1989
International Monetary Fund

Annual Report

EMBARGO
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WEDNESDAY, SEPTEMBER 13, 1989
AT 6:00 P.M.
WASHINGTON TIME

Purposes of the Fund

(i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

(iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

(v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

The Fund shall be guided in all its policies and decisions by the purposes set forth in this Article.

Article I of the Fund's Articles of Agreement

Annual Report, 1989

International Monetary Fund

Annual Report

of the Executive Board for the Financial Year Ended April 30, 1989

Washington, D.C.

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The following symbols have been used in this Report:

. . . to indicate that data are not available;
— to indicate that the figure is zero or less than half the final digit shown, or that the item does not exist;
– between years or months (e.g., 1988–89 or January–June) to indicate the years or months covered, including the beginning and ending years or months;
/ between years (e.g., 1988/89) to indicate a crop or fiscal (financial) year.

"Billion" means a thousand million.

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

* Alphabetical listing

July 27, 1989

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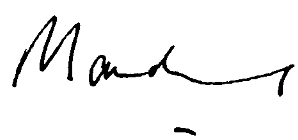
July 27, 1989

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, 1989, in accordance with Article XII, Section 7(*a*) of the Articles of Agreement of the International Monetary Fund and Section 10 of the Fund's By-Laws. In accordance with Section 20 of the By-Laws, the administrative and capital budgets of the Fund approved by the Executive Board for the financial year ending April 30, 1990 are presented in Appendix VIII. The audited financial statements for the year ended April 30, 1989 of the General Department, the SDR Department, Accounts administered by the Fund, the Staff Retirement Plan, and the Supplemental Retirement Benefit Plan, together with the reports of the External Audit Committee thereon, are presented in Appendix IX.

Yours sincerely,



MICHEL CAMDESSUS
Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

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The World Economy

The world economy performed strongly in many respects in 1988 and early 1989. On the *domestic front*, output growth in industrial countries exceeded expectations, but inflation was up a little. Tighter monetary policies were associated with a rise in interest rates; progress toward fiscal balance was generally modest. Developing countries as a group experienced one of their highest rates of growth in the past decade, mostly because of buoyant exports of manufactures by Asian economies. Inflation accelerated in developing countries, especially in those that are having difficulties servicing their debt. Some countries achieved considerable fiscal adjustment, but others continued with unsustainable fiscal deficits. The structural adjustment policies being implemented in a number of countries should help to reduce impediments to higher future growth.

On the *international front*, growth in the volume of world trade was the fastest in a decade, supported by strong import demand in industrial countries; the United States and the newly industrializing countries continued to gain market shares. Some progress was made in reducing external imbalances between the industrial countries, but there were signs in late 1988 and in early 1989 that the adjustment process was slowing down. Many developing countries had difficulty borrowing abroad; bank lending remained weak while net flows of official credit fell. Many countries continued to make substantial net transfers of real resources to their creditors. The total debt of developing countries receded slightly, and their debt-to-export ratios fell.

Box 1

World Economic Outlook

The April 1989 edition of the *World Economic Outlook* provides a comprehensive analysis of developments in the world economy, including a discussion of alternative medium-term economic scenarios. It is the product of a comprehensive interdepartmental review by the Fund's staff, which is conducted twice a year and draws on the staff's consultations with member countries as well as on its econometric modeling techniques. This publication is available from the Fund's Publication Services (price $25.00). The next *World Economic Outlook*, comprising revised projections by the staff, will be published in October 1989 (price $20.00).

1. Domestic Economic Activity and Policies

Industrial Countries

Growth, Employment, and Inflation

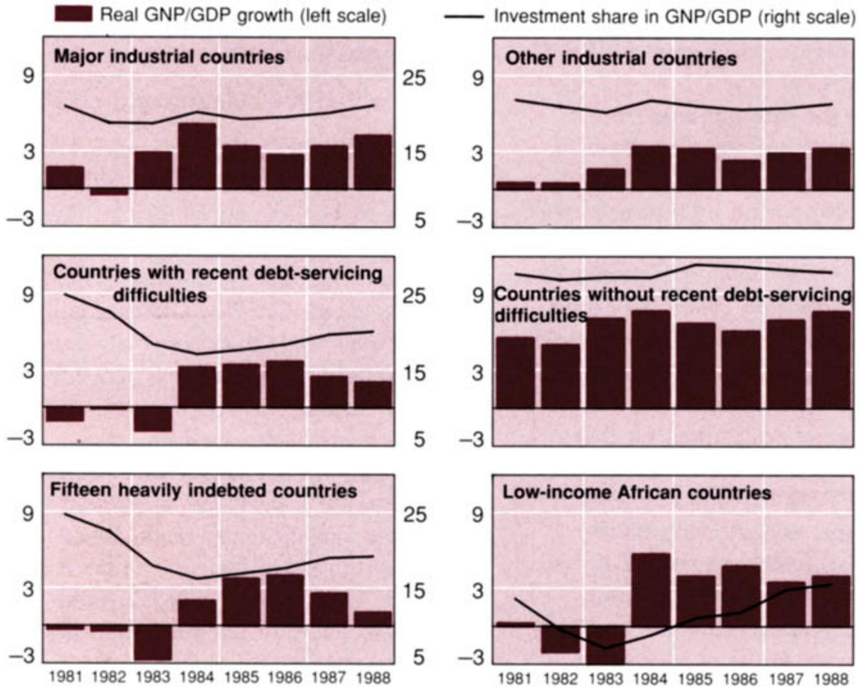
Output in the industrial countries rose by just over 4 percent in 1988, 3/4 of 1 percentage point more than in 1987 (Chart 1). The expansion was led by a broadly based surge in business fixed investment. Growth in nominal demand showed up mainly in increased output; inflation picked up only moderately because of weak oil prices, higher productive capacity owing to the rise in investment, the longer-run effects on productivity of structural reforms, and continued monetary restraint. Toward the end of 1988 and in early 1989, growth in North America, Japan, and the United Kingdom slowed to rates more in line with estimates of potential growth, but in continental Europe, the momentum of economic activity continued (Chart 2).

Economic activity in 1988 was stronger than most observers expected, partly because the stock market decline in late 1987 had less serious deflationary effects on demand than initially feared. The unexpected strength of investment also helped. This was in response to the pressure on productive capacity in many economies and was facilitated by lower capital costs (especially for high technology capital goods) and higher profitability, the latter supported by wage moderation and declines in the prices of oil and certain other commodities. At the same time, business confidence strengthened.

Strong economic activity led to employment growth in industrial countries of nearly 2 percent in 1988, with particularly rapid growth in North America, the United Kingdom, Australia, and Spain. In many European

Chart 1

Output Growth and Investment, 1981–88
(Annual percentage change and percent of GNP/GDP)



countries, rising output mostly reflected increased labor productivity. Unemployment and vacancy rates also suggest some tightening of labor markets in recent years; the aggregate unemployment rate for industrial countries fell to 7 percent in 1988 from 7.5 percent in 1987 because of large declines in Canada, the United States, the United Kingdom, and Australia. Unemployment remained high in continental Europe, dropping only to 9.7 percent from a peak of 10.4 percent in 1985–86. Vacancy rates approached recent historical peaks in North America and Japan, but remained relatively low in much of Europe.

Despite a modest tightening of labor markets in some countries and increased rates of capacity utilization, inflation rose little in 1988 (Chart 3). In the first quarter of 1989, consumer price inflation showed signs of moderate acceleration in most countries, reflecting higher world oil prices and (outside the United States) the appreciation of the dollar.

Consumer price increases in the industrial countries edged up from 3.0 percent in 1987 to 3.3 percent in 1988. Moderate increases in labor costs in most countries helped keep inflation down. Although wages rose in several countries (in nominal terms), their rates of increase remained well below those of the first half of the 1980s and were largely offset by strong gains in labor productivity. For the industrial countries as a group, unit labor costs in manufacturing were essentially unchanged in both 1987 and 1988, following increases of 2 percent in each of the previous two years and of about 7½ percent a year in the 1970s and early 1980s. Vigorous productivity growth in 1987–88 appeared to reflect primarily the remarkable strength of business investment.

Trends in the world oil market also helped to moderate price increases during much of the period under review. Average oil prices in 1988 were sharply lower than in 1987, mainly because of a significant increase in production by members of the Organization of Petroleum Exporting Countries. Following an OPEC agreement of November 1988, however, total output dropped and prices recovered, so that by April 1989 the average monthly spot price for crude oil was about 64 percent above the low of October 1988. Aggregate prices for commodities other than oil rose in 1988, but stabilized in early 1989. Prices for the main commodity groups diverged considerably, however, partly reacting to different supply influences. Although food and metal prices increased, tropical beverage prices remained depressed, and the prices of agricultural raw materials fell from their late-1987 peak.

Economic Policies

Monetary policy played a dominant role in short-run macroeconomic management in 1988. Following some easing of monetary conditions in the immediate aftermath of the October 1987 stock market correction, short-term interest rates rose in most countries, reflecting the authorities' intention to resist upward pressure on prices; in some other countries where the risk of inflation was less acute, short-term interest rates were also increased, mainly because of concern about exchange rates. The rise in short-term interest rates was greatest in the United Kingdom, but was also substantial in the United States, Australia, Canada, and the Federal Republic of Germany. As German rates rose, other European short-term rates, both within and outside the European Monetary System, followed. In Japan, short-term interest rates edged up during the spring of 1989.

Long-term interest rates, by contrast, were relatively stable in most countries during 1988, although they too showed some upward movement in early 1989. Consequently, the difference in average yield between short-term and long-term instruments narrowed in 1988. The yield differential between long-term bonds and equities widened during 1988, but the gap remained substantially narrower than in mid-October 1987, just before the global stock market decline.

With some exceptions, less progress was made in the *fiscal* area in 1988 than in previous years, as conflicting objectives slowed movement toward the achievement of medium-term consolidation. In the United States, the federal budget deficit declined slightly as a percentage of GNP in the fiscal year ended September 30, 1988, although it widened somewhat in dollar terms. In Germany, the fiscal position of the territorial authorities (the Länder) showed little change despite a tax cut in early 1988. However, in early 1989, Germany implemented an increase in excise taxes equivalent to almost ½ of 1 percent of GNP. In Japan, the fiscal balance improved despite a cut in personal income taxes, owing to a large cyclical increase in tax receipts combined with cautious spending policies; in April 1989, a tax reform package was also introduced, substituting a general consumption tax for most specific commodity taxes and reducing reliance on direct taxes. In the United Kingdom, a budget surplus was recorded in 1988, allowing repayment of public debt. Canada also continued to make progress in fiscal consolidation in 1988, but at a somewhat reduced pace. Italy's central government budget deficit remained high at 11½ percent of GNP. Among the smaller industrial countries, fiscal policy was generally restrictive in 1988, reflecting concerns over inflation and, in some cases, external or budgetary deficits. Several of the smaller countries also announced reforms of their tax systems.

During the past decade, industrial countries have looked mainly to *structural* or *microeconomic* policies, within an appropriate macroeconomic policy framework, to eradicate the causes of the low growth and high inflation of the 1970s and early 1980s. Trade liberalization, elimination of industrial and agricultural subsidies, and reduction of taxes that discourage employment and work incentives all aim at more efficient use of resources. Interest rate ceilings have been eliminated to stimulate private savings and capital forma-

Chart 2

Major Industrial Countries: Real Output and Total Domestic Demand, 1983–First Quarter 1989
(Percentage change from four quarters earlier)

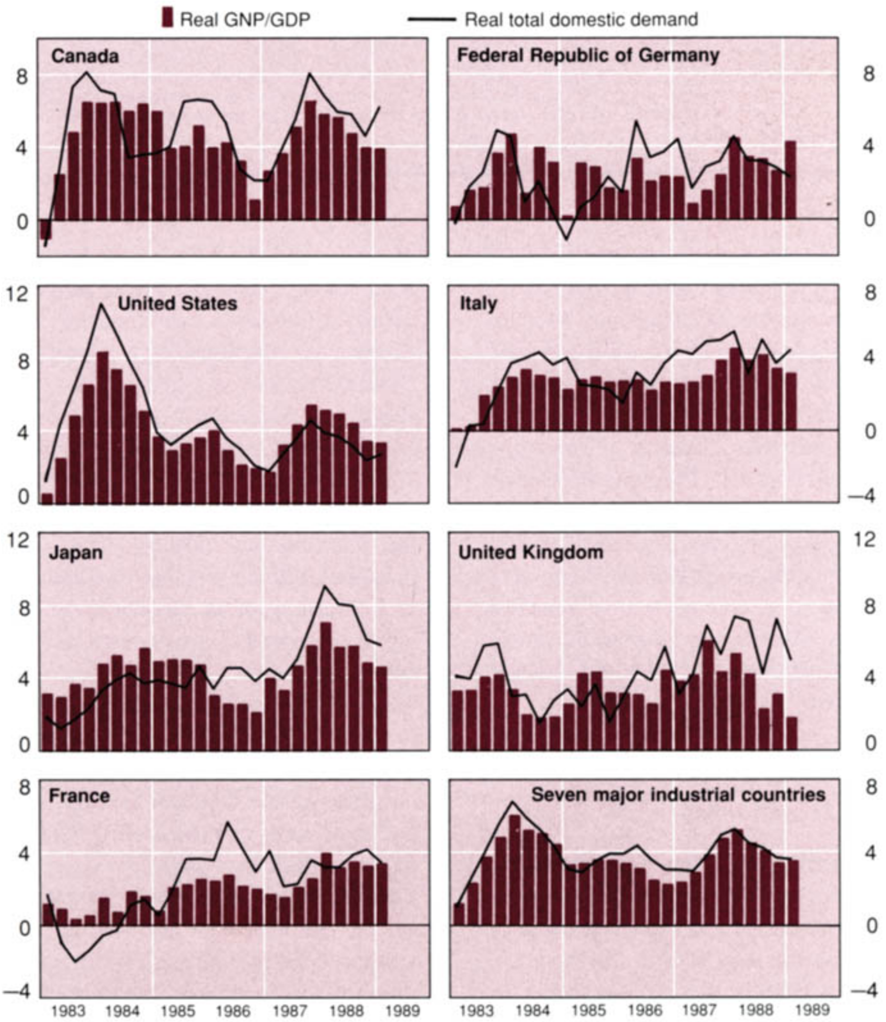
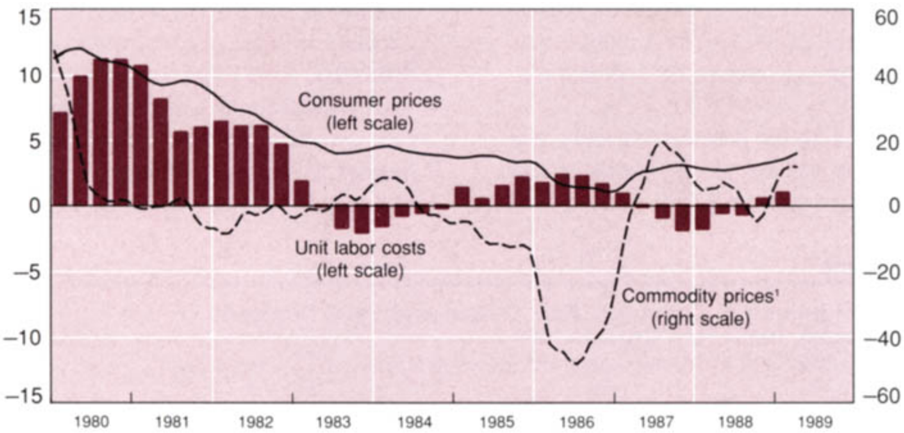


Chart 3

Major Industrial Countries: Consumer Prices, Unit Labor Costs in Manufacturing, and Commodity Prices, 1980–First Quarter 1989
(Percentage change from a year earlier)



[1]Three-month centered moving average of 12-month inflation rates. Consumer prices are measured in local currencies and are averaged using GNP weights. The commodity price index is a global export-weighted basket of 40 commodities that includes oil and gold, using the same average exchange rate as the one used for the composite inflation index.

tion. Measures to allow prices to respond efficiently and speedily to changes in market conditions have focused largely on improved functioning of labor and financial markets; removing subsidies in product markets has also contributed to more efficient resource allocation. Progress on these fronts is encouraging; however, much remains to be done to remove obstacles to a more efficient allocation of resources among and within countries. In this context, the strength of protectionist pressures remains of particular concern.

Developing Countries

Growth and Inflation

For the developing countries as a whole, real GDP rose by 4.2 percent in 1988, one of the highest growth rates in the past decade. However, various country groups shared unequally in this performance.

Buoyant investment and strong growth were largely concentrated in Asia, among the exporters of manufactures. In the newly industrializing economies—the Republic of Korea, Taiwan Province of China, Hong Kong, and Singapore—output grew at an average of almost 10 percent in 1988, as exports rose strongly and domestic demand was buoyant. Malaysia, Thailand, and India also saw economic activity pick up. In China, rapid output growth continued, reflecting the strength of investment and consumption.

Investment and growth were weak in much of the rest of the developing world, particularly in middle-income countries of the Western Hemisphere and the poorer countries of Africa, most of which have difficulty in servicing their debts. In Argentina and Brazil, for example, GDP growth stagnated despite strong exports, and investment slowed because of rapid inflation, an uncertain policy outlook, and a large debt burden. In Mexico, slower growth reflected tighter financial policies. Bolivia, Chile, and Colombia sustained growth at a comparatively high rate. Although activity in the fuel exporting countries picked up somewhat in 1988, it remained slower than in other developing countries because of past losses in terms of trade. In sub-Saharan Africa, the rate of growth remained low in 1988, and per capita income continued to decline, partly because world prices for coffee and cocoa were weak. In some countries, delays in putting adjustment programs into effect probably contributed to the fall in output. Exceptions to the general pattern in Africa included Ghana, Kenya, Morocco, and Senegal, where timely adjustment programs and far-reaching structural reforms sustained growth at 5 percent or more.

Inflation accelerated sharply in the developing countries in 1988, mainly reflecting difficulties in the implementation of fiscal and monetary policies in many heavily indebted countries. Inflation also increased because of expansionary policies in some countries and the measured inflation rate showed a temporary rise in others because of the response of newly liberalized prices to strong pent-up demand in others. The oil exporting Middle Eastern countries, where adjustment to deteriorating terms of trade reduced demand, were the main exception to the overall pattern of consumer price increases.

Economic Policies

In 1988, many developing countries, including Mexico, Ghana, and Senegal, achieved substantial *fiscal adjustment.* However, fiscal deficits remain unsustainable in many other countries, reflecting an inadequate policy stance, including an insufficient response to unfavorable external developments. Many countries have difficulty sustaining a fiscal position that is consistent with noninflationary growth and with meeting their foreign obligations. Some countries have succeeded in broadening their revenue bases, but a number of developing countries continue to rely disproportionately on the taxation of external trade. Nigeria and Côte d'Ivoire exemplify this dependence and have experienced fiscal deterioration, partly as a result of low commodity prices. Moreover, as servicing both domestic and external debt makes heavy demands on domestic budgets, movements in world interest rates are influencing budgetary outlays in many debtor countries. Countries facing persistent constraints on external borrowing have often responded to a deteriorating fiscal position by curtailing public investment and by issuing currency to finance the fiscal deficit.

