solomon Islands	5,000	6,750	135.0	2,260	511
Somalia	44,200	158,348	358.3	114,142	—
South Africa	915,700	1,581,201	172.7	665,500	—
Spain	1,286,000	892,290	69.4	—	393,728
Sri Lanka	223,100	498,301	223.4	281,204	6,004
Sudan	169,700	775,005	456.7	605,301	—
Suriname	49,300	49,301	100.0	—	—
Swaziland	24,700	32,568	131.9	7,875	13
Sweden	1,064,300	815,365	76.6	—	248,945
Syrian Arab Republic	139,100	139,103	100.0	—	—
Tanzania	107,000	125,120	116.9	18,105	—
Thailand	386,600	1,205,268	311.8	847,458	28,792
Togo	38,400	97,561	254.1	59,360	206
Tonga	3,250	2,512	77.3	—	738
Trinidad and Tobago	170,100	68,822	40.5	—	101,279
Tunisia	138,200	112,790	81.6	—	25,422
Turkey	429,100	1,513,264	352.7	1,116,434	32,275
Uganda	99,600	333,084	334.4	236,994	3,517

Schedule 1
(concluded)

	Quotas	Fund's Holdings of Currencies[1] Total	Percent of Quota	Use of Fund Resources	Reserve Tranche Positions
United Arab Emirates	202,600	73,706	36.4	—	128,896
United Kingdom	6,194,000	4,487,172	72.4	—	1,706,886
United States	17,918,300	8,555,943	47.7	—	9,365,054
Uruguay	163,800	468,970	286.3	305,163	—
Vanuatu	9,000	7,414	82.4	—	1,586
Venezuela	1,371,500	889,677	64.9	—	481,831
Viet Nam	176,800	205,195	116.1	28,395	5
Western Samoa	6,000	13,901	231.7	7,900	—
Yemen Arab Republic	43,300	53,043	122.5	9,750	9
Yemen, People's Democratic Republic of	77,200	86,811	112.4	9,609	—
Yugoslavia	613,000	2,512,537	409.9	1,899,528	—
Zaïre	291,000	955,798	328.5	664,796	—
Zambia	270,300	969,115	358.5	698,825	13
Zimbabwe	191,000	422,067	221.0	231,100	34
Totals[3]	89,305,050	97,863,026		34,640,153	26,086,552

[1] Includes nonnegotiable, non-interest-bearing notes which members are entitled to issue in substitution for currency.
[2] Less than SDR 500.
[3] Details may not add to totals due to rounding.

Schedule 2

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT

MEMBERS' PURCHASES SUBJECT TO REPURCHASE BY YEAR OF SCHEDULED REPURCHASE[1]

as at April 30, 1986

(In thousands of SDRs)

	Ordinary Resources				Borrowed Resources		
Financial Year Ending April 30	Credit tranches	Extended Fund facility	Compen-satory financing	Buffer stock financing	Supple-mentary financing	Enlarged access	Total
1987	1,472,567	441,715	2,576,068	39,790	1,713,018	787,755	7,037,157[2]
1988	1,679,614	637,491	2,090,096	30,676	1,583,259	1,756,026	7,777,162
1989	1,328,227	976,828	1,014,019	2,970	1,149,226	2,306,244	6,777,514
1990	1,255,871	1,064,807	590,356	—	653,453	2,292,521	5,857,008
1991	579,108	1,060,271	159,900	—	176,613	1,821,008	3,796,900
1992	—	949,346	—	—	—	829,381	1,778,727
1993	—	735,562	—	—	—	254,063	989,625
1994	—	492,868	—	—	—	—	492,868
1995	—	132,219	—	—	—	—	132,219
1996	—	14,692	—	—	—	—	14,692
Totals	6,315,387	6,505,800	6,430,439	73,436	5,275,569	10,046,998	34,653,873[3,4]

[1] A member is entitled to repurchase at any time holdings of its currency subject to charges and is expected to make repurchases as and when its balance of payments and reserve position improves.
[2] This total includes SDR 6.244 million reserve tranche purchases made prior to April 1, 1978 which are subject to repurchase.
[3] The total of members' purchases subject to repurchase exceeds the outstanding use of Fund credit by SDR 13.72 million because certain purchases made prior to the Second Amendment of the Articles of Agreement effective on April 1, 1978 which do not represent the extension of Fund credit must be repurchased in accordance with the repurchase terms then in effect.
[4] Details may not add to totals due to rounding.

Schedule 3

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT

SCHEDULED REPAYMENTS OF FUND BORROWING

as at April 30, 1986

(In thousands of SDRs)

Periods of Repayment[1] Financial Years Ending April 30	Supplementary Financing Facility	Enlarged Access Resources	Total
1987	1,657,731	1,144,153[2]	2,801,884
1988	1,585,795	3,275,819[2]	4,861,614
1989	1,152,145	2,575,028[2]	3,727,173
1990	519,015	1,388,000	1,907,015
1991	123,788	810,000	933,788
1992	—	275,000	275,000
1993	—	50,000	50,000
Totals	5,038,474	9,518,000	14,556,474

[1]Dates of repayment are the dates provided in the borrowing agreements between the Fund and lenders, including maximum periods of renewals which are at the Fund's option. The borrowing agreements also permit earlier repayments in certain circumstances.
[2]Includes short-term borrowing with original maturities not exceeding three years.

Schedule 4

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT

STATUS OF STAND-BY ARRANGEMENTS

AND EXTENDED ARRANGEMENTS

as at April 30, 1986

(In thousands of SDRs)