Monetary management in developing countries is complicated by this tendency to finance fiscal imbalances through monetary expansion. Argentina and Brazil, for example, saw inflation accelerate sharply in 1988 primarily for this reason, and subsequent policy measures have failed as yet to restore price stability. In some cases, the liquidity effects of debt conversion instruments have not been fully offset, thereby contributing to increased inflationary pressures. China has experienced inflation as credit expansion accommodated excessive growth of investment and consumption. In Chile, where financial policies stressed fiscal balance, the money supply grew more slowly, and inflation was correspondingly lower than in most other countries in the Western Hemisphere.

A number of developing countries have in recent years put considerable effort into implementing *structural reform*. Many countries have adopted more flexible interest rates, introduced greater competition in their financial systems, relaxed controls on external financial transactions, and liberalized foreign exchange markets. They have focused on pricing policy, switching public enterprises to full cost pricing or reducing their subsidies. Reforms have been particularly important in the agricultural sector, where distorted pricing signals from marketing boards have in the past often led to inefficient crop choice and labor allocation and have driven farm families into cities where they have worsened urban problems and become a fiscal burden. Despite these efforts, many structural problems remain to be tackled if economic incentives in developing countries are to be improved. As in the case of the industrial countries, special attention needs to be paid to resisting protectionist pressures and reducing existing trade barriers.

2. Trade, Payments, and Exchange Rates

World Trade

The volume of world trade expanded by more than 9 percent in 1988, the highest rate of growth since 1976. Continued shifts of trade shares among countries and regions accompanied this expansion.

World trade expanded in response to vigorous import demand in the industrial countries. Import volumes rose by 17 percent in Japan, 15 percent in Canada, and 13 percent in the United Kingdom. Even in the United States, import volumes rose by 7 percent because of growing domestic demand, notwithstanding the increased competitiveness of domestic producers following the significant decline in the value of the dollar since 1985. Import growth was strong among the exporters of manufactures in the developing countries, reflecting robust economic activity and, in some highly indebted countries, reflecting more accommodating domestic policies. Among the exporters of fuels, in contrast, imports remained depressed.

The United States experienced real export growth of 23 percent in 1988 and has now recovered most of the share of world merchandise exports it lost between 1980 and 1985. As part of the adjustment process, much of the counterpart of this gain was a decline in the market shares of Japan and Germany, although both of these countries showed signs of renewed export strength in early 1989. Several

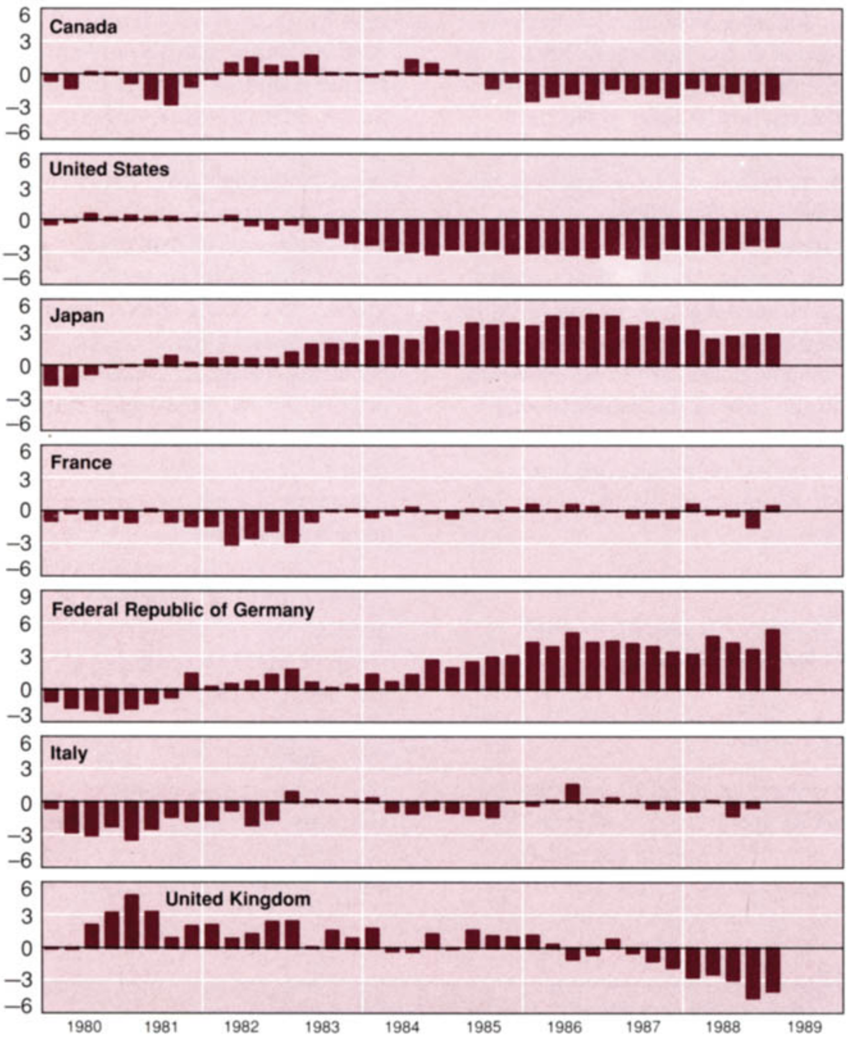
Box 2

Statistical Discrepancy

Since exports by one country correspond to the imports of other countries, and payments by one country are received by others, globally the sums of all payments and receipts should balance. But they do not. Indeed, the analysis of current account trends is distorted by considerable statistical discrepancies. These discrepancies arise from errors, omissions, and asymmetries in reported payments data, primarily on trade in services, and particularly on portfolio investment income flows. In 1988, the global discrepancy increased by about $40 billion to $78 billion, as some of the influences that had contributed to its reduction in 1986–87 were reversed. Both exchange rate changes and movements in interest rates have contributed to large fluctuations in the discrepancy in recent years.

Chart 4

Major Industrial Countries: Payments Balances on Current Account, 1980–First Quarter 1989
(Seasonally adjusted, in percent of GNP/GDP)



other industrial countries registered smaller declines in their shares of world exports.

The developing countries as a group also gained export shares in 1988, with the newly industrializing economies of Asia continuing to expand their markets, although less rapidly than before. In addition, some higher commodity prices and strong demand from industrial countries raised the market shares of some primary commodity producers.

Balance of Payments Developments

The combined current account deficit of industrial countries widened by almost $20 billion in 1988, but as a share of GNP remained approximately unchanged at 0.4 percent. Shifting export market shares combined with unequal import growth to adjust the external positions of Japan and the United States (Chart 4). Both the Japanese current account surplus and the U.S. current account deficit fell, to 2.8 percent and 2.6 percent of their respective GNPs in 1988, representing adjustments of over ¾ of 1 percent for Japan and ½ of 1 percent for the United States. In contrast, the current account deficit in the United Kingdom increased from 0.7 percent of GNP in 1987 to 3.2 percent in 1988, while in France it narrowed a little; the surplus in Germany remained at 4 percent of GNP. The combined current account deficit of smaller industrial countries increased a little, led by significant deteriorations in Spain and Australia.

Since the middle of 1988, there have been indications of a slowing in the adjustment process as the effects of the policy and exchange rate changes that had taken place in the period 1985–87 are beginning to taper off. In the first quarter of 1989, Germany's current account surplus increased by almost half over the fourth quarter of 1988, while Japan's surplus was little changed and the deficit of the United States rose.

The current account balance of developing countries shifted into a deficit of about $9 billion in 1988 (about ¼ of 1 percent of GDP) from a small surplus of $4 billion in 1987. Most of this shift resulted from changes in the external positions of the four Asian newly industrializing economies and the fuel exporters. The reduction in the surplus of these economies—from $30 billion in 1987 to $28 billion in 1988—or almost 3 percent of their aggregate GDP, was more than accounted for by a $8 billion drop in the surplus of Taiwan Province of China, based in part on a substantial increase in imports of gold. The external balance of fuel exporters deteriorated because falling world oil prices reduced export receipts, although for exporters in the Western Hemisphere higher export growth of commodities (other than oil) and manufactures—especially in the highly indebted countries—largely offset losses from the fall in oil prices. There was little change in the current account balance of the low-income African countries, notwithstanding the decline in prices of tropical beverages. Estimates of the current account balance in convertible currencies of the Soviet Union and Eastern European countries that are not members of the Fund suggest a deterioration of about $8 billion in 1988.

Exchange Rates

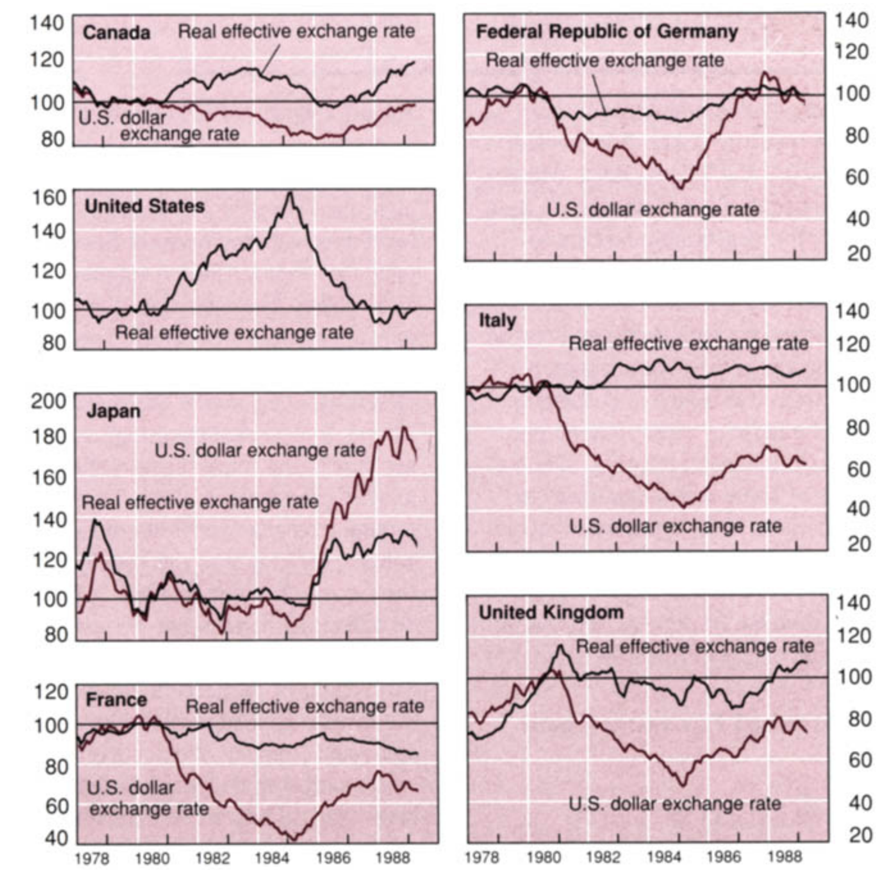
Cooperative efforts by the seven largest industrial countries—the Group of Seven—to stabilize the exchange rates of the major currencies contributed to greater stability in 1988 and early 1989 than was the case in 1987. Close cooperation in the foreign exchange markets, including several occasions when concerted official intervention was reported, took place within a framework of broader policy coordination among the Group of Seven. After a period of strength from June through September 1988, the U.S. dollar weakened in October and November, apparently because of uncertain prospects for the trade and fiscal deficits (Chart 5). Thereafter, a shift of market sentiment, owing partly to higher U.S. interest rates and an underlying increase in the demand for dollar-denominated assets, strengthened the dollar; by the end of April 1989, the real effective value of the dollar—that is, the nominal exchange rate of the dollar against other currencies corrected for differences in inflation and the pattern of trade—was about 6½ percent above its level a year earlier. Over the same period, the Canadian dollar appreciated in real effective terms by about 8 percent, the pound sterling by 3½ percent, and the Italian lira by 3 percent. On the same basis, both the French franc and the deutsche mark appreciated, by 4½ percent and 3½ percent, respectively, while the Japanese yen remained broadly unchanged from its level a year earlier.

Within the exchange rate mechanism of the European Monetary System, the parities of January 1987 were maintained, despite tensions arising from divergent current account trends, changing tax regulations, and shifting investment opportunities. Further convergence of inflation rates, concerted interest rate changes, and exchange market intervention relieved these tensions, although the real effective values of some currencies shifted slightly in 1988.

The real effective exchange values of most developing country currencies appreciated during 1988, following large depreciations during 1985–87 (Chart 6). For some countries this reflected significant improvement in their

Chart 5

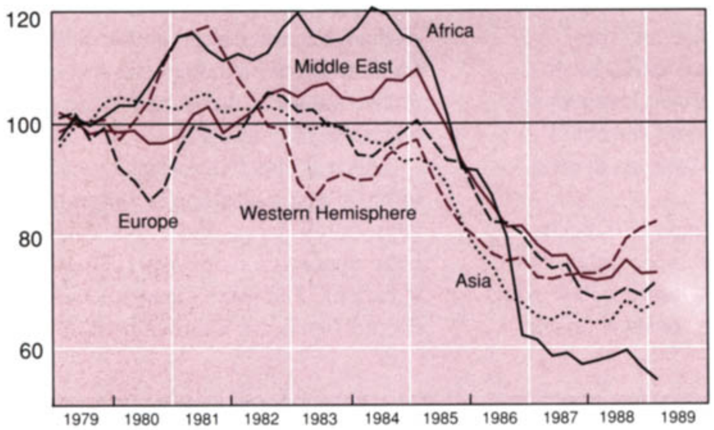
Major Industrial Countries: U.S. Dollar and Real Effective Exchange Rates, 1978–April 1989[1]
(1980 = 100)



[1]Real effective exchange rates are calculated on the basis of normalized unit labor costs in manufacturing.

Chart 6

Developing Countries: Real Effective Exchange Rates, 1979–First Quarter 1989[1]
(1979 = 100)



[1]Composites for regional groups are weighted averages, where countries' weights are dollar values of their respective GDPs during 1982–87. Because of the lack of appropriate domestic price data, the countries included for the Middle East and African regions cover only about 50 percent and 85 percent, respectively, of their regional GDPs. For the Western Hemisphere, Europe, and Asia, the coverage is complete.

external position arising from more favorable terms of trade. For the fuel exporters in the Middle East, whose terms of trade have continued to deteriorate, the appreciation seems to have reflected the close relationship of local currencies to the U.S. dollar. In some countries with debt-servicing difficulties, the recent appreciation resulted from the failure of changes in nominal exchange rates to keep pace with rapid domestic inflation. The currencies of some Asian exporters of manufactures have appreciated significantly in recent years; during 1986–88, the real effective exchange rate of Korea rose by 10 percent and that of Taiwan Province of China by 12 percent.

3. External Financing and Debt

External Financing

Industrial Countries

Financing of current account balances of the industrial countries resumed a more normal pattern in 1988, as autonomous private capital flows replaced the changes in reserve holdings that reflected the widespread intervention by the Group of Seven countries during 1987 in support of the U.S. dollar. The aggregate increase in official reserves was small. There were, however, considerable—though offsetting—changes in the reserve positions of individual countries, reflecting in part the more diverse exchange market pressures in 1988. Thus, the foreign exchange reserves of Canada, whose currency was the strongest in the Group of Seven in 1988, grew by $8 billion, an increase of 111 percent. Japan's reserves also increased, by $16 billion, or 20 percent. In contrast, the foreign exchange reserves of Germany and France, whose currencies were comparatively weak, fell by $20 billion and $8 billion, respectively. The decline in Germany's reserves was sufficient to offset more than two thirds of that country's reserve accumulation in 1987.

Developing Countries

The external financing needs (defined as the balance on goods, services, and private transfers) of the developing countries as a group rose to about $24 billion in 1988. Although larger than in 1987, recourse to external financing remained significantly below what it had been in each of the previous six years. The rise in aggregate financing needs reflected mainly the increased deficit of the fuel exporters, which was financed by running down reserves. A few countries with strong current account positions, notably the Asian newly industrializing economies, continued to have large outflows of capital. By contrast, the financial position of many of the debt-problem countries remains extremely vulnerable, despite the fact that financial flows to some of these countries that do not add to debt (including official transfers and foreign direct investment) increased considerably in 1988. Accumulated payments arrears rose to an estimated $52 billion at the end of 1988, compared with $41 billion at the end of 1987, although the number of countries with arrears outstanding declined from 55 in 1986 and 1987 to 49 in 1988.

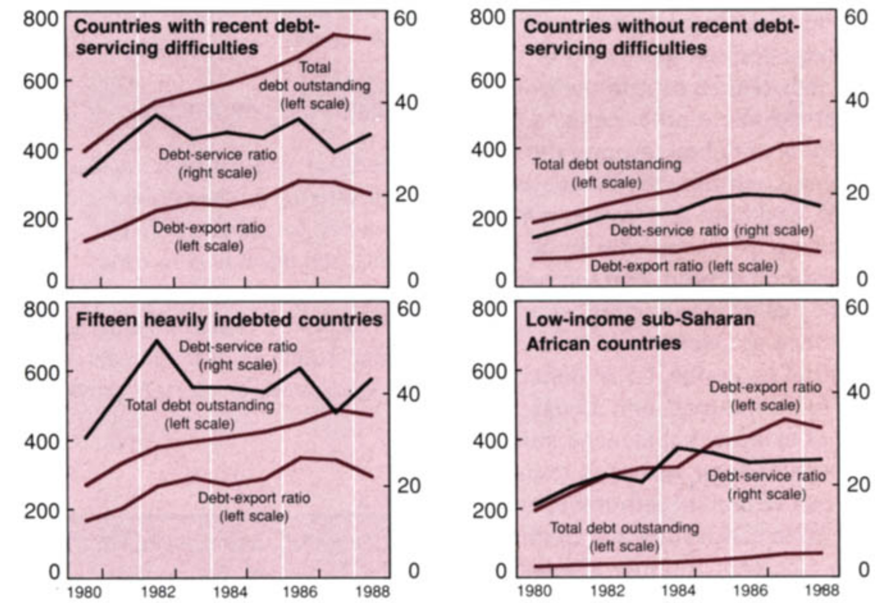
In recent years, developing countries have relied predominantly on official sources for their financing needs; official creditors (governments and international institutions) provided some 65 percent of financing to developing countries in 1985–88, compared with only about 35 percent in 1980–82. Although this pattern continued in 1988, the level of net official disbursements fell sharply; disbursements by multilateral development banks and bilateral sources were smaller, in some cases reflecting slippage in adjustment by indebted countries. Official lending declined most dramatically to those countries, including the heavily indebted middle-income countries, that have borrowed predominantly from commercial sources; official lending to low-income countries was broadly maintained.

Nonofficial lending to developing countries barely rose in 1988 from the depressed level of 1987. Countries in Africa and the Western Hemisphere, especially those with recent debt-servicing difficulties, continued to experience a withdrawal of private funds in 1988. Net lending to Asia declined in response to the lower financing requirements of the newly industrializing economies. In contrast, private lending to developing countries in Europe and the Middle East rose moderately. Exceptional financing flows (comprising arrears and debt reschedulings) remained an important source of relief in debt-problem countries; in some cases swaps and conversions arranged within the menu of options provided additional assistance.

For many developing countries, the low levels of private foreign financing, and the continued burden of heavy net interest payments, imply a substantial net transfer of resources to the rest of the world. The scale of this transfer for the 15 heavily indebted countries, which rely primarily on commercial borrowing, has been particularly large—an average of 3 percent of GDP annually since the outbreak of the debt crisis in 1982 until the end of 1988, in contrast to an average net inflow of 1½ percent a year in the previous five years. For some other groups, such as the low-income African countries, increased official financing has helped to maintain a significant net inward transfer of resources from the rest of the world.

Chart 7

Developing Countries: Debt Outstanding and Ratios of Debt and Debt Service to Exports, 1980–88[1]
(Debt data in billions of U.S. dollars; ratios in percent of exports of goods and services)



[1]The debt-service ratio refers to debt service actually paid rather than accrued or contractually due.

External Debt and Debt Service

The total external debt of developing countries fell by some $3 billion in 1988, the first decline in many years. Changes in the dollar valuation of existing liabilities, which had contributed significantly to the rise in debt in previous years, accounts for part of this decline in the stock of debt in 1988. Liabilities to official creditors rose by about 3 percent during the year, compared with an average growth of 17 percent in the previous three years. Liabilities to the nonofficial sector fell by about 2 percent, compared with an average increase of 5 percent in 1985–87.

The slower accumulation of debt, combined with strong export growth, pushed down the aggregate debt-to-export ratio of the net debtor developing countries, to 163 percent at the end of 1988—still above the level at the end of 1982. Although debt-to-export ratios (Chart 7) declined for most major groups of debtor countries, the debt burden nonetheless remains particularly onerous for the heavily indebted middle-income countries and low-income sub-Saharan African nations.

The aggregate debt-service ratio changed little in 1988, as the growth of exports broadly offset the impact of the rise in interest payments resulting from the reversal of the three-year decline in international interest rates. However, the debt-service ratio of debt-problem countries rose somewhat, as the increase in export earnings allowed some countries to raise the proportion of debt service due that was actually being paid.

1. Surveillance

While the Fund welcomes many developments in the world economy—including the healthy growth in output and investment in industrial countries and the narrowing of trade imbalances among them—it is concerned about other aspects of the global situation. Among the developing countries, the inadequate growth of output and investment, continuing problems with fiscal positions and inflation, and the persistence of debt-servicing difficulties are worrisome. In many industrial countries, fiscal deficits need to be reduced, and adjustment of external imbalances must be reinforced. All countries require vigorous structural reforms to reduce trade distortions and to improve efficiency. Further intensified and sustained policy coordination among the major industrial countries—supported by the use of economic indicators—can help improve global economic performance and the functioning of the international monetary system.

Fund surveillance of the policies of member countries—and of the global economy—remains central to the system. The Fund must continue to monitor the international monetary system and promote an adequate supply of international liquidity.

The Fund is a forum in which member countries can consult and collaborate on each other's economic policies as well as on global economic issues. To be effective the Fund is mandated to "exercise firm surveillance over the exchange rate policies of members." Surveillance extends to a broad range of domestic and external policies affecting, in particular, members' payments balances and exchange rates.

The Fund discharges these surveillance responsibilities in two ways: primarily through regular consultations with individual member countries, and as part of the World Economic Outlook exercise.

Article IV Consultations

The Fund staff conducts regular meetings with the authorities of member countries to gather up-to-date economic and financial information, and to review economic policies and developments. These consultation discussions under Article IV of the Fund's Articles of Agreement, or charter, provide the data the Fund needs to exercise surveillance over the economic policies of member countries. More specifically, these consultations allow the Fund to analyze economic developments and policies in member countries; to examine members' fiscal, monetary, and balance of payments accounts; and to assess how policies influence their exchange rates and external accounts.

Article IV consultations may be held annually, or at intervals of up to 24 months, depending on the member country. A "bicyclic" procedure, which entails a full consultation every second year and a simplified interim consultation in the intervening year, was intro-

Box 3

The IMF Executive Board, the Interim Committee, and the Development Committee

The *Executive Board* (the Board) is the Fund's permanent decision-making organ, currently composed of 22 Directors appointed or elected by member countries or by groups of countries. Chaired by the Managing Director, the Board conducts the day-to-day business of the Fund by reviewing papers prepared by the Fund management and staff and is in continuous session.

The *Interim Committee of the Board of Governors on the International Monetary System* is an advisory body made up of 22 Fund Governors, ministers, or others of comparable rank, representing the same constituencies as in the Fund's Executive Board. Normally, the Interim Committee meets twice a year, in April and at the time of the Annual Meetings in September or October. It advises and reports to the Board of Governors on the functions of the Board of Governors in supervising the management and adaptation of the international monetary system, considering proposals by the Fund's Executive Board to amend the Articles, and dealing with sudden disturbances that might threaten the international monetary system; it also advises the Fund's Executive Board on these matters.

The *Development Committee* (the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries) is composed of 22 members—finance ministers or others of comparable rank—and generally meets at the same time and place as the Interim Committee. It advises and reports to the Boards of Governors of the Bank and Fund on all aspects of the transfer of real financial resources to developing countries.

duced in 1987 for application in certain circumstances. As of April 30, 1989, 30 countries were subject to the bicyclic procedure.

The focus of an Article IV consultation depends on the characteristics of the member country and on external economic conditions. In recent years, given the large payments imbalances among industrial and developing countries and the debt-servicing problems of many developing countries, the Fund has devoted greater attention to:

- determining whether a country can sustain economic and employment growth with a viable balance of payments position over the medium term;
- helping restore external creditworthiness over the medium term; and
- examining how structural policies can improve economic performance.

Ultimately, consultations attempt to call attention to the international implications of developments and policies in the economies of individual countries.

The number of Article IV consultations rose sharply in 1983 and peaked in 1985, owing to modifications in procedures aimed at ensuring a greater frequency of consultations in the face of the difficult balance of payments prospects of many countries. The number reached 131 in 1985 (85 percent of the Fund's membership), falling only slightly to 125 in 1986. The sharp increase in the workload of the Board and staff led the Board, in July 1987, to reconsider the frequency of consultations. It decided that the resources devoted to consultations could be economized while ensuring the quality of Fund surveillance. To this end, the bicyclic consultation procedure was introduced and the number of countries on the standard 12-month consultation cycle was reduced from 25 to the 20 members with the largest Fund quotas, because of the "substantial impact" they have on other countries. (In addition to those countries on the bicyclic and annual consultation schedules, some members are on annual schedules for other reasons—such as having an arrangement with the Fund—and some are on 18-month or 24-month cycles. The latter are distinguished from the bicyclic schedule in that consultation discussions with the authorities are held every two years, rather than annually under the bicyclic procedure. There are also a few members whose cycles are unspecified.) As a result of these efforts to economize on resources devoted to consultations, the number of Article IV consultations fell to 115 in 1987 (75 percent of the membership) and to 110 in 1988 (74 percent of the membership).

Industrial Countries

United States

The U.S. economy expanded briskly in 1988, contributing measurably to the strengthening of growth in the rest of the world. Domestic demand stayed robust, with business investment strong and net exports recovering. The high level of resource use, however, raised some concerns about inflation. In the Board's view, this development indicated a need for policies to boost national savings, in order to ensure that exports expanded further and capital formation remained strong without fueling inflation. In this connection, the Board emphasized the importance of decisive action to reduce the fiscal deficit. While the U.S. authorities cut the deficit in the fiscal year ended September 30, 1987, concern was expressed that further substantial reductions would not be forthcoming soon. The Board reaffirmed the need for urgent and forceful action, particularly with a new administration, and saw a strong case for concentrating on fiscal adjustment at the outset. Directors agreed with the authorities' view that expenditure restraint should be emphasized. The Board also noted that several features of the current U.S. tax system discourage private saving and distort portfolio decisions; in view of the large saving-investment imbalance, action might be needed in these areas.

The U.S. trade deficit began to improve in real terms in 1987 and was substantially reduced in real and nominal terms in 1988. Nevertheless, large external imbalances persisted in 1988, constituting a major source of vulnerability. Here again, progress in reducing the fiscal deficit would provide scope for external adjustment without adding to inflation or crowding out investment.

The authorities implemented monetary policy pragmatically in 1987 and 1988; their prompt and forceful response to the October 1987 stock market crisis was laudable. Subsequently, the Federal Reserve placed commendable emphasis on inflation control. At the same time, rising short-term and medium-term interest rates in the United States and abroad caused concern. Continued reduction of the fiscal deficit could ease the burden placed on monetary policy and help mitigate upward pressure on interest rates. The Board was pleased that the authorities successfully avoided overtly protectionist measures in new trade legislation, but it expressed concern that protectionist pressures remained strong in the United States. The Board hoped that the United States would maintain—and indeed expand—developing countries' access to U.S. markets.

Japan

The Japanese economy has performed impressively in recent years, achieving substantial external adjustment in 1987–88, together with high output growth and stable prices. This owed much to the authorities' pursuit of sound financial policies. While the outlook for continued noninflationary growth is encouraging, prospects for further external adjustment have become less clear.

The Board commended Japanese fiscal management in fiscal year 1988/89 (ended March 31, 1989), which had permitted further progress toward fiscal consolidation without dampening private domestic demand. Japan's comprehensive tax reform should improve the system's fairness and neutrality. The Board largely supported the broadly neutral fiscal policy embodied in the 1989/90 budget, given the strong demand and high rate of capacity utilization.

The authorities' skillful conduct of monetary policy had preserved price stability while supporting economic growth. In view of the weakening yen and the need to prevent inflation, the recent tightening of monetary conditions was broadly endorsed by the Board. The authorities' efforts to maintain appropriate growth of domestic demand should not compromise price stability. In this connection, the Board cited the high rates of capacity utilization and the continued rapid growth of the money supply.

The Board strongly supported further structural reforms, to promote external adjustment as well as domestic welfare. Although substantial progress has already been achieved, much remains to be done. The authorities need to accelerate the pace of structural reforms, giving special priority to land management, the agricultural sector, and the distribution system. In addition, the authorities have made progress in liberalizing interest rates on small savings deposits and they are encouraged to make further efforts. These—along with public investment in social overhead capital—would improve public welfare and raise living standards.

As regards external policies, the Board acknowledged the limited scope for unilateral financial action by Japan to reduce its external surplus, agreeing that stronger adjustment requires both deficit and surplus countries to adapt their policies. The Board commended Japan's efforts to support multilateral trade liberalization in the Uruguay Round. At the same time, it urged improved access to the Japanese market, particularly for agricultural goods.

The Board applauded Japan's substantial efforts to encourage the recycling of Japanese official and private funds to developing countries and its leadership in strengthening the debt strategy. The Board noted Japan's ongoing role in official development assistance, including concessional assistance, and encouraged the authorities to intensify these efforts.

Germany

The economic expansion of the Federal Republic of Germany continued into its sixth year in 1988, still accompanied by low inflation. While real growth had been slower than might have been hoped for in 1987, activity in 1988 was stronger than had been expected, despite the reduced impact of terms of trade gains. While improved terms of trade have stimulated economic performance in recent years, monetary and fiscal policies also supported domestic demand. Of continued concern to the Board, however, was the persistence of structural rigidities, high unemployment, and—despite external adjustment in real terms in 1986 and 1987—large external surpluses.

The Board was of the opinion that the German authorities had demonstrated their adaptability to the changing environment without losing sight of their overall medium-term fiscal strategy. Although the authorities remain committed to controlling government spending, in 1988 they adapted to changes in the global environment by the decision to take no action to offset a widening budget deficit. The Board welcomed the enactment of the 1990 tax reform, together with the financing package that reduced tax preferences and improved enforcement. It was concerned, however, that the authorities' decision to raise taxes in 1989 between two years of significant tax reductions might create confusion about the authorities' fiscal philosophy and goals and thought that a preferred fiscal alternative would have been a reduction in subsidies.

In the Board's view, encouraging domestic demand requires the right mix of macroeconomic and structural policies; this, in turn, needs vigorous action to ease structural rigidities in the goods and labor markets. Progress in relaxing structural rigidities has been limited, however; action on deregulation has been slow and disincentives in some critical sectors continue to hamper economic activity.

The Board welcomed the monetary authorities' flexibility—as evidenced by their continued toleration of a rapid pace of monetary expansion—in support of the international effort to stabilize foreign exchanges and to promote international adjustment; it thus saw little scope for added stimulus from monetary policy. It was noted that the authorities should be alert to opportunities to restore monetary growth to a rate more appropriate to the medium-term needs of the economy. The Board encouraged Germany to play a prominent role in facilitating European market unification by 1992 and in helping ensure that trade barriers against non-European countries are not raised and, where possible, are lowered. It welcomed Germany's cancellation of a significant portion (about DM 9 billion to date) of the official debt owed it by least developed countries.

France

France's economic performance in 1988 combined the strongest increase in output in ten years and the first decline in unemployment in nearly twenty with a deceleration in inflation to rates not observed since the early 1960s. While this performance was partly the result of a favorable international environment, much of it was attributable to the restrictive financial and supply-oriented structural policies in effect since 1983. The policies of wage restraint and market liberalization, in particular, set the stage for a significant and sustained turnaround in enterprise profitability that encouraged the rapid growth of investment and employment in 1988.

While recognizing these achievements, the Board remained concerned about the high level of unemployment, the declining national savings rate, the near peak levels of capacity utilization, and the need for France to become more competitive if it is to recapture market shares and cut unemployment. The Board therefore commended the authorities' intention to maintain their supply-oriented and disinflationary policies, including continued fiscal retrenchment and a flexible use of interest rate policy in managing the exchange rate. The Board also urged that the liberalization of domestic markets observed during the previous few years be extended to the external sector—particularly through further reductions in subsidies and less protection of domestic industries and agriculture.

United Kingdom

In 1988, the United Kingdom marked its seventh successive year of economic growth. The expansion was led by domestic demand—especially private consumption and investment—and reflected, in part, the authorities' success in strengthening the supply side of the economy. Productivity grew impressively, particularly in manufacturing. At the same time, already high business profitability continued to improve and unemployment declined steadily. Progress on the structural front included strengthened public finances and comprehensive tax reform.

The Board was concerned, however, that demand had grown too rapidly and had begun to show up in higher inflation and in a wider deficit in the current account of the balance of payments. With hindsight, it was clear that demand in the first half of 1988 was stronger than the indicators at the time had suggested. While fiscal policy in the financial year ended March 31, 1989 was restrictive, it did not fully offset the momentum of activity that had developed in 1988.

Firm policies are needed to prevent inflation from becoming entrenched, and the Board welcomed the monetary tightening after mid-1988. Indeed, it appeared that a desired slowdown in domestic demand growth had begun, although the question remained whether the deceleration of demand was fast enough. The Board emphasized that the budget for 1989/90 should support monetary restraint by forgoing tax cuts and accepting the resulting substantial surplus. Doing so would not conflict with the overriding importance of the medium-term orientation of fiscal policy, in view of the more important immediate need to curb inflation. The Board welcomed the authorities' efforts to liberalize trade, but was concerned about the United Kingdom's high nontariff barriers and subsidies—particularly in the agricultural sector.

Italy

Italy turned in a remarkable economic performance in 1988, led by strong gains in output, investment, and employment. While the current account deficit widened, it remained manageable. The combination of an expansionary fiscal policy and a tight monetary policy increased official reserves, stabilized the exchange rate and the rate of inflation in 1988, and kept real interest rates broadly unchanged at a high level.

The Board commended the Italian authorities for the further measures adopted in 1988 to liberalize capital flows and observed that these actions had also tended to reinforce cohesion within the European Monetary System. The Board was concerned, however, that slippages in controlling public expenditure had set back the process of fiscal consolidation. It stressed that decisive fiscal adjustment was needed without delay. The Italian authorities' intention to stabilize the ratio of public debt to GDP by 1992 was welcomed, but there was concern that this goal would become increasingly elusive as the average interest rate on the public debt increased. The Board stressed that the progressive erosion of the autonomy of monetary policy made fiscal correction all the more urgent—not only to ensure long-term financial stability, but also to contain recent inflationary pressures.

The Board urged the authorities to pursue structural reforms so as to reduce public spending on health, social security, and public transport. The ongoing process of European economic integration requires some harmonization of tax policies, which limits the scope for raising tax rates. Thus, long-lasting adjustment can best be secured by cutting expenditures and broadening tax bases.

Canada

The Canadian economy grew strongly in 1988, approaching the limits of full employment. This growth was accompanied, however, by a large but falling current account deficit, reduced competitiveness, a decline in the personal saving rate, tight monetary conditions, and signs of an increase in inflationary pressure.

The Board considered the authorities to be at a critical juncture in their policy choices, needing simultaneously to control the expansion of demand and to strengthen the supply side of the economy. A substantial reduction in the fiscal deficit was essential. The authorities had, in fact, acknowledged that fiscal policy was central and that a discretionary deficit reduction was needed. Emphasis should be placed on limiting expenditures, but action on the revenue side should not be excluded. The budget presented in April 1989 included expenditure reduction and revenue-enhancing measures aimed at returning the fiscal deficit to a downward track. The Board supported the structural adjustment measures of recent years, notably the reform of the sales tax system and financial deregulation. Nonetheless, further structural measures are needed to reduce obstacles to regional and sectoral adjustment and to expand labor market flexibility.

The authorities' tightening of monetary policy was appropriate—particularly in light of the high level of resource use. The Board welcomed Canada's active participation in the Uruguay Round of multilateral trade negotiations. It commended Canada's action to remove trade barriers, but stressed the need to reduce agricultural subsidies.

Smaller Industrial Countries

Article IV consultations with the smaller industrial countries addressed the same general concerns as those with the major industrial countries. Discussions continued to focus on the need for sound macroeconomic policies and for effective structural reform to improve overall efficiency and competitiveness. In 1988, the need for domestic demand restraint and stronger efforts to stimulate the supply side was a common theme. Several countries had to address large external deficits, while others found that increased fiscal restraint was vital in relieving pressure on monetary policy. Continued high unemployment and labor market rigidities persisted in many countries. Some countries needed to dampen inflation and reduce protectionism.

Despite these concerns, the Board commended most of the smaller industrial countries for their efforts at economic stabilization and structural adjustment and welcomed the widespread trend toward financial deregulation and tax reform. In general, fiscal policy was restrictive in 1988 as a result of favorable revenues and curbs on spending. The Board, in noting that several countries needed to liberalize their trade policies further, commended the liberal regimes of the Nordic economies.

Developing Countries

As discussed earlier, average real economic growth in the developing countries in 1988 was vigorous, but the performances of different country groups varied sharply. Output and investment growth was concentrated in Asia, while, with a few exceptions, the African countries and the indebted middle-income countries in the Western Hemisphere continued to experience weak growth and investment.

Although influenced by the global environment, the performance of developing countries depends to a large extent on their own economic policies. Consequently, the Board welcomed the considerable progress made in 1988 by a large number of developing countries—many in Africa—with substantive programs of structural and financial reform. Such reforms extended to the liberalization of trade and exchange systems. Many countries aimed their adjustment policies at achieving more efficient public resource management and promoting private sector activity.

Advances in economic adjustment in some developing economies have to be sustained and extended because of the magnitude of these countries' structural and financial problems, their limited resources, and, in many cases, rapidly growing populations. The issue of poverty alleviation—and the social consequences of adjustment policies—also received increased attention in 1988, and Article IV consultations included the use of social indicators and highlighted the efforts of some countries pursuing adjustment to protect the needs of their poorest and most vulnerable groups.