Member	Date of Arrangement	Expiration	Total Amount Agreed	Undrawn Balance
STAND-BY ARRANGEMENTS				
Argentina	December 28, 1984	May 31, 1986	1,182,500	236,500
Bangladesh	December 2, 1985	June 30, 1987	180,000	120,000
Belize	December 3, 1984	May 31, 1986	7,125	1,185
Central African Republic	September 23, 1985	March 22, 1987	15,000	14,000
Côte d'Ivoire	June 3, 1985	June 2, 1986	66,200	13,240
Equatorial Guinea	June 28, 1985	June 27, 1986	9,200	3,800
Guinea	February 3, 1986	March 2, 1987	33,000	24,000
Jamaica	July 17, 1985	May 31, 1987	115,000	73,400
Korea	July 12, 1985	March 10, 1987	280,000	160,000
Mali	November 8, 1985	March 31, 1987	22,860	16,360
Mauritania	April 26, 1986	April 25, 1987	12,000	12,000
Mauritius	March 1, 1985	August 31, 1986	49,000	14,000
Morocco	September 12, 1985	February 28, 1987	200,000	190,000
Nepal	December 23, 1985	January 22, 1987	18,650	8,400
Niger	December 5, 1985	December 4, 1986	13,480	8,088
Panama	July 15, 1985	March 31, 1987	90,000	55,000
Philippines	December 14, 1984	June 13, 1986	615,000	212,000
Senegal	January 16, 1985	July 15, 1986	76,600	10,500
Somalia	February 22, 1985	September 30, 1986	22,100	20,100
Thailand	June 14, 1985	March 31, 1987	400,000	250,000
Togo	May 17, 1985	May 16, 1986	15,360	—
Uruguay	September 27, 1985	March 26, 1987	122,850	87,750
Yugoslavia	May 16, 1985	May 15, 1986	300,000	67,500
Zambia	February 21, 1986	February 28, 1988	229,800	194,800
			4,075,725	1,792,623
EXTENDED ARRANGEMENTS				
Chile	August 15, 1985	August 14, 1988	750,000	562,500
Malawi	September 19, 1983	September 18, 1986	81,000	24,000
			831,000	586,500
		Totals	4,906,725	2,379,123

INTERNATIONAL MONETARY FUND

SDR Department

Statement of Allocations and Holdings

as at April 30, 1986

(In thousands of SDRs)

	1986	1985
ALLOCATIONS		
Net cumulative allocations of SDRs to participants	21,433,330	21,433,330
Charges due but not paid (Note)	12,207	5,348
	21,445,537	21,438,678
HOLDINGS		
Participants		
With holdings above allocations		
Allocations	9,691,453	9,881,074
Net receipt of SDRs	4,655,536	3,490,643
	14,346,989	13,371,717
With holdings below allocations		
Allocations	11,741,877	11,552,256
Net use of SDRs	7,376,965	8,118,755
	4,364,912	3,433,501
Total holdings by participants	18,711,901	16,805,218
General Resources Account	2,721,642	4,615,747
Prescribed holders	11,994	17,713
	21,445,537	21,438,678

The accompanying note is an integral part of the financial statements.

/s/ W.O. Habermeier
Treasurer

/s/ J. de Larosière
Managing Director

INTERNATIONAL MONETARY FUND

SDR DEPARTMENT

STATEMENT OF RECEIPT AND USE OF SDRs

for the year ended April 30, 1986

(In thousands of SDRs)

	Participants	General Resources Account	Prescribed Holders	Total 1986	Total 1985
Total holdings at beginning of the financial year	16,805,218	4,615,747	17,713	21,438,678	21,434,368
Receipt of SDRs					
Transfers among participants and prescribed holders:					
Transactions with designation	1,808,783			1,808,783	2,152,419
Transactions by agreement	2,520,304		156,945	2,677,249	2,706,030
Operations:					
Loans	52,430			52,430	66,757
Settlement of financial obligations	2,685		56,068	58,753	94,216
Net interest on SDRs	309,420		3,673	313,093	325,799
Transfers from participants to General Resources Account:					
Repurchases		1,183,067		1,183,067	717,223
Charges		2,915,234		2,915,234	2,927,354
Quota payments		738		738	14,213
Interest on SDRs		312,221		312,221	605,883
Assessment on SDR allocation		3,675		3,675	3,588
Adjustments		27		27	—
Transfers from General Resources Account to participants and prescribed holders:					
Purchases	1,965,340			1,965,340	2,594,549
Repayments of Fund borrowing	532,845			532,845	129,207
Interest on Fund borrowing	720,915			720,915	445,839
Refunds and adjustments	9,569			9,569	13,838
In exchange for currencies of other members:					
Acquisitions to pay charges	1,549,593			1,549,593	953,358
Remuneration	1,530,805			1,530,805	1,952,454
Total receipts	11,002,689	4,414,962	216,686	15,634,337	15,702,727
Use of SDRs					
Transfers among participants and prescribed holders:					
Transactions with designation	1,808,783			1,808,783	2,152,419
Transactions by agreement	2,509,359		167,891	2,677,250	2,706,030
Operations:					
Loans			52,430	52,430	66,757
Settlement of financial obligations	56,669		2,084	58,753	94,216
Transfers from participants to General Resources Account:					
Repurchases	1,183,067			1,183,067	717,223
Charges	2,915,234			2,915,234	2,927,354
Quota payments	738			738	14,213
Assessment on SDR allocation	3,675			3,675	3,588
Adjustments	27			27	—
Transfers from General Resources Account to participants and prescribed holders:					
Purchases		1,965,340		1,965,340	2,594,549
Repayments of Fund borrowings		532,845		532,845	129,207
Interest on Fund borrowings		720,915		720,915	445,839
Refunds and adjustments		9,569		9,569	13,837
In exchange for currencies of other members:					
Acquisitions to pay charges		1,549,593		1,549,593	953,358
Remuneration		1,530,805		1,530,805	1,952,454
Charges in the SDR Department:					
Net charges due	625,313			625,313	931,683
Charges not paid when due	−37,446			−37,446	−38,505
Settlement of unpaid charges	30,587			30,587	34,195
Total uses	9,096,006	6,309,067	222,405	15,627,478	15,698,417
Total holdings at end of financial year	18,711,901	2,721,642	11,994	21,445,537	21,438,678

The accompanying note is an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

SDR DEPARTMENT
NOTE TO THE FINANCIAL STATEMENTS

SDR Department

All transactions and operations involving SDRs are conducted through the SDR Department. SDRs do not constitute claims by holders against the Fund to provide currency, except in connection with the termination of participation or liquidation. SDRs are allocated by the Fund to members that are participants in the SDR Department in proportion to their quotas in the Fund. Three allocations were made in 1970, 1971, and 1972, totaling SDR 9.3 billion. Three further allocations were made, in 1979, 1980, and 1981, totaling SDR 12.1 billion. The Fund is empowered to prescribe certain official entities as holders of SDRs: to date, 14 institutions have been prescribed as holders. These prescribed holders do not receive allocations and cannot use or receive SDRs in designation.