Growth prospects for the developing countries with debt-servicing problems are uncertain, underscoring the need for domestic policies oriented toward enhancing productive investment. These would include, in general, macroeconomic policies designed to raise domestic savings, reduce inflation, and foster capital formation and long-term growth, as well as structural policies to allocate resources more efficiently and to nourish sustainable growth over the medium term. Efforts to liberalize investment regimes and encourage repatriation of flight capital are important complements to attempts to mobilize resources for growth. A reduction of external debt, in conjunction with strong adjustment policies, would assist these countries in resuming growth.

In addition to these broad policy themes, the specific policies needed to strengthen economic performance in developing countries depend on the circumstances of each country. Article IV consultations frequently address the importance of limiting the growth of public spending by restraining public sector wages and employment. Reduced fiscal deficits curb inflation and prevent a crowding out of private investment. Another recurring theme is the need to sustain structural adjustment measures. The determined implementation of such measures at the appropriate time and in the proper sequence would help to encourage a recovery of domestic savings and investment, tackle infrastructural bottlenecks, and make tax systems and public enterprises more efficient. Further, these measures would bolster external positions that remain highly vulnerable to adverse global developments.

Many consultations with developing countries stressed the need to make public enterprises more efficient or, otherwise, to proceed with privatization, where considered appropriate. It was also important to eliminate price distortions through more market-oriented pricing mechanisms and to phase out administrative controls over goods, labor, and financial markets. Other issues that figured prominently in policy discussions were the need to reform the tax system (including broadening the tax base and more effective enforcement), reduce public subsidies, improve the financial system, extend the influence of markets over exchange rates, and remove exchange and trade restrictions.

Exchange rate policies continued to be a central feature of Article IV consultations, and many developing countries experienced a real effective exchange rate appreciation in 1988—following a large real depreciation during 1985–87. Consultations frequently indicated satisfaction with the flexibility of exchange rate management. Many developing countries have adopted more flexible exchange rate policies in recent years—also taking steps to unify their official and commercial market exchange rates—in order to promote exports and more efficient import substitution and to encourage inflows of foreign investment. These measures were coupled with efforts to eliminate exchange and trade restrictions and improve external debt management. In some developing countries, however, exchange rate management remained rigid; and many countries continued to maintain overvalued currencies and multiple exchange rates. In addition, a number of countries needed to make better efforts to eliminate outstanding external payments arrears.

Newly Industrializing Economies

As a group, the newly industrializing economies and other exporters of manufactures in Asia are growing faster by far than other economies in the developing world. They have benefited in particular from consistent outward-oriented growth strategies and from having started early on the road to industrialization. Article IV consultations showed that these economies were pursuing sound macroeconomic and structural policies, which permitted them to sustain high growth rates with low inflation. Particularly notable was the rising trend in private investment in several of these economies.

The newly industrializing economies benefited handsomely as a group from the buoyant trade growth in 1988, with most adding to their already sizable external surpluses. A few acted to halt, or modestly reverse, the real effective depreciations of their currencies, in recognition of their changed positions in the global economy. The Board commended the efforts of many newly industrializing economies to privatize inefficient public enterprises, to liberalize trade, and to reform financial and tax systems. Its general concerns centered on the need for a fuller reflection of market forces in the value of their currencies, a reduction in persistently large current account surpluses as a share of GNP, market-opening measures, vigilance on inflation, and continued financial and tax reform. The April 1989 Interim Committee communiqué reiterated many of these themes. It noted that some Asian newly industrializing economies could enhance their standards of living and contribute further to the process of international adjustment by stepping up deregulation of domestic markets, by liberalizing imports, and by bringing exchange rates to levels that reflected their economic fundamentals.

World Economic Outlook Exercise

The World Economic Outlook exercise allows the Board and the Interim Committee to review on a regular basis how the economic policies of member countries interact and what these policies imply for the global monetary system. These reviews are based on the staff's *World Economic Outlook* report, which contains a full analysis of short-term and medium-term prospects for the world economy, for the major industrial countries, and for various other country groups.

Besides providing a global context for the surveillance conducted in Article IV consultations with individual countries, the World Economic Outlook exercise helps identify potential conflicts and tensions that may arise between countries if economic policies continue unchanged. It is also a framework for monitoring and analyzing other important issues, such as the debt problem.

If world economic conditions change dramatically between regularly scheduled discussions of the World Economic Outlook, the Board may hold additional discussions.

Global Situation

In their April 1989 discussions of the World Economic Outlook, the Board and the Interim Committee noted the stronger-than-expected growth of output and investment in the industrial countries in 1988 and the rapid expansion of world trade. They observed, however, that the pace of growth in 1989 and 1990 is likely to slow to a rate more in line with growth in productive capacity, which may reduce the risk of inflation over the next year or two.

Less encouraging was the limited impact that the favorable external environment in 1988 had on many developing countries, especially the heavily indebted countries. The failure of growth and investment to recover sufficiently in most countries with debt-servicing problems suggests that they need to boost domestic saving, curb inflation, and encourage the repatriation of flight capital.

The Board and the Interim Committee welcomed the narrowing of external imbalances (in real terms) between the major industrial countries in 1988, but they noted that the adjustment had slowed in the second half of the year. Given present policies and exchange rate patterns, the Board does not generally expect external imbalances to narrow much further, if at all, in 1989–90. However, there is support for the view that changes in exchange rates since 1985 may help reduce these imbalances over the medium term.

Despite the contribution that domestic policies and exchange rate realignment can make to reducing external imbalances, the Interim Committee sees policy coordination among the major industrial countries as critical in reducing such imbalances in an orderly fashion and in maintaining growth without inflation. The deficit countries urgently need to increase their national savings; in particular, the Interim Committee stated in its April 1989 communiqué that early action by the United States to reduce its fiscal and trade deficits without pushing up interest rates was essential. On the other hand, the major surplus countries—the Federal Republic of Germany and Japan—need to adopt macroeconomic and structural policies that encourage the growth of domestic demand without inflation and that promote external adjustment. This is also true of other surplus countries, including some of the newly industrializing economies of Asia.

Industrial Country Policies

Discussions of the economic policies of industrial countries in the context of the World Economic Outlook exercise revealed the Board's concern about inflation in several countries. Monetary policy was central to economic management in 1988, and monetary conditions in most countries became considerably more restrictive. Too heavy a reliance on monetary policy, however, needs to be avoided, because high interest rates discourage investment and aggravate the debt-servicing burden of the developing countries. One way to avoid these adverse consequences is to reduce public sector consumption (or "absorption") of goods and services, especially in countries with large public sector deficits. Recent reductions in the public share of total spending—and in government use of national savings—have been insufficient in several industrial countries. Further effort toward reducing fiscal imbalances is needed to meet future commitments to social security and public health, and to build up adequate capital.

To resume progress in reducing external imbalances, following the apparent stalling of the adjustment process in the second half of 1988, policy changes are needed to bring about a desirable pattern of domestic demand and output growth. In the deficit countries, a combination of efforts to achieve fiscal balance and to remove distortions that inhibit private saving would help to contain aggregate demand and to expand the tradable goods sector. In the surplus countries, there is need to implement macroeconomic and structural policies that will sustain noninflationary growth of domestic demand so that it exceeds growth in output. In this way, the capacity of these countries to absorb imports will be increased.

Increased attention is being given to structural reforms in strengthening countries' overall economies and expanding their productive capacities. Despite some success, industrial countries need more structural reforms to sustain faster growth without higher inflation. Comprehensive structural reform is most desirable, but because of political and technical constraints, a pragmatic, partial approach may sometimes be more likely to gain acceptance.

The Board sees structural (or supply-side) and macroeconomic policies as complementary; supply distortions compromise the effectiveness of macroeconomic policies and interfere with the efficient use of resources. Labor market reforms remain a priority, especially in Europe, and countries urgently need to restructure industrial and agricultural policies. The reduction

Box 4

What Is Structural Adjustment?

The beginning of the 1980s marked a change in the thinking of economic policymakers in the industrial countries. Realizing that traditional macroeconomic policies—including fiscal, monetary, and, in some countries, incomes policies—had failed to foster noninflationary economic growth with full employment in the previous decade, they sought to strengthen economic performance over the medium term. Policymakers recognized not only that traditional macroeconomic policies needed a medium-term orientation but also that the way economies function had to be improved.

The longer-term orientation of policies highlighted productive capacity as critical to economic performance. It emphasized measures to raise the economy's output potential and to increase the flexibility of factor and goods markets. This new emphasis called for less government intervention and less regulation of private markets.

Structural measures can be classified into two broad categories:

(1) Measures that eliminate inefficient use of resources and allow more rapid adjustment to technological innovations, changes in relative prices, or trade liberalization. Such measures remove rigidities impeding the mobility of resources—such as institutional or regulatory barriers to the mobility of labor—and eliminate price distortions.

(2) Measures that boost output potential by adding to productive resources (such as capital and labor) or by raising overall productivity. Promoting research and development, applying technical knowledge more effectively to production, and eliminating taxes that distort private saving and investment decisions are examples of these.

of trade distortions, especially in agricultural trade, is vital to structural reform.

Policy changes are required that will reduce the large external imbalances among the industrial countries and support the current medium-term growth strategy. A policy mix relying more heavily on fiscal consolidation in deficit countries, on measures to promote growth of domestic demand greater than output growth in surplus countries, and on structural reform in all countries could help reduce external imbalances and sustain growth without inflation.

Capacity constraints in the major deficit countries limit the effectiveness of further exchange rate changes in the absence of changes in policies. While external adjustment may include further changes in real exchange rates over time, it is the Board's view that such changes need to be accompanied by the implementation of appropriate fiscal and structural policies.

Developing Country Policies

The rapid growth of trade in 1988 has helped ease the debt problems of a number of developing countries—especially exporters of manufactures—but in many heavily indebted countries growth has slackened, debt-servicing burdens have become heavier, and inflation has risen. As already noted, these countries need to boost domestic savings, encourage investment, and reverse capital flight. Controlling inflation and reinforcing structural policies will promote the efficient use of resources.

The Board commended the considerable progress that a large number of developing countries achieved in 1988 with programs of structural and fiscal reform. Increasing Fund technical assistance in tax and expenditure policies, budgeting, and statistical services would help members implement comprehensive programs.

Beyond the requirement of more effective domestic policies, a favorable external environment is vital to the prospects of the developing countries. These countries can be harmed by policy adjustments and protectionism in industrial countries. Improving industrial policies and liberalizing trade policies would not only make industrial economies more competitive and their resource allocation more efficient, but would also expand marketing opportunities and allow a spillover of higher growth rates to the developing countries.

With sizable outstanding debt and high ratios of debt service to exports, developing countries also depend for growth on their relations with external creditors. Creditors should respond to determined economic and structural reform programs in these countries with appropriate and timely financial support, through rescheduling or reducing existing debt and providing new money on more concessional terms.

Policy Coordination

Intensified policy coordination among the major industrial countries in recent years is useful in an increasingly interdependent world, where countries—especially the major industrial countries—should take into account the international implications of their domestic policies. While still evolving, coordination has demonstrated its ability to improve the functioning of the global economy and the world monetary system.

By imparting a global perspective, the Fund is contributing to strengthened coordination. Existing practices, such as the contribution of the Managing Director to the Group of Seven's coordination efforts, and the use of economic indicators by the Fund (see discussion of analytical issues, below), are bolstering coordination. The Board has stressed the need to promote trade liberalization. The Uruguay Round of multilateral trade negotiations offers a venue for multilateral cooperation in reducing tariff and nontariff barriers to trade in goods and services. The Fund welcomes the satisfactory conclusion of the Round's Mid-Term Review.

Coordination must be viewed as a mechanism for promoting sound macroeconomic and structural policies rather than a substitute for such policies. Although fiscal and structural policies are more difficult to make consistent than monetary policies, they are integral to effective coordination. The Interim Committee, at its April 1989 meeting, echoed this theme by stating that coordination provides an appropriate framework for the industrial countries to "develop an adequate mix of fiscal and monetary policies, supported by structural policies, in order to maintain noninflationary growth and reduce external imbalances." In the Board's view, coordination is most effective when it is continuous, rather than episodic; is set in a medium-term framework; pays due attention to fundamentals; and is broadly focused.

Monetary and Financial Systems

In discussing the international monetary system, the Board reaffirmed the Fund's responsibility for keeping the system functioning well. It agreed that disciplined and coordinated policies were necessary for the successful operation of *all* exchange rate systems, from fixed to freely floating. The Board expressed doubts about the value of estimating equilibrium exchange rates; at the same time, it was wary about relying exclusively on market forces to determine exchange rates. In this connection, the Board commended the greater emphasis placed by country authorities on pursuing policies to promote exchange rate stability in recent years.

On the issue of international liquidity, the Board noted the increased depth and breadth of private capital markets. Nevertheless, Board members agreed that the monetary system will function more smoothly if attention is directed to provisions for promoting the appropriate supply of international liquidity. Since the SDR can contribute to this task, the Board discussed various ways to enhance its role as a monetary asset. (See discussion of international liquidity and the SDR, below.)

International capital markets were active in 1987–88, as capital flows were further liberalized. The integration of capital markets and the development of innovative financing instruments, however, pose new challenges for policymakers.

The Board broadly supports the European Community goal of a single market by 1992, and particularly the integration of financial markets. At a February 1989 meeting it underlined the need to take adequate account of the impact that the single market could have on trade and financial flows between the European Community and the rest of the world. Some concern was expressed about how open and nondiscriminatory the single market would be. The Board welcomed assurances that far from envisioning a rise in the average level of external protection, the single market program had the indisputable aim of furthering both internal and external trade liberalization. The European Monetary System has maintained fixed but adjustable exchange rates between its members; the Board commended the establishment of a zone of monetary stability in the EMS.

Analytical Issues in Surveillance

Economic Indicators

In its surveillance activities (both Article IV consultations and the World Economic Outlook exercise), the Fund examines a wide range of economic variables. Among the numerous indicators that are monitored and analyzed are GNP growth rates, inflation, unemployment rates, fiscal and monetary trends, external debt developments, structural indicators, trade and current account balances, capital flows, investment, savings, exchange rates, and reserves.

In order to oversee more effectively the policies of its member countries, the Fund has developed an analytical framework in which to assess these policies in a multilateral perspective and to support intensified economic policy coordination among the major industrial countries. To facilitate this process, the Fund staff prepares medium-term projections for a range of indicators that are being used as a basis for monitoring and reviewing the policies and performance of the large industrial countries. In addition, the Fund staff prepares, for discussion by the Board, medium-term scenarios to illustrate the effects of alternative policy assumptions and to help identify potential conflicts that may need to be addressed by policymakers.

Article IV consultations with the major industrial countries give considerable attention to analyzing the evolution of economic indicators. This

Box 5

A Chronology of the Indicator Approach

- In the Tokyo economic declaration in *May 1986*, the heads of state or government of the seven major industrial countries ask their finance ministers to review their individual economic objectives and forecasts collectively at least once a year, using specified indicators, "to assess their mutual compatibility." The indicators specified are GNP growth rates, inflation, interest rates, unemployment rates, ratios of fiscal deficits to GNP, current account and trade balances, money growth rates, reserves, and exchange rates. The summit declaration notes that the Fund's Managing Director will participate in the review of indicators by the major industrial countries.
- The Interim Committee, meeting in *September 1986*, welcomes the agreement at the Tokyo summit to use indicators in conducting surveillance and their greater use in the latest World Economic Outlook analysis. The Committee emphasizes that indicators should focus on interactions among national economies, in particular on developments affecting the sustainability of balance of payments positions and on underlying policies. It asks the Board to develop further the application of indicators in the context both of consultations with members and the World Economic Outlook exercise.
- The Interim Committee's *April 1987* communiqué states that "actual policies should be looked at against an evolution of economic variables that could be considered desirable and sustainable." In pursuing this work, the Committee asks the Board to focus on a limited set of key indicators and to appraise the international interactions of domestic policies and performance in the light of alternative medium-term scenarios.
- At their *June 1987* economic summit in Venice, the major industrial countries endorse the use of indicators in surveillance. The summit communiqué calls for strengthening, with the assistance of the Fund, the surveillance of the Group of Seven countries, using economic indicators, including exchange rates, to review and assess current trends and to determine "whether there are significant deviations from an intended course that require consideration of remedial actions."
- At their *June 1988* economic summit in Toronto, the major industrial countries commend the refinement of the analytical use of indicators and the addition of a commodity-price indicator. The Group of Seven agrees to review the progress on structural reforms and to strive to integrate them into the coordination process.
- The *September 1988* Interim Committee session reaffirms the role of indicators in reinforcing economic policy coordination among the larger industrial countries; the Committee encourages the Board to explore the possibility of strengthening surveillance, both in the areas of economic indicators and—for the first time—structural policies.
- At its *April 1989* meeting, the Interim Committee underscores the contribution of intensified economic policy coordination to the greater stability of exchange rates and to more consistent policy implementation. The Committee urges the Board to continue strengthening the analytical framework underlying multilateral surveillance, to examine the effects of structural measures, and to develop criteria for identifying desirable and sustainable policies in a medium-term perspective.

analysis guides the appraisal of national policies and helps the multilateral assessments of policy interactions that are a part of the World Economic Outlook exercise. Indicators can also be useful in consultations with other countries. A common framework for making economic assessments must not be used, however, at the expense of an analysis tailored to each member country's circumstances and directly relevant for the authorities' concerns.

Developments in 1988/89

The Interim Committee continues to encourage the Board to refine the use of economic indicators to guide Fund surveillance. In September 1988, the Committee welcomed the closer policy coordination achieved among the industrial countries, partly crediting this to the use of economic indicators. The Committee encouraged the Board to explore the possible strengthening of surveillance, "both in the fields of economic indicators and in the area of structural policies," in order to improve the appropriateness, consistency, and timely implementation of policies adopted by the industrial countries.

The Board considered the analytical aspects of surveillance at its March 1989 meeting on the World Economic Outlook. Board members were satisfied with the development of the analytical basis, but thought that further improvements might be possible through a better understanding of the interaction of the various indicators *within* individual economies and *among* countries; increased coverage of structural policies in Article IV consultations; and further development of medium-term scenarios. Later that month, the Board discussed the functioning of the international monetary system. At that session, the Board restated the need to continue strengthening policy coordination. It also commented on the role that "monitoring zones" for key economic indicators might play in helping implement stronger international policy coordination. It regarded such zones as a tool for judgmental analysis rather than an automatic trigger for policy responses.

Most recently, at its April 1989 meeting, the Interim Committee urged the Board to continue strengthening the analytical framework for multilateral surveillance; it asked the Board to examine the effects of structural measures adopted in member countries and to develop criteria for identifying which policies would be desirable and sustainable over the medium term.

Changing Scope of Indicators

The list of economic indicators, first specified in the 1986 Tokyo economic summit declaration (see box, above), has evolved gradually. The number of indicators currently used in the World Economic Outlook is somewhat smaller and more specific. It includes the following:

- growth of real GNP (or GDP)
- growth of real domestic demand
- GDP deflator
- general government financial balance
- current account balance
- gross private investment
- primary commodity prices

The broad indicator of commodity prices, which was first proposed by U.S. Treasury Secretary Baker at the September 1987 Annual Meeting, was discussed by the Board in January 1988 with a view to introducing a commodity price index as an indicator of future price developments. Since commodity prices often lead movements in consumer prices in industrial countries, it was thought that such an early warning signal might complement other indicators in providing timely information about shifts in global inflation. It was recognized, however, that, because consumer price inflation has been far less volatile than commodity price inflation, the stability of consumer prices may not necessarily require stability of commodity prices. While commodity price indices are now used as broad indicators of future consumer price developments in the industrial countries, work is continuing on their refinement.