Uses of SDRs

Participants and prescribed holders can use and receive SDRs in transactions and operations by agreement among themselves. Participants can also use SDRs in operations involving the General Resources Account, such as the payment of charges and repurchases. In addition, the Fund ensures, by designating participants to provide freely usable currency in exchange for SDRs, that a participant can use its SDRs to obtain such currency if it has need because of its balance of payments or its reserve position or development in its reserves. A participant is not obliged to provide currency for SDRs beyond the point at which its holdings of SDRs in excess of its net cumulative allocation are equal to twice its net cumulative allocation. A participant may, however, provide currency in excess of the obligatory limit or any agreed higher limit.

Interest, Charges, and Assessment

Interest is paid to each holder on its holdings of SDRs and charges are levied at the same rate on each participant's net cumulative allocation plus any negative balance of the participants or unpaid charges. The SDR interest rate is determined by reference to a combined market interest rate, which is a weighted average of yields or rates on short-term instruments in the capital markets of France, the Federal Republic of Germany, Japan, the United Kingdom, and the United States. Effective August 1, 1983, the SDR interest rate is determined on a weekly basis and interest on SDR holdings is paid and charges on net cumulative allocations are collected on a quarterly basis. Interest and charges are settled by crediting and debiting individual holdings accounts on the first day of the subsequent quarter. The Fund is required to pay interest to each holder, whether or not sufficient SDRs are received in payment of charges. At April 30, 1986 the amount of unpaid charges amounted to SDR 12.2 million from four members, of which SDR 7.7 million from two members was overdue for six months or more.

The combined market interest rate used to determine the SDR interest rate is calculated each Friday, using the yields or rates of that day. The SDR interest rate, which is set equal to the combined market interest rate, enters into effect on the following Monday and applies until the end of the following Sunday.

The expenses of conducting the business of the SDR Department are paid by the Fund from the General Resources Account, which is reimbursed in SDRs at the end of each financial year. For this purpose, the Fund levies an assessment, at the same rate for all participants, on their net cumulative allocation.

INTERNATIONAL MONETARY FUND

SUPPLEMENTARY FINANCING FACILITY

SUBSIDY ACCOUNT

BALANCE SHEET

as at April 30, 1986

(In thousands of SDRs)

(Note 1)

ASSETS	1986	1985
Currencies	—	50
Interest-earning deposits (Note 2)	183,241	241,992
Accrued income	6,121	10,015
Total	189,362	252,057
RESOURCES		
Resources—Account balance	189,362	252,057

The accompanying notes are an integral part of the financial statements.

/s/ W.O. HABERMEIER
Treasurer

/s/ J. DE LAROSIÈRE
Managing Director

INTERNATIONAL MONETARY FUND

SUPPLEMENTARY FINANCING FACILITY

SUBSIDY ACCOUNT

STATEMENT OF CHANGES IN RESOURCES

for the year ended April 30, 1986

(In thousands of SDRs)

(Note 1)

	1986	1985
Balance at beginning of the year	252,057	96,034
Contributions (Note 1)	4,822	5,559
Investment income	17,491	13,801
Exchange valuation gain	72	305
Transfers from (to) Special Disbursement Account (net)	(3,544)	226,273
Balance before subsidy payments	270,898	341,972
Subsidy payments (Note 3)	81,536	89,915
Balance at end of the year	189,362	252,057

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

SUPPLEMENTARY FINANCING FACILITY

SUBSIDY ACCOUNT

NOTES TO THE FINANCIAL STATEMENTS

Purpose

The Supplementary Financing Facility Subsidy Account, which is administered by the Fund, was established in December 1980 to assist low-income developing members to meet the cost of using resources made available through the Fund's supplementary financing facility and under the policy on exceptional use. The assets of the Supplementary Financing Facility Subsidy Account are separate from the assets of all other accounts of or administered by the Fund and are not used to discharge liabilities or to meet losses incurred in the administration of other accounts. The Supplementary Financing Facility Subsidy Account became operational in May 1981 and the first subsidy payments were made in December of that year. The resources of the Account arise from contributions and loans from members, interest income earned on investments, and transfers of amounts received in interest and loan repayments from the Trust Fund through the Special Disbursement Account. The Fund has determined that the resources of the Supplementary Financing Facility Subsidy Account are sufficient to meet its estimated needs, and transfers from the Trust Fund have been terminated. Resources considered to be in excess of the estimated needs are transferred back to the Special Disbursement Account. As of April 30, 1986, SDR 15.03 million has been transferred back to the Special Disbursement Account from the Subsidy Account.

1. Accounting Practices

Unit of Account

The accounts of the Supplementary Financing Facility Subsidy Account are expressed in terms of the SDR. At present, the currency value of the SDR is determined by the Fund each day by summing the values in U.S. dollars, based on market exchange rates, of a basket of five specified currencies. The Fund's procedures require that the SDR valuation basket be revised each five years, and provide that the basket is to include the currencies of the members having the largest exports of goods and services during the five-year period ending one year prior to the date of the revisions. In accordance with these requirements, the SDR valuation basket was revised effective January 1, 1986. The currencies comprising the basket and their amounts in the basket during the year ended April 30, 1986 were as follows:

	Amounts	
Currencies	May 1–December 31, 1985	January 1–April 30, 1986
U.S. dollar	0.54	0.452
Deutsche mark	0.46	0.527
French franc	0.74	1.02
Japanese yen	34	33.4
Pound sterling	0.071	0.0893

Basis of Accounting

The accounts are maintained on an accrual basis and, accordingly, income is recognized as it is earned and expenses are recorded as they are incurred. It is the practice of the Fund to make all calculations on the basis of the exact number of days in the accounting period.

Contributions

Contributions to the Supplementary Financing Facility Subsidy Account are made in currencies which are valued in terms of SDRs on the basis of exchange rates against the SDR at the time of receipt. Cumulative contributions to the Supplementary Financing Facility Subsidy Account at April 30, 1986 amounted to SDR 57.39 million.

2. Interest-Earning Deposits

To avoid exchange risks, the assets of the Account, pending their disbursement, are held in the form of interest-earning SDR-denominated time deposits.

3. Subsidy Payments

The amount of the subsidy is calculated as a percentage per annum of the average daily balances in each year of the Fund's holdings of recipient members' currencies subject to the schedule of charges applicable to the supplementary financing facility and the policy on exceptional use. The rate of subsidy to be paid is determined by the Fund in the light of the resources available and the subsidy may not exceed the equivalent of 3 percent per annum of the currency holdings to which the supplementary financing facility and charges on exceptional use apply, nor reduce the effective charge on such holdings below the rate of charge which would have been applicable had they been acquired under the Fund's policies on the regular use of its resources. Subsidy payments are not disbursed to members that have not paid the charges to which the subsidy applies. At April 30, 1986, subsidy payments totaling SDR 5.8 million had not been made to four members.

INTERNATIONAL MONETARY FUND

TRUST FUND

BALANCE SHEET

as at April 30, 1986

(In thousands of SDRs)

(Note 1)

ASSETS	1986	1985
Loans (Note 2)	2,236,872	2,649,580
Interest and charges receivable and accrued (Note 4)	5,814	4,889
Investments, at cost (which approximates market value)	3,445	4,063
Accrued interest on investments	92	126
Total	2,246,223	2,658,658

TRUST RESOURCES AND LIABILITIES	1986	1985
Trust resources	2,238,570	2,651,792
Liabilities—		
Undistributed profits from sale of gold (Note 3)	3,394	4,026
Deferred income (Note 4)	2,336	639
Borrowing (Note 5)	1,920	2,197
Accrued interest on borrowing	3	4
Total	2,246,223	2,658,658

The accompanying notes are an integral part of the financial statements.

/s/ W.O. HABERMEIER
Treasurer

/s/ J. DE LAROSIÈRE
Managing Director

INTERNATIONAL MONETARY FUND

TRUST FUND

STATEMENT OF INCOME AND EXPENSE

for the year ended April 30, 1986

(In thousands of SDRs)

(Note 1)

	1986	1985
Income:		
Interest and special charges on loans (Note 2)	12,836	13,805
Deduct income deferred (Note 4)	1,697	639
	11,139	13,166
Investment income	275	411
Exchange valuation gain (loss)	(43)	8
	11,371	13,585
Less—Interest expense on borrowing (Note 5)	10	11
Net income	11,361	13,574

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

TRUST FUND

STATEMENT OF CHANGES IN TRUST RESOURCES

for the year ended April 30, 1986

(In thousands of SDRs)

(Note 1)

	1986	1985
Balance at beginning of the year	2,651,792	2,864,491
Net income	11,361	13,574
Balance before transfers to the Special Disbursement Account	2,663,153	2,878,065
Transfers to the Special Disbursement Account (Note 6)	424,583	226,273
Balance at end of the year	2,238,570	2,651,792

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

TRUST FUND
NOTES TO THE FINANCIAL STATEMENTS

Purpose

The Trust Fund, which is administered by the Fund as Trustee, was established in 1976 to provide balance of payments assistance on concessional terms to eligible members that qualify for assistance. The resources of the Trust Fund are separate from the assets of all other accounts of or administered by the Fund and are not used to discharge liabilities or to meet losses incurred in the administration of other accounts.

1. Accounting Practices

Unit of Account

The accounts of the Trust Fund are expressed in terms of the SDR. At present, the currency value of the SDR is determined daily by the Fund each day by summing the values in U.S. dollars, based on market exchange rates, of a basket of five specified currencies. The Fund's procedures require that the SDR valuation basket be revised each five years, and provide that the basket is to include the currencies of the members having the largest exports of goods and services during the five-year period ending one year prior to the date of the revisions. In accordance with these requirements, the SDR valuation basket was revised effective January 1, 1986. The currencies comprising the basket and their amounts in the basket during the year ended April 30, 1986 were as follows:

	Amounts	
Currencies	May 1–December 31, 1985	January 1–April 30, 1986
U.S. dollar	0.54	0.452
Deutsche mark	0.46	0.527
French franc	0.74	1.02
Japanese yen	34	33.4
Pound sterling	0.071	0.0893

Basis of Accounting

The accounts are maintained on an accrual basis and, accordingly, income is recognized as it is earned and expenses are recorded as they are incurred except that income from interest from members that are overdue in their obligations to the Fund by six months or more is deferred and is recognized as income only when paid unless the member has remained current in settling charges when due (see Note 4). The expenses of conducting the business of the Trust Fund that are paid from the General Department of the Fund are reimbursable by the Trust Fund on the basis of an estimate of these expenses. Following the termination of the Trust Fund on April 30, 1981, residual administrative costs have been absorbed by the General Department. It is the practice of the Fund to make all calculations on the basis of the exact number of days in the accounting year.

2. Loans

Loans were made from the Trust Fund to those eligible members that qualified for assistance in accordance with the provisions of the Trust Fund Instrument. The final loan disbursements were made on March 31, 1981. Each loan disbursement is repayable in ten semiannual installments which shall begin not later than the end of the first six months of the sixth year, and be completed at the end of the tenth year after the date of disbursement, except that most of the final loan disbursements made to members on March 31, 1981 that amounted to about 0.4 percent of quotas are to be repaid in a single installment not later than ten years after the date of that disbursement. Interest on the outstanding loan balances is charged at the rate of ½ of 1 percent per annum, and special charges are levied on late payments of interest and principal.

3. Direct Distribution of Profits

The Fund decided that the Trustee make, through the Trust Fund, the direct distribution of part of the profits from the sale of gold for the benefit of developing members. The share of each developing member in this direct distribution of profits was calculated on the basis of its share in total Fund quotas as at August 31, 1975 and on the basis of the actual profits realized in the gold auctions.

The direct distribution of profits has been completed, except that an amount of US$3,990,776, representing the share of Democratic Kampuchea, will continue to be held in the Trust Fund until relations with that member have been restored.

4. Deferred Income

At April 30, 1986, seven members (two at April 30, 1985) with obligations to the Trust Fund were late by six months or more in discharging their obligations to the Fund and were also not current in settling charges as they fell due. For these seven members the recognition of income from interest on the outstanding loans is being deferred. At April 30, 1986, the total amount of deferred income, reflected in the balance sheet as interest and charges receivable and accrued and as deferred income, amounts to SDR 2.4 million (SDR 0.64 million at April 30, 1985). Total outstanding loans to these members were as follows (in millions of SDRs):

	April 30	
	1985	1986
Total	128.0	223.8
Amounts overdue	15.9	56.4
Amounts overdue six months or more	8.1	36.8

5. Borrowing

One beneficiary of the direct distribution of profits from the Trust Fund has lent a part of its entitlements to the Trust Fund. The amounts borrowed by the Trust Fund are repayable in five equal annual installments beginning not later than the end of the sixth year after the date of borrowing. Interest on the amounts outstanding is paid at the same rate as interest is charged on Trust Fund loans, provided that the rate shall not be less than ½ of 1 percent per annum.