At a February 1989 meeting to assess the role of structural policies in the industrial countries and the possible use of structural indicators, the Board concluded that the Fund should expand its surveillance to include structural policies, without deviating from its central macroeconomic focus. The Board acknowledged that the use of quantitative structural indicators had to be approached cautiously. It saw possible scope for experimentation with quantitative structural indicators in Article IV consultations, but not yet in the context of the World Economic Outlook exercise.

International Liquidity and the Role of the SDR

During the past year, the Executive Board has continued its discussions of the measurement of the adequacy of international reserves and liquidity and ways to invigorate the role of the SDR in the international monetary system, as enjoined by the Articles.

Adequacy of International Reserves

In considering the adequacy of international reserves and liquidity, the Board noted that the expansion of private international capital markets has made international liquidity a broader—and in many ways a more relevant—concept than international reserves. Most see these structural changes as rendering the level of reserves and the ratios of reserves to imports less meaningful for assessing the long-term global need for reserve supplementation, although there is also a strong sentiment that such indicators remain useful rules of thumb. Despite the growth and the breadth of private capital markets, efforts to improve the functioning of the international monetary system should pay adequate attention to the supply of international liquidity.

In view of limitations on using reserve-to-import ratios and difficulties in constructing quantitative measures of international liquidity, there is some support in the Board for placing greater reliance on a comprehensive, judgmental approach to assessing the long-term global need for reserve supplementation encompassed by quantitative and qualitative considerations. Opinions differ as to how far such an approach can be taken while remaining consistent with the provisions of the Articles.

Box 6

Adequacy of Reserves and Liquidity

An adequate stock of reserves allows countries to avoid abrupt adjustments in economic policies in response to unanticipated disturbances that adversely affect their international payments positions.

The *demand* for reserves is influenced by a number of factors. These include the speed with which external imbalances respond to policy changes; the opportunity cost of holding reserves; the exchange rate regime; the size and nature of the domestic and external shocks to a country; and the extent to which a country has access to international capital markets. How readily this demand is satisfied at any particular time depends on the responsiveness of the supply of reserve assets.

The *supply* of reserves is affected by such factors as the monetary and fiscal policies of the reserve currency countries, the state of these countries' balance of payments, and developments in international capital markets. The expansion of private international capital markets has greatly extended the capacity of national authorities to obtain reserves either by borrowing foreign currency directly or by issuing debt denominated in domestic currency and using the proceeds to purchase foreign exchange.

The adequacy of reserves can be appraised in a number of ways. In past discussions of the need for reserves, for both individual countries and the entire system, the ratio of reserves to imports *and* changes in this ratio were used as criteria. The rationale for doing so was that reserves are needed as adverse fluctuations in external payments relative to receipts and the size of reserve needs are likely to grow with the scale of international transactions. The value of merchandise imports may be too narrow a concept to measure reserve needs, however, and adverse fluctuations may also be related to payments for services, imports, and other nonmerchandise items, including debt-servicing payments.

An additional argument against relying on reserve-to-import ratios is that international reserves constitute only one element in a country's more broadly defined international liquidity, which consists of the resources that the country has readily available for financing balance of payments deficits or intervening in foreign exchange markets to stabilize the value of its currency. Accordingly, measures of international liquidity typically include not only official international reserve assets, but also (1) assets held by private domestic residents that are close substitutes for official reserves, (2) external resources readily available from international organizations and national authorities, and (3) external resources readily available from private foreign sources.

Several different quantitative approaches might be contemplated for assessing the adequacy of international liquidity.

- The most direct approach would attempt to measure the liquidity available from private and official sources combined. On conceptual grounds, however, such a direct approach is subject to problems of aggregation, because it would mix conditional and unconditional resources, with different degrees of liquidity, as well as resources available over the short term and the long term.

- A second possible approach would be to assess the adequacy of international liquidity from data showing the extent to which countries have actually expanded their external borrowing. However, a contraction (or relatively small expansion) of external debt does not always indicate a liquidity problem and, conversely, a relatively large expansion of external debt may be caused by a severe liquidity problem.

- A third approach to assessing the adequacy of international liquidity would look for symptoms or indicators of inadequate liquidity, such as a widespread increase in import restrictions or a marked increase in forms of international transactions that do not require liquidity (for example, barter). One variant is to try to infer the adequacy of international liquidity from statistics on the volume of international trade and the pattern of real economic activity. Conceptually, the basis for this approach is the presumption that liquidity shortages give rise to import compression, but there are pitfalls to be avoided: imports may decline when liquidity is adequate, as in the case of economic recessions that are not themselves the result of liquidity shortages, and contractions of world trade may not be related to liquidity shortages.

Role of the SDR

Discussions have continued about the role that the SDR might play in stabilizing exchange markets, promoting growth-oriented adjustment, providing an anchor against inflation, and improving the efficiency and stability of the reserve system. Within the Board there is a range of views on how the SDR might better promote exchange market stability. This objective has been a prominent motive for strengthened economic policy coordination among the major industrial countries over the past three years. In this context, some feel that it would be desirable to enlarge the stock of owned reserves, or to expand the external resources that national authorities can readily obtain from sources other than private capital markets, or to promote off-market mechanisms for diversifying official reserve portfolios. Others, however, have expressed concern about the SDR as a source of unconditional liquidity, and the effects that SDR allocations could have on inflation and on adjustment incentives in developing countries.

There is some support in the Board for making existing SDRs more readily available in exchange for other currencies through voluntary operations. This support extends to expanding members' authority to borrow or lend SDRs through voluntary operations; others consider that unlimited lending and borrowing operations could undermine the monetary character of the SDR. While sharing a desire for greater exchange market stability, some Directors feel that existing arrangements for financing official intervention are broadly adequate and that an SDR allocation for this purpose is neither necessary nor in accordance with the Articles.

The Board has noted that attempts to strengthen the role of the SDR in the international monetary system would be more successful if the SDR was made more attractive. Toward this end, there is some support for expanding the list of official holders and for encouraging greater official and private use of SDR-denominated assets. There has also been some interest in such mechanisms as a clearing house, SDR certificates that would allow wider use of SDRs, and substitution and asset-settlement schemes. The proposition that, in the long run, it is desirable to consider a system in which the central reserve asset is no individual country's liability has received support as well. On the other hand, it has been argued that reserve diversification and more effective discipline over policies of reserve center countries could be better pursued by other means, such as enhanced multilateral surveillance and policy coordination among the major industrial countries.

The SDR system—and, in particular, further SDR allocations—could, according to some, play an important role in facilitating growth-oriented adjustment. This position is based on the view that some countries face uncertainties in private credit markets in obtaining borrowed resources; that increasing reserves through current account adjustment has unfavorable effects if achieved by unduly depressing imports and productive investment; that adequate international liquidity has a tendency to contribute to—rather than substitute for—effective adjustment; and, finally, that inadequate reserves could have an inhibiting effect on carrying out debt reduction techniques. Others, however, feel that current circumstances in indebted developing countries call primarily for conditional—rather than unconditional—liquidity and for a revival of long-term capital flows based on fundamental improvements in creditworthiness. They also emphasize that an SDR allocation might give rise to inappropriate forms of demand stimulus, especially now that capacity utilization is high in many countries.

In addressing how SDR allocations could be made without stimulating inflation, the idea has been broached of a two-stage process in which an individual country's receipt of its allocation would be subject to Board surveillance, while the use of SDRs, once received, would remain unconditional. This approach, however, is regarded as inconsistent with the unconditional and "owned" character of the SDR. It would also require an amendment of the Articles.

The Board has considered the potential of the SDR to improve the efficiency and stability of the reserve system. The sharp differences in the terms under which reserves and liquidity have been made available to different countries, and even to the same countries over time, are seen by some Directors to offer a good reason for moving away from a system that relies heavily on borrowed reserves. Private financial markets are viewed as providing efficient and flexible means of adjusting reserves for countries with sufficient creditworthiness, but many developing countries have found it necessary since 1982 to acquire reserves at a much higher cost through current account adjustments. There is need for caution, however, in distinguishing an overall reserve shortage from a reserve shortage for individual countries or groups of countries. In this respect, there is some concern that an SDR allocation could reduce incentives for countries to undertake appropriate economic policies directed at restoring their access to international financing. Moreover, any prolonged net use of SDRs might counter the objective of having the SDR serve as a reserve asset.

2. External Debt Situation and Strategy

A number of indebted countries have made considerable progress since the debt crisis broke out seven years ago, but debt problems continue to hamper stable economic growth in many others. Attention has increasingly turned toward reinforcing the debt strategy to strengthen economic growth and expand debt-servicing capacity. The Fund adopted in May 1989 broad guidelines for its lending policies that could, on a case-by-case basis, facilitate a reduction in the volume of outstanding debt and debt-service payments. It will thus continue to play a pivotal role in the debt strategy, through its support for strong adjustment policies, and in addition may provide financial support for debt and debt-service reduction in the context of sustained adjustment policies. While the low-income countries have begun to benefit from official debt reduction, they cannot finance themselves on market terms and thus continue to require external assistance on concessional terms.

Almost seven years have passed since the debt crisis broke out. Throughout this period, the Fund has been active in designing and implementing the cooperative strategy for dealing with the debt problem. That strategy is based on a case-by-case approach with three basic elements: the pursuit of growth-oriented adjustment and structural reform in debtor countries; the provision of adequate financial support by official, multilateral, and private sources; and the maintenance of a favorable global economic environment. The ultimate objective of this strategy is a return to satisfactory economic growth and the restoration of spontaneous access to credit markets for debtor countries.

Since the debt problems emerged in 1982, the condition of many countries with debt-servicing difficulties has improved: external debts have been restructured, adjustment programs have been put in place, and external current account positions have been strengthened. In addition, official financing for the low-income countries has expanded in connection with Paris Club reschedulings. A major disruption to the global payments system has been avoided. Commercial banks have strengthened their capital and built reserves, placing them in a stronger position to contribute to a more rapid resolution of debt problems.

Despite these advances, the prospects for debtor countries are uncertain, and they remain highly vulnerable to adverse external developments. Adjustment has not been sufficiently strong and sustained in many debtor countries and has been made more difficult by terms of trade deterioration, continued protectionism, and renewed increases in international interest rates, as well as uncertainties regarding external financial support. Average external debt ratios declined in 1987 and 1988, but remain high for countries with debt-servicing problems.

Debt Reduction

In view of these mixed results and continuing uncertainties, the debt strategy needed to be strengthened in a way that would encourage debtor countries to implement policies that will promote their growth, lead to sustainable balance of payments positions, and enlarge their debt-servicing capacity while shielding them from exceptional unfavorable external factors. This would enable debtor countries to attract private capital flows and direct investment and help reverse capital flight. Stronger debt-servicing capacity might, in turn, induce commercial creditors to resume voluntary lending to debtor countries.

In some situations, improved incentives might help debtors struggling under onerous debt-service burdens and heavy outward transfers of financial resources to persevere with effective adjustment. A widespread recognition of this need has moved the debt strategy to a new phase that incorporates explicit consideration of debt and debt-service reduction.

At its April 1989 meeting, the Interim Committee reaffirmed the case-by-case approach to debt problems and the central importance to debtor countries of implementing growth-oriented reforms and improving the investment climate. The Committee emphasized that new financing from private and official sources—and reflows of flight capital—depend on strong and sustained adjustment policies in debtor countries.

At the same time, the Interim Committee and the Development Committee welcomed the fact that new proposals had been made by several countries, including France, Japan, and, more recently, the United States, to strengthen the debt strategy and to emphasize greater reduction of debt and debt service. Voluntary debt reduction would complement new lending, cut back financing needs to more manageable levels, and reduce the stock of debt over time. The Fund continues to play a central role in the strengthened debt strategy, through its policy guidance and financial support.

Debt reduction operations have been developed in recent years and have broadened the menu of financial options to address the diverse needs of middle-income debtors and their creditors. These techniques include debt for equity swaps, debt buy-

Box 7

Debt Proposals

French President François Mitterrand outlined a proposal prior to the Toronto economic summit in June 1988 and at the United Nations in September. He called for considerably easier debt repayment terms for the poorer countries. For the middle-income debtors, he favored a special SDR allocation to finance the creation of a guarantee fund managed by the IMF, to guarantee interest payments on commercial loans converted into bonds. The guarantee provided by this new fund would facilitate the negotiation of debt reduction schemes, and thus significantly lower the finance charges payable by debtors.

In the summer of 1988, Japan's Minister of Finance put forward a proposal that could allow creditor banks to swap, for guaranteed bonds, part of the debt owed to them by debtor countries. The debtor would in turn deposit in an escrow account in the Fund an amount equivalent to the guarantee. The balance of the debt would be rescheduled.

On March 10, 1989, U.S. Treasury Secretary Nicholas F. Brady proposed steps to strengthen the debt strategy and to provide financial support for debtor countries' efforts to reform their economies and achieve lasting growth. These proposals increased the emphasis on debt and debt-service reduction as a complement to new lending by commercial banks and stressed investment and flight capital repatriation as important sources of capital.

The key proposals included:

- adoption of sound economic policies, with stronger emphasis on measures to increase foreign and domestic investment and the repatriation of flight capital;
- timely support from the IMF and World Bank for countries' reform programs, in part through financing for debt and debt-service reduction transactions; and
- active participation by commercial banks in providing financial support through the negotiation of debt and debt-service reduction and new lending, where needed.

backs, exit bonds, securitized new money claims, and fees to encourage early participation by banks in restructuring agreements.

In considering the debt problem in March 1989, the Board emphasized that sustained adjustment remains fundamental to debtor countries' prospects of achieving growth and a return to voluntary lending. Strong adjustment is also likely to promote the return of flight capital, so easing financing problems. In this connection, the Board noted that too gradual a medium-term policy approach was not the best way. It also pointed to the need for debtor countries to signal their willingness to cooperate in the strategy by creating a hospitable environment for foreign direct investment.

Quite apart from policy measures that debtor countries need to adopt, the Board also discussed, in November 1988, the scope for financial risk management by these countries to protect themselves—and their adjustment and development objectives—against volatile interest rates, commodity prices, and major currency exchange rates. The Board concluded that there was scope, in individual cases, for using more market-related hedging instruments—such as financial options and futures—especially if these markets continue to expand. However, the benefit of hedging operations needs to be assessed carefully.

The Interim Committee cited the need to act quickly in carrying out debt reduction plans for countries embarked on strong adjustment programs. The Committee welcomed Japan's offer to extend additional financing to indebted countries in parallel with Fund arrangements and within the framework of the strengthened debt strategy. It also considered it important that the World Bank play its commensurate role in the debt strategy and that the Fund and Bank collaborate closely on these issues.

The Interim Committee also encouraged creditor governments to review the extent to which their tax, regulatory, and accounting systems might discourage the participation of commercial banks in such operations.

The Interim Committee underlined the Fund's important role in the debt strategy; this role entails policy advice and the provision of financial assistance that will attract (or "catalyze") financing from other sources. It requested the Board to consider, as a matter of urgency, the issues and actions involved in the proposals. It directed the Fund to "provide resources in appropriate amounts to members to facilitate debt reduction operations for countries undertaking . . . sound economic reforms, by setting aside a portion of members' purchases under Fund-supported arrangements." While the Interim Committee approved the concept of debt reduction, it requested the Board to examine the question of provision of resources for limited interest support for transactions involving significant debt or debt-service reduction.

In May 1989, the Board discussed the issues concerning the Fund's involvement in debt and debt-service reduction, as directed by the Interim Committee. It agreed on a set of guidelines for eligibility, the kinds of debt operations the Fund would support, the degree of access to Fund resources, and the Fund's policy on financing assurances. (Similar guidelines were formulated by the World Bank shortly thereafter.) Directors emphasized that the guidelines are to be applied flexibly, on a case-by-case basis, and the policy is expected to evolve in light of experience. The Board will review debt reduction operations in a year's time or earlier as needed.

The Board agreed that Fund support for debt reduction operations will be open to all members, subject to the following criteria:

- the sustained pursuit of strong economic policies, in the context of a medium-term program supported by the Fund, which includes strong elements of structural reform;
- the likelihood that such voluntary, market-based operations will help the country regain access to credit markets and achieve external payments viability with economic growth; and
- a determination that support for the reduction of debt and debt service represents an efficient use of scarce resources.

The Board agreed that a certain proportion of Fund resources committed under an extended or stand-by arrangement could be set aside to reduce the stock of debt through buybacks or exchanges; while this percentage will be determined on a case-by-case basis, it would normally be around 25 percent. Drawings on the amounts set aside will be phased in line with the member's performance under the adjustment program, although some front-loading may be permitted in certain cases.

The Fund would be prepared to approve additional access to its resources, in certain cases, provided that such support is decisive in promoting further cost-effective operations and in catalyzing (that is, mobilizing) other financial resources. Such additional access—up to 40 percent of the member's quota—will be used for interest support, in connection with debt or debt-service reduction. Actual access will be determined case by case, in light of the magnitude of the member's balance of payments problems, the strength of its adjustment program, and its efforts to contribute its own resources to support debt and debt-service reduction.

Fund resources in support of debt reduction will be disbursed only when the Fund-supported adjustment program is on track; if the Board is satisfied with the authorities' description of the debt reduction plan agreed between the debtor and its commercial bank creditors; and on the understanding that the debt reduction operations are market based (or at market-related prices) and involve substantial discounts.

The Fund will review periodically the progress of individual debt reduction operations to ensure that a substantial reduction in debt or debt-service obligations is occurring, consistent with movement toward a sustainable balance of payments position for the debtor. At the same time, the Fund will not interfere directly in the negotiations between members and their bank creditors. The Board stressed the importance of close collaboration between the Fund and the World Bank in supporting effective debt reduction operations by member countries.

After the Fund's approval of broad guidelines for its involvement in the revised debt strategy, the guidelines were applied in four initial cases:

- *Costa Rica.* An SDR 42 million stand-by arrangement was approved on May 24, with 25 percent set aside for debt reduction and the possibility of additional Fund resources of up to 40 percent of Costa Rica's quota for debt-service reduction.
- *Philippines.* Also on May 24, the Fund approved an SDR 660.6 million extended arrangement, with another SDR 286.3 million to be made available under the compensatory and contingency financing facility. Again, 25 percent of resources approved under the extended arrangement were set aside for debt reduction, with the possibility of an additional sum, up to 40 percent of the Philippine quota, for debt-service reduction.
- *Mexico.* The Fund approved SDR 2.8 billion under an extended arrangement on May 26, with SDR 453.5 million available under the compensatory and contingency financing facility. Thirty percent of the Fund resources available under the extended arrangement were to be set aside for debt reduction, with the possibility of an additional amount, up to 40 percent of the Mexican quota, to be made available for debt-service reduction.
- *Venezuela.* On June 23, the Fund approved SDR 3.7 billion under an extended arrangement, with 25 percent to be set aside for debt reduction, and the possibility for additional resources, up to 40 percent of Venezuela's quota, for debt-service reduction.

In addressing debt reduction, the Interim Committee has cautioned that due account must be taken of the Fund's mandate and the need to preserve its financial integrity. The

Board, in discussing the debt problem in March 1989, cited the need for assurance that sufficient Fund resources be available for general balance of payments support of adjustment programs—which remains the Fund's principal financing role.