6. Termination and Transfer of Resources

The Fund, as Trustee, decided that upon the completion of the final loan disbursements, the Trust Fund shall be terminated as of April 30, 1981. After that date, the activities of the Trust Fund have been confined to the completion of any unfinished business of the Trust Fund and the winding up of its affairs.

The resources of the Trust Fund held on the termination date or subsequently received by the Trustee have been employed to pay interest and principal when due on loan obligations and to make transfers to the Special Disbursement Account.

Report of the External Audit Committee

Staff Retirement Plan

Washington, D.C.
June 27, 1986

AUTHORITY AND SCOPE OF THE AUDIT

In accordance with Section 20(b) of the By-Laws of the International Monetary Fund, we have audited the financial statements of the Staff Retirement Plan for the year ended April 30, 1986, which consist of statements of

—Accumulated Plan benefits and net assets available for benefits,
—Changes in accumulated Plan benefits, and
—Changes in net assets available for benefits.

The audit was conducted in accordance with international auditing guidelines and, accordingly, included reviews of accounting and control systems, tests of accounting records, evaluation of the extent and results of work performed by the Internal Auditor, and other audit procedures.

AUDIT OPINION

In our opinion, the financial statements have been prepared in accordance with generally accepted accounting principles, applied on a basis consistent with that of the preceding year, and give a true and fair view of the financial status of the Staff Retirement Plan as at April 30, 1986 and of the changes in financial status for the year then ended.

EXTERNAL AUDIT COMMITTEE:

/s/ Jay M. Weinstein, Chairman (United States)

/s/ Mohamad A. Zawawi (Jordan)

/s/ Gilton Bazilio Chiwaula (Malawi)

INTERNATIONAL MONETARY FUND

STAFF RETIREMENT PLAN

STATEMENT OF ACCUMULATED PLAN BENEFITS AND NET ASSETS AVAILABLE FOR BENEFITS

as at April 30, 1986

(In thousands of U.S. dollars)

(Note 1)

	1986	1985
Accumulated Plan benefits (Note 1):		
Actuarial present value of accumulated Plan benefits		
Vested benefits		
Retired participants	153,500	139,400
Other participants	129,700	117,500
Nonvested benefits	51,500	46,900
Total actuarial present value of accumulated Plan benefits	334,700	303,800
Net assets available for benefits:		
Investments, at current value (Notes 1 and 3)		
Portfolio denominated in U.S. dollars	597,666	425,338
Portfolio denominated in other currencies	180,037	81,051
	777,703	506,389
Receivables:		
Contributions	1,125	937
Accrued interest and dividends (Note 1)	4,767	5,123
Other	2,295	711
	8,187	6,771
Cash at banks	45	17
Total assets	785,935	513,177
Liabilities:		
Accounts payable	499	1,108
Net assets available for benefits	785,436	512,069
Excess of net assets available for benefits over actuarial present value of accumulated Plan benefits	450,736	208,269

The accompanying notes are an integral part of the financial statements.

/s/ W.O. HABERMEIER
Treasurer

/s/ J. DE LAROSIÈRE
Managing Director

INTERNATIONAL MONETARY FUND

STAFF RETIREMENT PLAN

STATEMENT OF CHANGES IN ACCUMULATED PLAN BENEFITS

for the year ended April 30, 1986

(In thousands of U.S. dollars)

(Note 1)

	1986	1985
Actuarial present value of accumulated Plan benefits at beginning of the year	303,800	268,400
Increase (decrease) during the year attributable to:		
Benefits accumulated	17,690	23,483
Increase for interest due to decrease in discount period	29,600	26,100
Benefits paid	(16,390)	(14,183)
Net increase	30,900	35,400
Actuarial present value of accumulated Plan benefits at end of the year (Note 1)	334,700	303,800

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

STAFF RETIREMENT PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

for the year ended April 30, 1986

(In thousands of U.S. dollars)

(Note 1)

	1986	1985
Investment income (Note 1):		
Net gain in current value of investments (Note 3)	212,146	36,529
Interest	20,730	20,700
Dividends	15,604	11,917
	248,480	69,146
Contributions (Note 2):		
International Monetary Fund	32,298	28,294
Participants	9,862	9,057
Participants restored to service	46	46
Net transfers from/(to) retirement plans of other international organizations	(929)	168
	41,277	37,565
Total additions	289,757	106,711
Benefits:		
Pensions	13,014	11,484
Withdrawal benefits	1,572	1,060
Commutation benefits	1,736	1,606
Death benefits	68	33
Total payments	16,390	14,183
Net additions	273,367	92,528
Net assets available for benefits at:		
Beginning of year	512,069	419,541
End of year—April 30, 1986	785,436	512,069

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

Staff Retirement Plan

Notes to the Financial Statements

Description of Plan

General

The Staff Retirement Plan (Plan) is a defined benefit pension plan covering nearly all staff members of the International Monetary Fund (Employer). All assets and income of the Plan are the property of the Employer and are held and administered by it separately from all its other property and assets and are to be used solely for the benefit of participants and retired participants or their beneficiaries. The account is valued in U.S. dollars.

Benefits

Participants are entitled to an annual pension beginning at normal retirement age (65). The amount of the pension is based on number of years of service and highest average gross remuneration. Participants who have reached the age of 55 may retire with a reduced pension (or with an unreduced pension if the sum of their age and years of service equals 90 or more). The Plan also provides for disability retirement and death benefits. Upon termination before age 55 a participant with at least three years of eligible service may elect to receive either a withdrawal benefit (accumulated contributions of the participant plus an amount equal to a percentage of such accumulated contributions, the percentage being based on number of months of eligible service) or a deferred pension to commence after the participant has reached the age of 55. A participant entitled to receive a normal, early retirement, or deferred pension may elect to commute up to one third of his or her pension, and receive a lump sum amount in lieu of the amount of pension commuted. A participant entitled to receive a disability pension may elect to commute one third of the early retirement pension that would otherwise have been applicable.

Contributions

As a condition of employment, regular staff members are required to participate in the Plan and to contribute 7 percent of their gross remuneration to the Plan. Certain other categories of staff members may elect to participate in the Plan. The Employer meets the administrative costs of the Plan, such as actuarial, management, and custodial fees, and is to contribute any additional amounts not provided by the contributions of participants to pay costs and expenses of the Plan not otherwise covered. In financial year 1986, these administrative costs were approximately \$3.8 million (\$2.9 million in 1985).