In May 1989, the Board discussed the financial impact of debt reduction operations on the Fund and agreed that such Fund support could be accommodated without harmful effects on the Fund's liquidity position in the near term. It stressed, however, that Fund support for debt reduction needs to be taken into account in considering the need for a quota increase under the Ninth Review.

The Board also discussed the Fund's policy of financing assurances, whose basic objectives are to ensure that adjustment programs are adequately financed; that financing helps return the country to a viable balance of payments position, enabling it to repay the Fund; that the burden of financing is shared equitably; and that orderly relations between the member country and its creditors are maintained or re-established.

The Board agreed to the following modifications of its policy on financing assurances in light of changes in the financial environment and the possibility that debtors may need more time to agree on financing packages with their creditors.

- The Fund may, on a case-by-case basis, approve an arrangement outright before the conclusion of an appropriate package is agreed between the member and commercial bank creditors if it is judged that prompt Fund support is essential for program implementation, that negotiations between the member and the banks have begun, and that it can be expected that a financing package consistent with external viability will be agreed within a reasonable period of time. Progress in the negotiations with bank creditors will be closely monitored. When circumstances warrant, the practice of seeking a critical mass, as well as the possibility of approving an arrangement in principle, will continue to be followed.

- In promoting orderly financial relations, every effort will be made to avoid arrears, which could not be condoned or anticipated by the Fund in the design of programs. Nevertheless, an accumulation of arrears to banks may have to be tolerated where negotiations continue and the country's financing situation does not allow them to be avoided. The Fund's policy of nontoleration of arrears to official creditors remains unchanged.

The Interim Committee emphasized that official creditors must not substitute for private lenders and that any

Box 8

Debt Reduction Mechanisms

Buy-Backs

Debt buy-backs permit countries to repurchase their debt at a discount for cash. When negotiated directly with the debtor country, buy-backs normally require waivers from creditor banks of certain provisions in loan or restructuring agreements. Either the country's international reserves or foreign exchange donated or borrowed from official or private sources may be used for such operations. Banks have approved the use of this technique in three recent cases:

- The *Bolivian* buy-back scheme went into operation in 1988. By early 1989, about half the outstanding principal owed to commercial banks had been retired or converted into collateralized bonds under this scheme. The Fund, through the establishment of a voluntary contribution account, administered the receipt and disbursement of donations made for the purpose of the buy-back.
- In *Mexico*, more than $5 billion of private sector debt covered by the Foreign Exchange Risk Coverage Trust Fund was bought back during 1987–88.
- *Chile* and its commercial bank creditors agreed in 1988 to amend the existing rescheduling agreement to allow for direct buy-backs (or debt exchanges) by the Government. Chile could use up to $500 million for these operations to buy back or extinguish up to $2 billion of old debt. In November 1988, $299 million of old debt was bought back for $168 million.

Swaps

- *Debt-equity conversion schemes* have been established in many countries (Argentina, Brazil, Chile, Costa Rica, Mexico, the Philippines, Uruguay, Venezuela, and Yugoslavia) normally in the context of bank restructuring agreements. During 1984–88, an estimated $16.5 billion in bank debt was converted under officially recognized schemes, equivalent to almost 5 percent of outstanding bank debt of these countries. Under these schemes, foreign banks may swap their loan claims for an equity investment, while foreign nonbanks may purchase loan claims at a discount in the secondary market to finance direct investment or purchases of domestic financial assets. In some cases, resident nationals of the country may also purchase bank loan claims, employing their own external assets (in-

Fund participation in debt alleviation requires strong financial support—including new money—from commercial banks. The Board has stressed, in the same vein, that the shift in emphasis toward debt reduction must not be an excuse for banks to delay their financial support. Debt reduction can help reduce new financing needs but cannot replace the need for strong adjustment programs. Adequate and timely bank support remains critical for countries undertaking adjustment efforts.

At its April 1989 meeting, the Interim Committee also noted that the Fund's role in the evolving debt strategy was another factor to be taken into account by the Executive Board in its work on the Ninth General Review of Quotas; this work is to be completed with a view to a decision by the Board of Governors before December 31, 1989.

cluding flight capital) in order to convert them into domestic assets (such as privatized public entities).

- *Debt for export swaps* have been arranged by a few countries. Normally, an importer buys bank debt of the country he wants to import from in the secondary market at a discount, redeems the debt at a rate closer to its face value with the debtor's central bank, and uses the local currency proceeds to pay the exporter.

- *Debt for nature swaps* have been arranged between environmental organizations, including government agencies, and a growing number of developing countries, although the amounts swapped remain small. In essence, bank debt is bought in the secondary market at a discount and either donated directly to the debtor country's government in exchange for policy commitments concerning the environment (for example, to protect rain forests) or exchanged for domestic currency to be used for environmental protection.

Exchanges

Debt exchanges involve the exchange of existing debt instruments for new debt instruments denominated in domestic or foreign currency. The terms of the two claims will normally differ substantially. For example, the face value of the new claim may reflect a discount from the face value of the old claim; or the face value may remain unchanged while the contractual interest rate on the new claim is lower than on the old claim. The value of new claims may be enhanced, for example, through collateralization of principal or interest.

- In early 1988, *Mexico* completed an exchange of $3.7 billion of public sector medium-term bank debt for $2.6 billion in new bonds.

- *Exit bonds* have been introduced in a number of restructuring agreements between commercial banks and debtor countries. They are issued by a debtor government or central bank to a creditor bank in place of a bank credit, generally exempting the bank from future requests for new money and restructuring. Interest rates on these bonds are below market, so a bank that decides to take up exit bonds instead of participating in a concerted lending package contributes to the debtor country's financing needs by accepting lower interest payments.

Enhanced Surveillance

Despite somewhat limited experience, enhanced surveillance has facilitated debtor-creditor relations. Enhanced surveillance is a procedure for monitoring economic developments in a country for which support under a Fund arrangement is not envisaged. It is undertaken under the following conditions: at the request of a member; where a good record of adjustment has been shown; where a multiyear restructuring agreement is needed to normalize market relations and facilitate a return to voluntary or spontaneous financing; and where the member is in a position to present an adequate quantified policy program in the framework of consultations with the Fund staff, which are part of the procedure of enhanced surveillance. In the few instances where enhanced surveillance has been applied, it has helped in negotiating early multiyear restructuring agreements and has thus fostered a cooperative approach to the debt strategy.

In February 1989, the Board reaffirmed the usefulness of enhanced surveillance, but noted that experience with it has been mixed. The Board expressed concern about the limited degree to which current procedures permitted the Fund and creditors to influence member countries to adopt strong adjustment policies conducive to a viable balance of payments. The Board thus intends to exercise considerable caution in examining any future request for enhanced surveillance.

Low-Income Countries

The indebted low-income countries—whose creditors tend mainly to be official entities—have seen their financial positions improve a little, owing to some relief provided on a bilateral basis. The Interim Committee welcomed the rapid implementation of the agreement on Paris Club reschedulings, reached at the 1988 Berlin Annual Meetings, to provide additional assistance on concessional terms to the poorest countries. It also recommended that additional concessional resources be made available through the Fund's structural adjustment facility (SAF) and the enhanced structural adjustment facility (ESAF), and the expansion of the World Bank's lending capacity. It noted that particular problems remain for those countries that are not benefiting from access to exceptional debt relief, yet cannot afford to finance themselves on market terms. The Committee discussed, in this connection, the policy framework paper process—whereby low-income countries seeking to use the Fund's SAF and ESAF develop with the Fund and the World Bank a policy framework for three-year, growth-oriented, adjustment programs. It recommended that this mechanism be used to improve the coordination of policy advice and to mobilize additional external assistance in support of adjustment programs in such low-income countries.

The Interim Committee urged eligible countries, donors, and international institutions to seize the opportunity offered by the ESAF and rapidly conclude related arrangements to assist low-income countries. It also pressed Fund creditor members to see that their full contributions were made available to the ESAF Trust and emphasized the importance of additional subsidy contributions to the Trust.

3. Trade Policy Issues

Protectionist pressures persist. Trade restrictions harm domestic prosperity and impede needed adjustments in the industrial, as well as the developing, countries. Trade liberalization is crucial for improving domestic economic efficiency, and bringing about a healthier global economic environment. The Fund supports efforts under way in the GATT Uruguay Round of multilateral trade negotiations to reduce barriers to trade, and, in its own surveillance activities, urges its members to adopt more liberal trade policies.

Trade policy issues are important to Fund surveillance; they are addressed in the World Economic Outlook exercise, Article IV consultations with individual countries, and Fund-supported adjustment programs. In keeping with its mandate to facilitate a balanced growth of international trade, the Fund encourages multilateral trade liberalization. It sees this liberalization as vital to steady global economic growth and to the success of the adjustment programs that it supports.

In its review of trade policy issues and developments, the Board reaffirmed the importance of trade liberalization, for both the industrial and the developing countries. The Board remains especially concerned about the increased resort by industrial countries to restrictive trade, industrial, and agricultural policy measures. Given the size of the industrial economies and the vast markets they represent, trade measures of industrial countries have important repercussions for the rest of the world. Indeed, in the absence of open markets and higher growth rates in the industrial world, structural adjustments undertaken by the developing countries are unlikely to yield their intended benefits.

At their September 1988 meetings, and again at their April 1989 meetings, the Interim and Development Committees underscored the urgency of resisting new trade restrictions and of rolling back existing restrictions, in keeping with political commitments made under the Uruguay Round.

Protectionism

Despite renewed growth in the volume of world trade, protectionist pressures have remained strong in the industrial countries, and some countries have increased trade restrictions. Protectionist pressures stem from rigidities in the structures of many economies—particularly in labor markets—and from the persistence of large macroeconomic imbalances among the major industrial countries. Nontariff barriers to trade—that is, restrictions other than tariff duties, such as quotas, health and customs clearance procedures, and advertising restrictions—also give cause for concern. Such measures obscure the "transparency" (or visibility) of world trading arrangements since they are not always publicized and have an impact on trade that is often indirect and difficult to measure. For example, "voluntary" export restraint agreements—bilaterally agreed measures to restrict export volumes—tend to penalize more efficient suppliers and contravene the rule of nondiscrimination espoused by both the General Agreement on Tariffs and Trade (GATT) and the Fund. The increased use of "process," or "administrative," protection is also worrisome. This is the aggressive or unjustified use of measures such as antidumping and countervailing duties to counter "unfair" trade practices. Unilateral actions by some countries cause concern because of their potential to increase retaliation and counter-retaliation. Many developing countries use nontariff barriers extensively, and while progress is being made in reducing these barriers, their economies would benefit from more intensive efforts toward greater trade liberalization.

The Board gives high priority to the role of structural reform in both industrial and developing countries in promoting freer trade. Current industrial and agricultural support policies of the major industrial countries distort resource allocation, impose a high cost on taxpayers and consumers in the industrial countries and hinder their macroeconomic—and notably their fiscal—performance; at the same time, they have a net negative impact on developing countries. Outward-looking policies, including industrial policies, in the developed countries—whether undertaken by the group or unilaterally—would not only increase output and improve internal resource allocation, but would also promote global adjustment and support efforts to resolve the external debt problems of developing countries. These countries would benefit considerably from more assured access to the export markets of the industrial countries and from higher growth rates in these economies. The Fund therefore encourages industrial countries to adopt structural policies aimed at reducing large domestic and external imbalances and excess capacity in certain sectors, such as steel, textile and clothing, and especially agriculture. In none of these sectors is increased resort to managed trade, particularly by voluntary export restraints, an appropriate response. Although the recent decline in the provision of subsidies to specific manufacturing sectors by the industrial countries is promising, the Fund is concerned that growing reliance on general subsidies and restrictive nontariff border measures may have at least partly offset some of the benefits. Also, both "tariff peaks" and escalating increases in tariffs in industrial countries tend to be concentrated in products and industries of interest to developing countries.

For their part, the developing countries need to pursue with vigor outward-oriented policies and to open their markets to the fullest extent possible—so as to ease their own structural adjustment. The timing and sequencing of these measures are important to the success of adjustment. A number of countries have made determined strides toward trade liberalization in the context of structural adjustment programs, but progress in other countries is slow. The considerable successes of the newly industrializing economies are encouraging. The Fund is hopeful that these economies will increase their role in trade liberalization and assist international adjustment.

Prospects for Liberalization

The Uruguay Round of multilateral trade negotiations, launched at Punta del Este in September 1986, represents an opportunity to strengthen the international trading system. Because of the increased complexity of the issues in the negotiations, however, the prospect of an early, significant reduction in trade barriers appears remote. At the same time, the Fund has stressed the need for early action to stem protectionism and to reduce external macroeconomic imbalances. Action by the industrial countries in reforming their agricultural policies, for example, would promote structural adjustment in the developing countries and ease their debt burdens. While the Fund recognizes the problems associated with structural adjustment in the agricultural sector, it urges early agreement on concrete steps to reduce recourse to trade subsidies and restrictions, which distort the allocation of a country's resources and world trade. Although early action by the industrial countries is imperative—owing to their large impact on the world trading system—developing countries also need to act to remove restrictions on goods and services in a multilateral framework of trade liberalization.

In particular, the Uruguay Round aims to resolve longstanding problems in areas such as agriculture, textiles and clothing, safeguard measures, and trade restrictions adopted for balance of payments reasons, and to agree on multilateral rules in the "new areas" of services, trade-related investment measures, and trade-related aspects of intellectual property rights. Some positive results were achieved at the Mid-Term Review of the Uruguay Round, which was begun in Montreal in December 1988 and completed in Geneva in April 1989. These included agreements on procedural issues in all negotiating groups and comprehensive guidelines for the negotiation of a framework regarding the progressive liberalization of trade in services. The Review also requires industrial countries to impose a short-term freeze on domestic and export support and protection levels in the agricultural sector. The long-term objective is "to provide for substantial progressive reductions in agricultural support and protection sustained over an agreed period of time." Other results of the Review include the establishment of a trade surveillance mechanism for individual GATT members and agreement on concrete liberalization measures by industrial countries in the area of tropical products.

Some developing countries were disappointed that the decision on textiles and clothing did not accommodate their expectation for a freeze on restrictions against the exports of developing countries.

The plans for liberalizing the internal European Community market by 1992 and the recently concluded free trade agreement between the United States and Canada have profound implications for global trade. The Fund considers it important that regional and bilateral trade arrangements contribute to a more liberal multilateral trading system and take into account the interests of countries not directly party to such arrangements.

Role of the Fund

The increased importance of trade policies for the world economy means that trade issues must be addressed in both international and national settings. With respect to international surveillance, ways to strengthen the role of the GATT are being explored in the Uruguay Round. While the GATT has primary competence in the trade field, the Fund is actively cooperating with the GATT to help promote an open and nondiscriminatory trade system. The Fund sees the Uruguay Round as a means of tackling protectionism comprehensively and of helping to ensure that trade disputes are resolved in a nondiscriminatory manner. It thus intends to do all it can to ensure a successful Round.

As the Managing Director emphasized in his address, in December 1988, to the Ministerial Mid-Term Review of the Uruguay Round negotiations in Montreal, the Fund continues to provide financial support to member countries implementing trade-liberalization measures and is using all of its lending facilities—including the revitalized extended Fund facility, the ESAF, and the compensatory and contingency financing facility—to support trade liberalization as part of members' comprehensive adjustment programs.

The Fund also stands ready to provide technical support where possible to the various Uruguay Round negotiating groups. It intends to explore ways in which it can cooperate with the GATT, the World Bank, and the Organization for Economic Cooperation and Development to measure more accurately the effects of trade-distorting measures.

On the domestic front, the Fund encourages its members to move toward greater transparency and accountability in their trade systems to allow a more objective assessment of the nature, costs, and benefits of trade policy measures in force. Increased domestic publicity about the costs of protectionist policies helps reduce domestic pressure for protectionism and musters support for multilateral liberalization.

In its own surveillance activities, the Fund emphasizes the complementarity of trade liberalization and macroeconomic adjustment. It believes that strong protectionist pressures are likely to persist until policies that address their root causes are adopted. This calls for progress toward correcting fiscal, external, and structural imbalances through sustained efforts at economic policy coordination, which the Fund actively supports. The Fund continues to assist its members in adopting the appropriate macroeconomic and structural adjustment policies, including appropriate exchange rates, industrial policies, trade liberalization, and reduced reliance on subsidies, both in the context of its surveillance functions and in the design of Fund-supported adjustment programs.

The Fund's periodic trade policy reviews enhance the transparency of trade policies of all its members and make it easier to assess individual country trade policies in the broader environment of global trade and finance. In an increasingly interdependent world, the Fund sees the objectives of durable growth, monetary stability, more manageable debt, and trade liberalization as complementary objectives.

4. Fund Support of Adjustment Programs

The Fund lends to countries in support of growth-oriented adjustment programs. As of the end of the last financial year, a total of 46 arrangements with the Fund were in effect. The Fund periodically reviews the policies and procedures that govern its financial assistance. In its most recent review, the Board emphasized the importance of appropriate program design and strong commitment by national authorities to the adjustment effort. To assist countries whose adjustment programs may be disrupted by external developments, in August 1988 the Fund established the compensatory and contingency financing facility. This combines the original functions of the compensatory financing facility, designed to stabilize export earnings and the cost of cereal imports, with a contingency element to protect adjustment programs from external shocks. In addressing the broad aspects of its assistance, the Fund is paying increased attention to the impact of adjustment programs on income distribution and on the poorer segments of society.

Conditionality

The Fund provides financial resources to members on certain conditions; these are designed to encourage appropriate economic adjustment and ensure that the use of Fund credit is temporary and otherwise consistent with the Fund's purposes. Use of Fund credit is therefore closely linked to a member's progress in implementing policies to reduce its balance of payments deficit to a manageable size while fostering economic growth, employment, and financial stability, and eliminating restrictions on international trade and payments.

The conditions governing the use of Fund credit evolve as warranted. The Board reviews the experience with programs supported by stand-by and extended arrangements, normally once every 12–18 months, to ensure that these conditions remain relevant and continue to promote timely repayments of Fund resources. About once a decade, the Board conducts a more comprehensive examination of conditionality. It completed the most recent of these in April 1988. The principal topics discussed and conclusions drawn were described in the 1988 *Annual Report.*

In concluding the April 1988 comprehensive examination, the Board decided that the conditionality guidelines adopted in 1979 had served the Fund and its membership well during the ensuing nine years and were sufficiently flexible to be consistent with the increased emphasis the Fund had placed on structural adjustment in recent years. Consequently, the 1979 guidelines were not changed, although the Board agreed that they should be reviewed as necessary in the light of experience. Subsequently, in a discussion of poverty issues in economic adjustment, the Board reiterated that questions of income distribution should not form part of Fund conditionality, though it was appropriate for the Fund to point out to member governments the implications that alternative policies might have for their low-income citizens.

In June 1989, the Board conducted a regular review of conditionality in the context of stand-by arrangements. (Since the Board had undertaken a comprehensive review of the extended Fund facility during the first half of 1988, reconsideration of the experience with extended arrangements was not considered necessary in 1989.) The Board considered case studies of nine members' experiences with Fund-supported adjustment programs (see box), as well as the usual general—or cross-country—analysis of countries' experiences.