1. Accounting Practices

Valuation of Investments

Investments in securities listed in stock exchanges are valued at the last reported sales price on the last business day of the accounting period. Over-the-counter securities are valued at their bid price on the last business day of the year. Purchases and sales made by U.S. investment managers are recorded on the settlement date basis, and transactions made by the international investment managers are recorded on the trade date basis.

Accumulated Benefits—Vested and Nonvested

The actuarial value of vested benefits is shown for two categories. For retired participants, the amount shown equals the present value of the benefits expected to be paid over the future lifetime of the pensioner and, if applicable, the surviving spouse of the pensioner. For other participants, the amount shown equals the present value of the deferred pension earned to the valuation date for a participant, or, if greater, the value of the withdrawal benefit for that participant, summed over all participants. For the purpose of determining the actuarial value of the vested benefits at the end of the Plan year, it is assumed that the Plan will continue to exist but that participants will not earn pension benefits beyond the date of the calculation.

The amount of nonvested benefits represents the total of the withdrawal benefits for all participants with less than three years of eligible service.

Investment Income

Dividend and interest income from investments are recorded as earned.

2. Funding Policy

The Employer makes normal contributions to the Plan equal to 14 percent of gross remuneration. Whenever the cost of living for a financial year increases, pensions shall be augmented by a pension supplement, which shall be the lesser of the increase in the cost of living for the financial year or 2 percent. If the increase in the cost of living for a year exceeds 2 percent, pensions shall be augmented by an additional supplement to be paid from contributions from the Employer equal to the difference between 2 percent and the increase in the cost of living. The Employer has the right for good cause to reduce the additional supplement to not less than 1 percent.

Plan Termination

In the event of the termination of the Plan by the Employer, the assets of the Plan shall be used to satisfy all liabilities to participants, retired participants, and their beneficiaries and all other liabilities of the Plan. Any remaining balance of the assets shall be returned to the Employer.

3. Investments

A summary of investments showing book and market values is as follows (in thousands of U.S. dollars):

	1986		1985	
	Book Value	Market Value	Book Value	Market Value
Portfolio denominated in U.S. dollars:				
U.S. Government securities	94,182	102,996	127,601	131,092
Corporate bonds and debentures	38,619	43,602	23,106	24,495
Common and preferred stocks	286,221	363,402	204,640	240,648
Short-term investments	87,159	87,666	29,091	29,103
	506,181	597,666	384,438	425,338
Portfolio denominated in other currencies	110,422	180,037	74,857	81,051
	616,603	777,703	459,295	506,389

The net gain in the current value of investments represents the gain (loss) realized during the year from the sale of investments, the unrealized appreciation of the market value of investments, and, for investments denominated in currencies other than U.S. dollars, valuation differences arising from exchange rate changes of other currencies against the U.S. dollar. These net gains, in thousands of U.S. dollars, are as follows:

	1986	1985
Portfolio denominated in U.S. dollars	120,232	39,996
Portfolio denominated in other currencies		
Net market gain	51,736	2,102
Net exchange valuation gain (loss)	40,178	(5,569)
Net gain	212,146	36,529

The net exchange gain was calculated by converting the book value of securities in currencies other than U.S. dollars to U.S. dollars at the exchange rates in effect at both the beginning and the end of the accounting period (or at the time a security was purchased or sold if this occurs during the accounting period) and subtracting one from the other to determine the exchange gain or loss.

At April 30, 1986, 11.4 percent of the net assets available for benefits were held in the Grantham, Mayo, Van Otterloo Managed Market Trust, and 5.1 percent of the net assets available for benefits were held in the GMO Foreign Equity Core Pooled Trust, which have underlying investments in approximately 300 equity issues. There were no other investments which represented 5 percent or more of the net assets available for benefits.

4. Actuarial Valuation

The most recent valuation of the Plan by the actuary engaged by the Pension Committee was made as at April 30, 1985. Actuarial assumptions used in the valuation were (a) life expectancy of participants as based on the 1960 United Nations Service Tables, (b) certain percentages of staff, differing by sex, would retire at each age between 55 and 65, (c) an assumed average rate of return on investments of 6 percent per annum, and (d) a scale of salary progression consistent with the assumed rate of return. The purpose of the annual valuation is to determine, on the basis of the actuarial assumptions used, the level of additional Employer contributions necessary to fund experience losses and cost of living increases beyond the first 2 percent. It is further assumed that the Plan will continue to exist and that participants will continue to earn pension benefits beyond the date of the valuation until the date of withdrawal, disability, death, or retirement. This valuation therefore differs from that in which the actuarial value of vested benefits is determined (Note 1).

Experience gains and losses of the Plan, as determined by the actuary, are amortized over a period of 15 years. The most recent valuation (at April 30, 1985) showed an experience gain of $21.2 million for the year then ended. At April 30, 1986, the unamortized experience losses based on that valuation amounted to $28.4 million, of which $5.6 million was paid by the Employer on May 1, 1986.

Appendix IX

Classification of Countries

The classification scheme used in the preparation of this Report is as follows.[1] *Industrial countries* comprise:

Australia	Finland	Italy	Norway
Austria	France	Japan	Spain
Belgium	Germany, Fed. Rep. of	Luxembourg	Sweden
Canada	Iceland	Netherlands	Switzerland
Denmark	Ireland	New Zealand	United Kingdom
			United States

The seven largest countries in this group in terms of gross national product (GNP)—Canada, the United States, Japan, France, the Federal Republic of Germany, Italy, and the United Kingdom—are collectively referred to as the *major industrial countries*.

The *developing countries* include all other Fund members (as of January 1, 1986) together with certain essentially autonomous dependent territories for which adequate statistics are available.[2] The regional breakdowns of data for developing countries conform to the regional classification used in the Fund's *International Financial Statistics (IFS)*. It should be noted that, in this classification, Egypt and Libyan Arab Jamahiriya are classified as part of the Middle East, not Africa.