The Board stressed the need for Fund-supported programs to incorporate strong financial and exchange rate policies in order to ensure macroeconomic stability, adding that programs should take into account the impact of exchange rate policy on a country's fiscal position and inflation rate. Greater attention should be paid to fiscal adjustment, to ways of liberalizing interest rates or otherwise securing positive interest rates, and to specific structural adjustments.

Member countries' adjustment problems could be assessed more efficiently if, in designing programs, the Fund sharpened the focus of its economic background studies and improved the quality of the data bases it used. The Board suggested that reducing the constraints on some countries' structural reform efforts imposed by their limited administrative capacities also be considered; the Fund's carrying out of thoughtful studies of members' economic problems should not, however, lead to undue postponement of economic adjustment. The Board supported an increase in the Fund's technical assistance to members, as well as closer collaboration with the World Bank and other development institutions, in support of adjustment programs. In particular, where complex and deep-seated structural problems exist, the Fund should promptly seek assistance from the World Bank in the design of structural policies.

Sustained effort in implementing adjustment programs is critical. The Board emphasized that members' contingency policy planning, the appropriate accumulation of international reserves when there were favorable economic developments, and the compensatory and contingency financing facility could help keep programs on track despite external shocks. Experience has shown that successful implementation of adjustment programs requires a strong commitment on the part of the national authorities. The Board noted that in formulating programs, the Fund should continue to pay due regard to members' social and political objectives, particularly the impact of policies on income distribution. At the same time, such considerations should not be allowed to weaken conditionality.

Fund monitoring of programs had generally been effective, the Board agreed, both in helping to maintain the revolving character of Fund resources and in assisting members to identify, at an early stage, corrective measures needed to keep their adjustment programs on track. Where appropriate, prior actions—specific policy measures to be implemented before an adjustment program formally begins—are needed to give adjustment programs a strong start. Clearly specified performance criteria and reviews of appropriate scope are also important in ensuring that progress is adequately monitored. Most Directors considered it essential to monitor structural reforms when these were regarded as crucial to the success of a program.

The Board agreed that when Fund support of debt and debt-service reduction is essential, adjustment programs should attach particular importance to policies aimed at reversing capital flight and attracting private capital inflows. Focusing on the fundamentals of macroeconomic and exchange rate adjustment is critical in achieving this goal. In addition, adjustment programs should emphasize structural reforms that improve incentives to save and enhance domestic investment by removing economic distortions.

Fund-Supported Programs

Unless an adjusting member country's government fully supports a program, it is unlikely to succeed. If a member country is to obtain domestic support for its adjustment program, it must play the leading role in designing it and take into account the need to resume economic growth while protecting the poorest groups from the short-run impact of economic adjustment.

Furthermore, if economic adjustment programs are to succeed, they need to be adequately financed. The Fund provides important direct financial support to members in several ways. Stand-by arrangements (covering adjustment programs lasting one to two years) and extended arrangements (covering programs of three years, with a possible one-year extension) are the usual financing vehicles. Low-income countries may obtain assistance under SAF and ESAF arrangements covering three-year adjustment programs. During financial year 1988/89, the Fund approved 12 stand-by arrangements, 1 extended arrangement, 4 SAF arrangements, and 7 ESAF arrangements for members. When the financial year ended on April 30, 1989, a total of 14 stand-by arrangements, 2 extended arrangements, 23 SAF arrangements, and 7 ESAF arrangements were in effect.

Catalytic Role

In addition to providing direct financial assistance to its members, the Fund plays an important catalytic role—that is, it serves to generate additional financing in support of adjust-

Box 9

Experience with Fund-Supported Adjustment Programs

A recent Fund study, based on nine countries that had made extensive use of Fund credit during the 1980s, produced interesting results regarding the formulation of adjustment programs and performance under them. The countries (Bangladesh, Chile, Egypt, Ghana, Mexico, Morocco, Philippines, Yugoslavia, and Zambia) represented different regions and economic structures and encompassed different approaches to adjustment—as well as varying degrees of success. The selection included some countries that had delayed seeking Fund support, to assess if this delay had created any adjustment problems. Overall, the selected countries accounted for 31 percent of total Fund lending during the period. The study analyzed the causes of payments difficulties and evaluated the design of the programs and their outcome in terms of progress toward attainment of balance of payments viability, with reasonable price stability and sustainable growth.

Background

In the 1970s and early 1980s, spurred on by readily available external finance (at negative real interest rates), the sample countries generally pursued strongly expansionary, but ultimately unsustainable, policies. After 1982, they were beset by higher interest rates, slower export market growth, and a marked worsening of their terms of trade. These difficulties compounded domestic problems (including weak tax bases, excessive public expenditure, and deep-seated structural weaknesses), which easy access to financing had enabled to persist. Amid a general loss of confidence by creditor banks, commercial financing was abruptly cut back.

To achieve a steady rate of growth over the medium term, it was necessary to restore a viable balance of payments and price stability. Most of the countries made progress toward these goals. Despite considerable Fund support, however, they all failed to meet fully the objectives of the programs.

Factors Affecting Performance

The following domestic and external factors contribute to successful economic performance.

- A clearly specified *policy package* that addresses macroeconomic imbalances and is accompanied by a strong political commitment to reform.
- The *general framework for program design* includes requirements to: restrain domestic absorption (that is, domestic consumption, plus investment, plus imports); raise national savings to allow higher productive investment; and use resources more efficiently. Interrelated and mutually supportive policies are often required: macroeconomic policies, comprising both fiscal and monetary measures to correct underlying imbalances; exchange rate policies to improve competitiveness and strengthen the supply response of the economy; and structural measures, including interest rate and pricing policies, to increase domestic savings and promote efficient resource allocation and investment. Within this framework, adjustment programs must be tailored to the experience of each country.
- *Adequate external financing* is critical, and since 1982 the Fund has worked with members to help them unlock financing from other sources.

• A favorable *external environment*—including positive terms of trade, buoyant markets, and lower interest rates—is important. Those countries that made relative progress benefited from favorable external conditions, while adverse developments caused serious difficulties.

Lessons of Experience

The record of the countries suggests that the general approach is appropriate. Beyond that, the study noted the following points with respect to program content:

• There is a close link between progress in *fiscal adjustment* and the achievement of program objectives, particularly regarding the balance of payments and inflation. In designing the fiscal program, the primary objective should be to raise the level of public sector savings available for the financing of public investment. However, revenue-raising measures should not penalize private savings, nor should expenditure-reducing measures result in reduced maintenance of the existing capital stock or lower living standards for the most vulnerable low-income social groups.

• *Monetary policy management* (on the basis of program targets for credit expansion by the banking system or the central bank) is generally effective in contributing to balance of payments and inflation objectives. However, the experience of some of the countries raises a number of issues concerning the difficulty of managing credit policy during high inflation. Programs generally aim at achieving positive real interest rates to promote increases in, and efficient use of, personal savings. This objective is usually met when inflation is relatively low and stable; implementing a policy of interest rate liberalization is one way to ensure positive real interest rates.

• *Real exchange rate adjustments* have a direct impact on competitiveness and can help the balance of payments when supported by the appropriate financial or wage policies.

• Producer and consumer *pricing policies* are important. Measures reducing distortions, sometimes in conjunction with exchange rate adjustment, help to ensure that resources are properly allocated. They also improve a country's fiscal position.

Implementation

Sustained implementation of policies is clearly linked with progress toward external viability. At the same time, it is more difficult for a country to carry out sustained adjustment in a changing world environment, since unanticipated external developments can directly affect its program.

Monitoring

The experience with monitoring progress under programs confirmed that comprehensive and well-defined *performance criteria* covering a sufficiently long period of policy planning (generally a fiscal year) are needed to keep track of developments, to trigger corrective action, if needed, and to provide safeguards for Fund resources. Regular *program reviews* can be useful, particularly in an uncertain policy environment. The growing emphasis on structural measures makes such reviews essential. There is a need to define understandings on crucial policies at the start of programs and to ensure an adequate phasing of borrowings under an arrangement.

ment programs. The existence of a Fund arrangement is often seen as a "seal of approval," assuring the international financial community that the member country has agreed to implement appropriate adjustment policies and that the Fund is helping to support these with its own resources. Thus assured, creditors frequently will provide additional financing, and official and commercial creditors will reschedule or refinance existing debts, in order to support the country's adjustment efforts. In some cases, the existence of an arrangement between a debtor and the Fund has been a prerequisite for entry into force of the debt-rescheduling arrangement the country has negotiated.

The Fund's contribution to the design, adoption, and support of members' adjustment programs is crucial in generating the considerable financial assistance members need to sustain vigorous structural adjustment programs. This has been demonstrated by developments in the 1980s. Between 1982 and 1988, commercial banks provided about $44 billion in concerted lending to developing countries and restructured a substantial amount of debt; official creditors rescheduled close to $80 billion in principal and interest payments and also provided new credits.

The financing thus made available has enabled member countries to maintain their imports, investment, output, and employment at levels significantly higher than would have been possible without the Fund's intervention. By effectively multiplying available resources and increasing the efficiency with which a member uses financial assistance to achieve structural adjustment, the Fund has facilitated members' efforts to regain access to financial markets.

In the years ahead, the Fund's catalytic role will be important for the purpose of attracting financing for debt reduction plans. The Fund may also have a role in setting up a trust or a similar account to channel these resources appropriately. At the same time, encouragement by the Fund of measures that would promote the repatriation of flight capital, as well as the enhancement of bilateral aid flows and the creation of a hospitable environment for foreign direct investment, could provide important additional support for adjustment programs.

SAF and ESAF

The structural adjustment facility was set up in March 1986 to provide concessional financial assistance to low-income members facing serious balance of payments problems and needing to undertake programs of structural adjustment. Its resources, which consist of about SDR 2.7 billion in loans repaid to the Trust Fund, are lent at an annual interest rate of 0.5 percent. Repayments begin five and a half years, and end ten years, after the loan is made. Currently, 62 countries are eligible to borrow under the SAF. However, the two largest of these—China and India—have indicated that, since they do not expect to have acute or persistent balance of payments needs, they do not intend to use the facility. This has enlarged the amount likely to be available to other eligible members. Eligible countries may currently obtain a maximum of 70 percent of their quotas in three annual installments (tranches), each designed to support a one-year program and disbursed at the beginning of the program year.

The ESAF was established in December 1987 to provide additional assistance to low-income countries undertaking structural adjustment programs, and became operational in April 1988. Its financing is derived in part from SAF resources but mostly from special contributions in the form of loans (which are expected to total about SDR 6 billion) and grants (to help provide a concessional interest rate). (See Section 6, below.) The maturity of ESAF loans is identical to that of SAF loans; the interest rate is also currently the same as that under the SAF (0.5 percent a year) and is reviewed periodically by the Board. Access under the ESAF is considerably larger; it is normally expected to average about 150 percent of quota over a three-year program period, with provision for up to 350 percent in exceptional circumstances. The same 62 members eligible for SAF loans may borrow under the ESAF. The amount an eligible member can borrow under the ESAF varies according to the strength of its adjustment effort and the size of its balance of payments need.

Under both the SAF and the ESAF, a three-year policy framework paper is prepared annually by the member country's authorities, in close cooperation with the staffs of the Fund and the World Bank.

In a March 1989 review of experience with the SAF and the ESAF, the Board agreed that the broad objectives originally set out for adjustment programs supported by SAF and ESAF arrangements remained appropriate. It expressed concern that the record of SAF-supported adjustment programs had been mixed and urged that the involvement of member countries' authorities in program design be intensified. At the same time, the Board stressed the importance of allowing sufficient time for political consensus to be reached in borrowing countries. Directors emphasized that programs should be strong and realistic, taking each member's administrative capacity—that is, its ability to execute policies and policy changes—into account and allowing for the provision of technical assistance by the Fund as needed. They added that each request for a SAF or an ESAF loan should include an explicit analysis of the country's capacity to repay the Fund, with safeguards built into the adjustment program to prevent the emergence of arrears to the Fund.

The Board expressed the view that the monitoring techniques being used for SAF and ESAF arrangements were appropriate. It suggested that benchmarks (policy targets) be limited to a few key variables and be specified as precisely as possible. Most Directors agreed that prior actions—policy measures to be implemented before an arrangement is begun, or disbursements are made—were appropriate under both facilities, especially in instances where a member had previously failed to implement adjustment measures as planned; some felt, however, that prior actions should be used only sparingly.

The Board agreed that in order to give eligible members more time to use ESAF resources, the original November 30, 1989 cutoff date for Fund approval of three-year ESAF arrangements should be changed to November 30, 1990. Directors noted that the various lenders to the ESAF Trust had informally indicated their willingness to modify their lending agreements accordingly. The Board also agreed to continue operating the SAF in parallel with the ESAF, raising potential third-year access under the SAF to 20 percent of quota from 13.5 percent of quota. In order to ensure equal treatment of members, Executive Directors decided that additional disbursements of 6.5 percent of quota would be considered for countries that had already received third-year loans under SAF arrangements at the lower level.

Box 10

Policy Framework Papers

When a member country seeks to borrow Fund resources under a SAF or ESAF arrangement, the design of the required three-year adjustment program is outlined in a policy framework paper prepared by the member's authorities with the assistance of the staffs of the Fund and the World Bank. This document discusses the country's public investment program and financing requirements and outlines the likely social impacts of policy changes, along with steps that can be taken to cushion the poorest segments of the population. Potential creditor and donor members—that is, members who may provide external assistance in support of adjustment programs—may participate informally in the preparation of policy framework papers and rely on the completed papers in making their own financial assistance decisions. Each paper is reviewed by the Fund's Executive Board and the Committee of the Whole of the Executive Board of the World Bank.

At a Board seminar on the policy framework paper and aid coordination held in May 1988, the two years of experience that had been gained with policy framework papers was widely viewed as having led to a substantial improvement in the quality of these papers, though the Board felt there was still room for improvement. Directors urged that the papers address key structural problems and be as specific as possible in the main policy areas, emphasizing the principal measures to be taken and including a clear timetable for implementation. Policy framework papers should clearly describe the prospective evolution of macroeconomic and balance of payments aggregates over a three-year period as envisaged by the country's authorities and endorsed by the Fund and the World Bank.

The Board stressed that the member country should play the leading role in preparing the policy framework paper, so that the document would be an authentic expression of the country's objectives and policies. It also emphasized the importance of achieving consensus within the member country's government on the content of an adjustment program. In some cases additional time might be needed to permit full discussion of major issues before the policy framework paper was drafted. The Board suggested that the policy framework paper's catalytic role in mobilizing external financing for adjustment programs be broadened. Directors thought that closer Fund staff contacts with potential donor countries could be helpful, specifying that such contacts should be informal, build on existing consultation arrangements, and be tailored to institutional arrangements within particular donor countries. At the same time, the Board agreed that donors should not play a formal role in negotiating or drafting policy framework papers.

The Board concluded that policy framework papers had fostered improved collaboration between the staffs of the Fund and the World Bank, and had led to the provision of more consistent policy advice and setting of priorities by the two Bretton Woods institutions. They added that the staffs of the Fund and Bank should each work within their respective areas of competence, which should help avoid cross-conditionality and unnecessary delays in negotiating adjustment programs.

Other Facilities

In addition to its general balance of payments assistance, the Fund has a number of special facilities designed to address needs arising from specific factors.

The first of these, established in 1963, was the *compensatory financing facility*, designed to help stabilize the earnings of countries exporting primary commodities. Countries experiencing, for reasons beyond their control, balance of payments difficulties because of temporary shortfalls in export earnings could borrow under this facility, provided they cooperated with the Fund to find solutions to their difficulties. In 1979 the facility was broadened to include receipts from tourism and worker remittances in calculating the export shortfall, and a further extension in 1981 allowed compensation for countries experiencing an excessive rise in the cost of specific cereal imports.

More recently, the changing global economic climate suggested that another expansion of this facility would be justified. Following an agreement reached by the Interim Committee during its spring 1988 meeting, the Fund established, on August 23, 1988, the *compensatory and contingency financing facility (CCFF)*. This facility supersedes the compensatory financing facility, yet keeps its essential features. It adds a mechanism for contingency financing of member countries that have entered into adjustment programs supported by the Fund. Under the compensatory features that have been retained, the Fund continues to compensate member countries for levels of export earnings or cereal imports costs that deviate from medium-term trends. The contingency mechanism is activated only in conjunction with Fund-supported programs of adjustment.

The Fund commits itself to provide additional financing to countries whose programs may be threatened by external disruptions that may cause economic variables to deviate from those paths originally forecast under the adjustment program. Contingency financing thus protects program countries from the disruptive effects on their current account caused by sudden movements in export earnings and import prices, by sharp declines in worker remittances and receipts from tourism, and by unexpected increases in international interest rates.

In January 1989, the Fund approved for Trinidad and Tobago, in association with a stand-by arrangement, the first loan (of SDR 42.5 million) under the compensatory and contingency financing facility to cover unanticipated deviations in export prices for crude oil and petroleum products, as well as a rise in interest rates on variable rate external debt.

A second special facility, designed to smooth out fluctuations in the prices of primary commodities and so reduce variations in the export earnings of participating countries, is the *buffer stock financing facility*, which was established in June 1969. Through this facility the Fund may finance members' contributions to international schemes aimed at stabilizing commodity prices by building up buffer stocks. Although no loans under this facility are now outstanding, a recent discussion by the Board favored keeping the present limits on borrowing of 45 percent of quota, as this facility complements the CCFF. The last agreement to qualify for Fund support was the 1979 International Natural Rubber Agreement, which expired in October 1987. The 1987 International Natural Rubber Agreement is expected to come into effect during 1989, and the Fund may be asked to evaluate this agreement to determine its suitability for support under the buffer stock financing facility.

Besides financing these special facilities, the Fund has, since 1960, provided *emergency assistance* to member countries to meet payments problems arising from sudden and unforeseen natural disasters, such as earthquakes, hurricanes, or droughts. During the financial year, the Board approved requests for emergency assistance from the Government of Bangladesh for SDR 71.8 million, to help it cope with massive flooding, and from the Government of Jamaica for SDR 36.4 million, to help it meet foreign exchange needs following a hurricane that struck the island in September 1988.

Box 11

The Contingency Mechanism of the CCFF

The contingency element of this facility is available only when a country has in place a stand-by or extended arrangement with the Fund, or in association with an arrangement under the structural adjustment or enhanced structural adjustment facility, provided that the member accepts conditions similar to those attached to upper credit tranche arrangements. Contingency financing will not generally exceed 70 percent of the amount of the associated arrangement. Drawings are to be repurchased in 3–5 years.

A member using the CCFF may draw, under the compensatory mechanism, up to 40 percent of its quota for export shortfalls and 17 percent for the excess costs of cereal imports; under the contingency mechanism, it may also draw up to 40 percent to cover applicable external contingencies, as discussed above. In addition, the Fund will allow an optional drawing of up to 25 percent to supplement either the compensatory or the contingency element, at the choice of the member. Borrowing for all three elements at any one time is limited to 122 percent of quota.