The analytical groupings in this classification are (1) countries grouped by predominant export; (2) countries grouped by financial criteria; (3) countries grouped by other criteria; and (4) countries grouped by the former classification criteria. At present, the financial criteria first distinguish among capital exporting and capital importing countries. Countries in the latter, much larger group are then distinguished on the basis of two additional financial criteria: by predominant type of creditor and by the degree of debt-servicing difficulties faced by countries. The country groups shown under the heading of "by miscellaneous criteria" include capital importing fuel exporters; 15 heavily indebted countries; small low-income countries; and sub-Saharan Africa (excluding Nigeria and South Africa). The accompanying table presents a breakdown of these analytical groupings according to the proportion of developing country gross domestic product (GDP), exports of goods and services, and level of indebtedness. Further details on the classification scheme are given below.

The first analytical criterion used to group developing countries is by predominant export category. Four categories are distinguished: fuel (Standard International Trade Classification—SITC 3); other primary commodities (SITC 0,1,2,4, and diamonds and gemstones); manufactures (SITC 5 to 8, less diamonds and gemstones); and "services and remittances." On the basis of data for 1980, countries are assigned to the commodity grouping that accounts for 50 percent or more of their exports. Specifically, countries are assigned to the "services and remittances" category if their receipts on these transactions account for at least half of their exports of goods and services. If countries do not meet this criterion, they are assigned to the trade

[1] This classification is the same as that adopted in the *World Economic Outlook, April 1986*.

[2] It should be noted that the term "country" used in this Report does not in all cases refer to a territorial entity that is a state as understood by international law and practice. The term also covers some territorial entities that are not states but for which data are maintained and provided internationally on a separate and independent basis.

category (of the three listed above) that accounts for at least half of their total merchandise exports.[3]

Given these definitions, the *fuel exporters* comprise:

Algeria	Indonesia	Mexico	Syrian Arab Rep.
Bahrain	Iran, Islamic Rep. of	Nigeria	Trinidad and Tobago
Congo	Iraq	Oman	Tunisia
Ecuador	Kuwait	Qatar	United Arab Emirates
Gabon	Libyan Arab Jamahiriya	Saudi Arabia	Venezuela

The *primary product exporters,* that is, countries whose exports of agricultural and mineral primary products other than fuel accounted for over 50 percent of their total exports in 1980, comprise:

Afghanistan	Côte d'Ivoire	Liberia	Sierra Leone
Argentina	Djibouti	Madagascar	Solomon Islands
Bangladesh	Dominican Rep.	Malawi	Somalia
Belize	El Salvador	Malaysia	South Africa
Benin	Equatorial Guinea	Mali	Sri Lanka
Bhutan	Ethiopia	Mauritania	St. Christopher and Nevis
Bolivia	Fiji	Mauritius	Sudan
Botswana	Gambia, The	Morocco	Suriname
Brazil	Ghana	Mozambique	Swaziland
Burma	Guatemala	Nicaragua	Tanzania
Burundi	Guinea	Niger	Thailand
Cameroon	Guinea-Bissau	Papua New Guinea	Togo
Central African Rep.	Guyana	Paraguay	Turkey
Chad	Haiti	Peru	Uganda
Chile	Honduras	Philippines	Uruguay
Colombia	Jamaica	Rwanda	Viet Nam
Comoros	Kenya	São Tomé and Principe	Zaïre
Costa Rica	Lao People's Dem. Rep.	Senegal	Zambia
			Zimbabwe

A further distinction is made among the "primary product exporters" on the basis of whether countries' exports of primary commodities (other than fuel) consisted primarily of agricultural (SITC 0 and 1) or mineral (SITC 2 and 4 and diamonds and gemstones) commodities. The *mineral exporters* comprise:

Bolivia	Jamaica	Peru	Zaïre
Botswana	Liberia	Sierra Leone	Zambia
Chile	Mauritania	South Africa	Zimbabwe
Guinea	Morocco	Suriname	
Guyana	Niger	Togo	

The *agricultural exporters* are those non-fuel primary product exporters that are not also mineral exporters.

The *exporters of manufactures* (i.e., those countries or areas whose exports of manufactures accounted in 1980 for over 50 percent of total exports) include:

China	India	Korea	Singapore
Hong Kong	Israel	Romania	Yugoslavia
Hungary			

The *service and remittance* countries, that is, those countries whose receipts from services (such as tourism) and private transfers (such as workers' remittances) amount to at least 50 percent of their exports of goods and services, comprise:

Antigua and Barbuda	Egypt	Maldives	Seychelles
Bahamas, The	Greece	Malta	St. Lucia
Barbados	Grenada	Nepal	St. Vincent
Burkina Faso	Jordan	Netherlands Antilles	Tonga
Cape Verde	Kampuchea, Democratic	Pakistan	Vanuatu
Cyprus	Lebanon	Panama	Western Samoa
Dominica	Lesotho	Portugal	Yemen Arab Rep.
			Yemen, People's Dem. Rep. of

[3] Two countries that did not meet any of the above criteria were assigned to the trade category that accounted for the largest share of their exports.

The primary product exporters, exporters of manufactures, and service and remittance countries taken together are referred to as the "non-fuel exporters."

A second set of analytical groupings of developing countries is based on financial criteria. A first distinction is made between those developing countries that have traditionally been capital exporters and those that have traditionally been capital importers. At present, capital exporters are defined as those developing countries that, on average, recorded a current account surplus during the period 1979–81 and were aid donors over the same period. The *capital exporting countries* comprise:

Iran, Islamic Rep. of	Kuwait	Oman	United Arab Emirates
Iraq	Libyan Arab Jamahiriya	Qatar	
		Saudi Arabia	

The *capital importing countries* comprise all other developing countries.

Within the group of capital importing developing countries and areas, two types of financial distinction are made. The first distinguishes among countries and areas on the basis of their *predominant type of creditor. Market borrowers* are defined as those countries that obtained at least two thirds of their external borrowings from 1978 to 1982 from commercial creditors. The group includes:

Algeria	Congo	Korea	Portugal
Antigua and Barbuda	Côte d'Ivoire	Malaysia	Singapore
Argentina	Cyprus	Mexico	South Africa
Bahamas, The	Ecuador	Nigeria	Trinidad and Tobago
Bolivia	Gabon	Panama	Uruguay
Brazil	Greece	Papua New Guinea	Venezuela
Chile	Hong Kong	Paraguay	Yugoslavia
Colombia	Hungary	Peru	
	Indonesia	Philippines	

Official borrowers comprise those countries, except China and India, that obtained two thirds or more of their external borrowings from 1978 to 1982 from official creditors. The countries are:

Afghanistan	Fiji	Maldives	Sudan
Bahrain	Gambia, The	Mali	Swaziland
Bangladesh	Ghana	Malta	Syrian Arab Rep.
Bhutan	Grenada	Mauritania	Tanzania
Burkina Faso	Guatemala	Nepal	Togo
Burma	Guinea	Netherlands Antilles	Tonga
Burundi	Guinea-Bissau	Nicaragua	Uganda
Cape Verde	Guyana	Pakistan	Viet Nam
Central African Rep.	Honduras	Rwanda	Western Samoa
Chad	Jamaica	São Tomé and Principe	Yemen Arab Rep.
Comoros	Jordan	Senegal	Yemen, People's Dem. Rep. of
Djibouti	Lao People's Dem. Rep.	Seychelles	Zaïre
Dominica	Liberia	Sierra Leone	Zambia
Dominican Rep.	Madagascar	Somalia	
El Salvador	Malawi	St. Lucia	
Equatorial Guinea		St. Vincent	

Diversified borrowers comprise those capital importing developing countries that are not market or official borrowers. These countries' external borrowings in 1978–82 were more or less evenly divided between official and commercial creditors. China and India are included in this group.

A second financial distinction among capital importing developing countries is based on whether countries have or have not experienced debt-servicing difficulties in the recent past. Countries that have experienced debt-servicing problems are defined as those countries which incurred external payments arrears during 1983 to 1984 or rescheduled their debt during the period from end-1982 to mid-1985 as reported in the relevant issues of the Fund's *Annual Report on Exchange Arrangements and Exchange Restrictions*. Countries classified as not having experienced debt-servicing problems are defined as all other capital importing developing countries.

Several other analytical groups are also used in the Report. One of these is the group of *capital importing fuel exporters*. This group, which is also referred to as the "indebted fuel exporters," comprises those 12 fuel exporters that are not capital exporters. A second is the group of *15 heavily indebted countries*. This group comprises:

Argentina	Colombia	Morocco	Uruguay
Bolivia	Côte d'Ivoire	Nigeria	Venezuela
Brazil	Ecuador	Peru	Yugoslavia
Chile	Mexico	Philippines	

A third is the group of *low-income countries*, which comprises 43 countries whose per capita GDP, as estimated by the World Bank, did not exceed the equivalent of $410 in 1980. The countries in this group are:

Afghanistan	Comoros	Kenya	São Tomé and Principe
Bangladesh	Equatorial Guinea	Lao People's Dem. Rep.	Sierra Leone
Benin	Ethiopia	Madagascar	Somalia
Bhutan	Gambia, The	Malawi	Sri Lanka
Burkina Faso	Ghana	Maldives	Sudan
Burma	Guinea	Mali	Tanzania
Burundi	Guinea-Bissau	Mauritania	Togo
Cape Verde	Haiti	Mozambique	Uganda
Central African Rep.	India	Nepal	Viet Nam
Chad	Kampuchea, Democratic	Niger	Zaïre
China		Pakistan	
		Rwanda	

References to the *small or smaller low-income countries* refer to the above group, less China and India. Reference is also made to *sub-Saharan Africa*, which comprises all African countries (as defined in *IFS*) except Algeria, Morocco, Nigeria, South Africa, and Tunisia.

Finally, in the classification used in Fund publications until recently, the developing countries were divided into two groups—"oil exporting countries"[4] and "non-oil developing countries." The countries included under the heading *oil exporting countries* were:

Algeria	Iraq	Nigeria	United Arab Emirates
Indonesia	Kuwait	Oman	Venezuela
Iran, Islamic Rep. of	Libyan Arab Jamahiriya	Qatar	
		Saudi Arabia	

The remaining countries, grouped under the heading *non-oil developing countries*, were further disaggregated into subgroupings based primarily on the character of the countries' economic activity and on the predominant composition of their exports.

Except where otherwise specifically indicated, the Union of Soviet Socialist Republics and other nonmember countries of Eastern Europe, Cuba, and North Korea are excluded from the tables in this Report.

Also, it has not been possible to include in the tables a number of small countries or territories for which trade and payments data are not available.

[4] The countries included here were those whose oil exports (net of any imports of crude oil) both accounted for at least two thirds of total exports and were at least 100 million barrels a year (roughly equivalent to 1 percent of annual world exports). These criteria were applied to 1978–80 averages.

Developing Countries: Shares of Various Subgroups in Aggregate GDP, Exports of Goods and Services, and Debt Outstanding, 1980

(In percent)

	GDP	Exports of Goods and Services	Debt[1]	Memorandum: Number of Countries in Each Subgroup
Developing countries	100.0	100.0	. . .	132
By region				
Africa	13.7	14.2	16.6	48
Asia	31.2	25.1	23.5	27
Europe	10.2	7.6	12.0	8
Middle East	17.7	36.6	. . .	16
Western Hemisphere	27.2	16.6	40.6	33
By predominant export				
Fuel exporters	33.4	49.6	. . .	20
Non-fuel exporters	66.6	50.4	74.9	112
Primary product exporters	33.0	21.6	45.6	73
Agricultural exporters	26.2	14.3	34.5	55
Mineral exporters	6.8	7.3	11.2	18
Exporters of manufactures	28.2	22.8	20.1	10
Service and remittance countries	5.4	5.9	9.1	29
By financial criteria				
Capital exporting countries	15.0	32.4	. . .	8
Capital importing countries	85.0	67.6	100.0	124
Market borrowers	50.8	49.2	67.8	34
Official borrowers	7.1	5.1	10.7	60
Diversified borrowers	27.1	13.3	21.5	30
Countries with recent debt-servicing difficulties	43.3	31.2	62.2	61
Countries without recent debt-servicing difficulties	41.7	36.4	37.8	63
By miscellaneous criteria				
Capital importing fuel exporters	18.4	17.3	25.1	12
Fifteen heavily indebted countries	33.3	21.2	47.1	15
Small low-income countries	5.6	2.8	8.4	41
Sub-Saharan Africa[2]	4.6	4.0	7.3	43
By alternative analytical categories				
Oil exporting countries	25.0	43.7	. . .	12
Non-oil developing countries	75.0	56.3	86.4	120

[1] In percent of outstanding debt of capital importing developing countries.
[2] Excluding Nigeria and South Africa.

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Letters are used as follows: c for chart, n for footnote, and t for table.