Fiscal Issues

In May 1988, the Board considered fiscal aspects of Fund-supported adjustment programs. During its discussion, it acknowledged that fiscal adjustments have wide-ranging effects on economies and on objectives pursued by national authorities. It stressed the importance of pursuing fiscal reform in the tax, expenditure, and public enterprise areas to achieve macroeconomic and external balance. Special care needs to be taken to define the context and content of fiscal adjustment measures. The Board recognized that there might be conflicts between some short-term requirements of adjustment—such as the need to curtail government expenditures sharply or to increase revenues—and medium-term structural reform and growth objectives. It suggested that in instances where such a conflict occurred, the ability of the member government to attract external financing would be a crucial determinant of whether it could relax short-term fiscal adjustment measures without jeopardizing the program's prospects.

The Board agreed that structural

fiscal policy issues should receive greater attention during the Article IV consultation process and that more analyses of these issues should be conducted not only for developing countries but also for industrial countries. It concluded that long-term structural measures were legitimate elements of short-term adjustment programs and that their inclusion did not necessitate a lengthening of the program period.

Poverty Issues

In a September 1988 discussion of a joint Fund-World Bank report on poverty issues in economic adjustment, the Board—meeting as a Committee of the Whole for the Development Committee—while agreeing that the essential role of the Fund remained the promotion of domestic and balance of payments adjustment in member countries, welcomed the increased attention being paid to the important impact of Fund-supported adjustment programs on income distribution and on the poorest population groups. The Board saw this concern as justified not only on moral grounds but also because it enhanced adjustment programs' chances of success by minimizing public resistance to them.

The Board agreed that while the policy instruments—particularly the fiscal ones—used in a Fund-supported program had important effects on a country's income distribution, adjustment did not necessarily lower the living standards of the poor. The sustained growth resulting from the successful implementation of an adjustment program could benefit all socioeconomic groups in a country. Nevertheless, Directors recognized that some poverty-stricken groups could be disadvantaged in the short run by increases in the prices of necessities, reductions in employment, and cutbacks in public services. They supported the occasional use of compensatory measures to cushion the impact of adjustment on these groups. Directors also noted that some policy measures undertaken during adjustment programs—such as increases in agricultural producer prices, currency devaluations, and price liberalizations—could directly benefit some low-income groups, especially the rural poor.

The Board recommended that the Fund staff conduct more research, policy studies, and in-house training programs on poverty and that it consider income distribution issues during annual consultations and program discussions with members. At the same time, Directors agreed that since, in the final analysis, it was the prerogative of member countries to make the social choices involved in adjustment, income distribution criteria should not become part of Fund conditionality. They also concluded that in addressing poverty issues, the Fund staff should make greater use of the expertise of the World Bank and other UN institutions, such as the United Nations Children's Fund, the United Nations Development Program, and the International Labor Organization.

Technical Assistance and Training

Technical assistance continued to be an important part of the Fund's services to its member countries during 1988/89 as members sought its advice on a wide range of subjects, from broad policy issues connected with stabilization policies and external debt management to specialized technical and legal matters. Much of the policy assistance is provided through the Fund's consultation procedures with its members under Article IV or in connection with adjustment programs. This aspect of the Fund's assistance has been expanded through the policy framework papers prepared in conjunction with the World Bank for lending under the SAF and the ESAF. Often, in helping a member to carry out a program, the Fund will use both the expert services of staff members from headquarters and the services of a staff member assigned to the country as resident representative. (Further information on the Fund's technical assistance activities during the year under review is to be found in Appendix III.)

5. Fund-Bank Collaboration

Although their Articles of Agreement define different purposes and mandates for the Fund and the World Bank, cooperation between the two institutions has always been emphasized, reflecting the important links between macroeconomic management and economic development. The severe problems facing member countries in the 1970s and 1980s have led to greater overlap in the activities of the two institutions, with the Fund paying greater attention to structural reform and the Bank making structural and sectoral adjustment loans. Against this background, principles have been developed, and further elaborated during the past year, to promote closer collaboration between the institutions in assisting their member countries.

Broad Objective

The Fund and the World Bank were founded together at the Bretton Woods Conference in 1944. While the two institutions share the broad objective of promoting the economic prosperity of their member countries, their charters provide them with differing, albeit complementary, roles in pursuing this objective. Their founders clearly intended that the Fund and the Bank would help their members by pooling their specialized expertise and coordinating their policy advice and financial assistance. The two institutions have cooperated closely ever since.

The scope for such cooperation increased substantially in the 1970s and 1980s, as the efforts of the two institutions to address severe economic and financial imbalances of their members led to increasing overlap in their activities. The Fund placed greater emphasis on correcting structural imbalances and established three facilities to support broad programs of structural adjustment—the extended Fund facility in 1974, the structural adjustment facility in 1986, and the enhanced structural adjustment facility in 1987. Similarly, in 1979–80, the Bank began to extend structural loans in support of adjustment programs.

Fund-Bank collaboration in assisting member countries is founded on frequent contact between the two staffs. This interaction is characterized by openness tempered with a respect for the confidentiality between each institution and its members. The staff of each institution is expected to be aware of the concerns of the other and to adopt a consistent perspective on the economic situations, policies, and prospects of member countries.

Communication between the Fund and the Bank at headquarters includes a continuous exchange of information on each institution's work program, proposed lending operations, diagnoses of members' economic problems, and prospective positions in dealing with members or other international institutions. There are frequent meetings between the two senior staffs and managements; also, staff attend one another's Executive Board meetings. Detailed procedures have been worked out for staff interaction in assisting member countries to prepare policy framework papers setting out their medium-term economic objectives and planned policy measures. Collaboration is also close on a range of administrative matters, including preparations for Annual Meetings and meetings of the Development Committee.

Cooperation in the field includes parallel or joint staff missions to member countries, as well as participation by the staff of each institution in missions of the other. Visiting staff members of one institution are normally in contact with staff members of the other in that member country. Discussions of policy framework papers with member governments take place in the context of joint or parallel missions. Moreover, during 1985–88, Bank staff participated directly in 46 Fund missions that did not involve policy framework papers; Fund staff participated in 78 Bank missions, and there were 8 joint missions.

Procedures

Given the complex problems faced by their members and the separate mandates of the Fund and the Bank, differences of view may sometimes arise. The procedures governing Fund-Bank collaboration have been designed to improve policy advice to members by bringing to bear the different perspectives and expertise of the two institutions and by ensuring that any differences of view are resolved at an early stage. To facilitate this process, the two managements agreed in March 1989 to define better the responsibilities stemming from the Articles of each of the institutions and to build on previous agreements by adopting additional administrative and procedural steps. These were intended to strengthen the exchange of information on policy concerns, mission plans, and research; the conduct of policy framework paper discussions; collaborative analysis of debt strategy issues; cooperation in cases of overdue obligations to the institutions; contacts with other institutions; and the secondment of staff. Steps to enhance collaboration between the institutions in the context of the debt strategy were also included in a 1989 report of the Deputies of the Group of Ten.

6. The Fund's Financial Operations and Policies

Commitments of Fund resources increased substantially during the year, although actual drawings declined. The policy of enlarged access was maintained. The Fund's holdings of usable resources at the end of the financial year stood at SDR 42.9 billion, while available borrowed resources were SDR 3.3 billion. Overdue obligations to the Fund amounted to SDR 2.9 billion. The Fund's liquidity position remained satisfactory, but prudent management will continue to be needed. The total of SDRs in circulation remained unchanged at SDR 21.4 billion. The Board of Governors has requested the Executive Board to complete its work on the Ninth General Review of Quotas with a view to a decision by the Governors before December 31, 1989.

Major Developments

The main feature of the Fund's financial activity in the 1988/89 financial year was a substantial increase in *commitments* of Fund resources. Amounts approved under stand-by, extended Fund facility, structural adjustment facility, and enhanced structural adjustment facility arrangements rose by about 50 percent in the financial year to SDR 4.6 billion. The bulk of the 46 Fund arrangements in effect at the

Table 1

Selected Financial Activities, 1983–89
(Amounts in millions of SDRs)

	Financial Years Ended April 30						
	1983	1984	1985	1986	1987	1988	1989
	During period						
Total disbursements	**10,258**	**10,164**	**6,060**	**3,941**	**3,307**	**4,562**	**2,682**
Purchases by facility (General Resources Account)[1]	10,258	10,164	6,060	3,941	3,168	4,117	2,128
Credit tranches	3,703	4,164	2,768	2,841	2,325	2,313	1,702
Buffer stock financing facility	352	102	—	—	—	—	—
Compensatory and contingency financing facility	3,740	1,180	1,248	601	593	1,544	238
Extended Fund facility	2,463	4,718	2,044	498	250	260	188
Loans under SAF/ESAF arrangements	—	—	—	—	139	445	554
Special Disbursement Account resources	—	—	—	—	139	445	380
ESAF Trust resources	—	—	—	—	—	—	174
By region							
Industrial countries	54	—	—	—	—	—	—
Developing countries	10,204	10,164	6,060	3,941	3,307	4,562	2,682
Africa	2,056	1,643	1,018	842	647	955	701
Asia	2,748	2,590	747	844	1,282	804	469
Europe	1,590	1,658	838	323	68	—	338
Middle East	25	—	57	—	—	116	—
Western Hemisphere	3,785	4,273	3,401	1,933	1,311	2,688	1,174
Repurchases and repayments	**1,488**	**2,123**	**3,041**	**4,687**	**6,741**	**8,463**	**6,705**
Repurchases[2]	1,470	2,012	2,829	4,274	6,162	7,935	6,258
Trust Fund loan repayments	18	111	212	413	579	528	447
	End of period						
Total outstanding credit provided by Fund	**26,563**	**34,604**	**37,622**	**36,877**	**33,443**	**29,543**	**25,520**
Of which:							
General Resources Account	23,590	31,742	34,973	34,640	31,646	27,829	23,700
Special Disbursement Account	—	—	—	—	139	584	965
Administered Accounts							
Trust Fund	2,973	2,862	2,650	2,237	1,658	1,129	682
ESAF Trust	—	—	—	—	—	—	174
Outstanding credit							
Change during the year	8,770	8,041	3,019	−745	−3,434	−3,900	−4,022
As percent of total quotas	44	39	42	41	37	33	29
Number of countries (General Resources Account)	85	84	83	79	80	76	73

[1] Excluding reserve tranche purchases.
[2] Including sales of currencies, which have the effect of repurchases.

end of the financial year entailed relatively strict conditionality, corresponding to drawings in the upper credit tranches.

While commitments of Fund resources increased, actual *purchases* (drawings) in the General Department (other than reserve tranche purchases) declined from SDR 4.1 billion in 1987/88 to SDR 2.1 billion in 1988/89 (Table 1, above). The Fund's concessional lending (under the SAF and the ESAF) increased from SDR 445 million in 1987/88 to SDR 554 million in 1988/89, reflecting the progress made by low-income member countries in adopting structural adjustment programs.

Repurchases and repayments in 1988/89 were relatively large, at SDR 6.7 billion. This mirrored the very high levels of Fund lending during the early 1980s and included advance repurchases by a number of countries whose external positions had improved. Outstanding Fund credit (including Trust Fund and SAF and ESAF loans) declined from SDR 29.5 billion as of April 30, 1988, to SDR 25.5 billion as of April 30, 1989. In recent years, large repurchases by many members have significantly restored their access to Fund resources within existing limits.

During 1988/89, although many member countries continued to pursue appropriate adjustment policies, their financing needs were large in relation to their quotas. In view of these circumstances, several decisions were made to maintain the Fund's ability to provide appropriate amounts of financing to its members.

- The Interim Committee, at its meeting in September 1988, agreed to recommend the continuation of the policy of *enlarged access*, which is financed by borrowed resources, and the maintenance of the limits on the use of Fund resources then in effect. Under the enlarged access policy, the limit on annual access under a stand-by or an extended arrangement continued to be 90 percent or 110 percent of quota; the cumulative access limit remained at 400 or 440 percent of quota, depending on the size and nature of the member's balance of payments need and on the strength of its adjustment efforts.
- As discussed in Section 4, above, the Fund established the *CCFF* in August 1988 and set maximum access to this facility at 122 percent of quota, with sublimits of 40 percent each for compensatory financing of export shortfalls and for contingency financing, and 17 percent for financing of excesses in cereal import costs. An "optional" tranche of 25 percent of quota may be used to supplement any of the three elements of the CCFF.[1]
- In reviewing the *SAF* in March 1989 (see Section 4, above), the Fund agreed that the facility should continue to operate in parallel with the ESAF and raised potential maximum access under three-year SAF arrangements to 70 percent of quota from 63.5 percent. The Fund also reviewed the *ESAF* and decided to extend the period during which members could seek commitments under the facility for a further year (to November 30, 1990). Access under the ESAF, which on the average should be 150 percent of quota, is subject to a three-year limit of 250 percent of quota, which can, however, be exceeded in exceptional cases.
- The Fund's holdings of *usable ordinary resources*, at SDR 42.9 billion as of April 30, 1989, remained at a near record level, while its stock of available borrowed resources had declined to SDR 3.3 billion. During 1988/89, members accounting for a relatively high proportion of Fund quotas continued to maintain sufficiently strong balance of payments and reserve positions to warrant the use of their currencies in Fund transactions. The Fund continued to manage its liquidity prudently to ensure that its resources are available to provide financial assistance to its members and to meet members' calls on the Fund's liquid liabilities.
- *Overdue obligations* of members, comprising arrears to the General and SDR Departments and the Administered Accounts, rose during 1988/89 from SDR 2.0 billion to SDR 2.9 billion, of which SDR 2.8 billion was due from 11 members that were in arrears to the Fund by six months or more. While overdue obligations were still relatively small in relation to the Fund's size and the volume of its financial activity, the increasing gravity of this problem gives rise to serious concerns. Consequently, the Fund continued to strengthen its policies and procedures to deal with the arrears situation, as is discussed more fully below.
- The Fund's *net income* in 1988/89 amounted to SDR 54 million, about the same as in the previous financial year. It reflected the implementation of the Fund's policy of adding to its reserves, while paying an appropriate rate of remuneration to creditor members and retaining a concessional element in the rate of charge paid by debtor members. The Fund added to its Special Contingent Account balances during 1988/89 (SDR 62.9 million) to strengthen the Fund's financial position in the face of members' overdue obligations.
- No new *SDRs* have been allocated since 1981; total SDRs in circu-

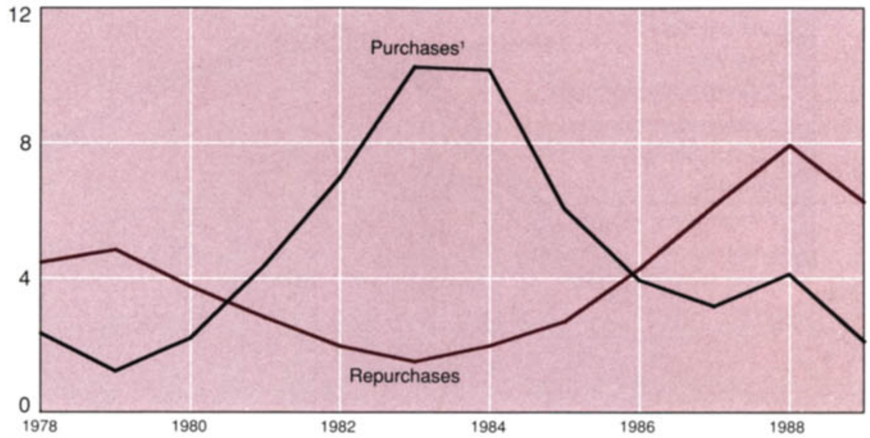
[1] The Fund retained the previous access limit, used under the compensatory financing facility, of 83 percent of quota for financing either export shortfalls or cereal import cost excesses (and a combined limit of 105 percent of quota) for members with balance of payments difficulties that do not extend beyond the effects of an export shortfall or excess costs of cereal imports.

lation remained unchanged at SDR 21.4 billion. The Fund's own holdings of SDRs rose from SDR 0.77 billion at the end of 1987/88 to about SDR 0.98 billion at the end of 1988/89, because the inflow from charges and repayments was greater than the outflow. The volume of SDR transfers, however, declined in 1988/89 in step with the decline in purchases from the Fund.

- Discussions on an *increase in Fund quotas* under the Ninth General Review of Quotas that began in 1987 are continuing. The Interim Committee agreed in April 1989 that the size and distribution of any quota increase should take into account changes in the world economy and other factors. The Board of Governors has requested the Executive Board to complete its work on the Ninth General Review with a view to a decision by the Governors before the end of 1989.

Chart 8

General Resources: Purchases and Repurchases, Financial Years Ended April 30, 1978–89
(In billions of SDRs)



[1]Purchases excluding reserve tranche.

Financial Operations, Fund Liquidity, and Borrowing

Stand-By and Extended Arrangements

Commitments

Twelve new stand-by arrangements came into effect in 1988/89. Commitments of Fund resources under these arrangements, all to developing members, totaled SDR 3.0 billion. This compares with 14 arrangements for SDR 1.7 billion granted in the previous year. The largest commitments were to Brazil (SDR 1.1 billion); Nigeria (SDR 0.5 billion); and Hungary, Pakistan, and Yugoslavia (SDR 0.3 billion each). Two of the stand-by arrangements approved in 1988/89 involved borrowed resources and, as of April 30, 1989, undrawn balances under 14 stand-by arrangements amounted to SDR 1.9 billion. A commitment of SDR 42.5 million under the CCFF's external contingency element was incorporated in the stand-by arrangement with Trinidad and Tobago, but had not been drawn by April 30, 1989.

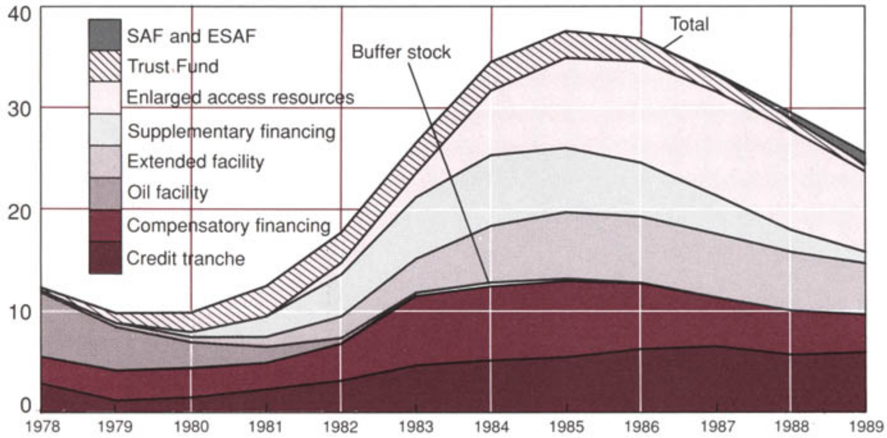
One new extended arrangement for SDR 0.2 billion was approved for Tunisia in July 1988, and an arrangement for Ghana for SDR 0.25 billion approved during the previous year was replaced by an ESAF arrangement in November 1988. One other extended arrangement, approved for Chile in August 1985, remained in effect. At the end of April 1989, undrawn balances under the arrangements for Tunisia and Chile totaled SDR 0.24 billion.

The use of extended arrangements has been relatively limited in the last four years, after peaking in 1983/84. In June 1988, the Board concluded a review of the facility and agreed to enhance its effectiveness. In cases of strong programs of macroeconomic adjustment and structural reforms, more Fund resources would be made available within prevailing access limits. The Executive Board can also make use of the exceptional circumstances clause, where warranted. At the request of the member, the period of an extended arrangement may be lengthened from an initial three to four years, where appropriate. Drawings by members would be financed first with ordinary resources up to 140 percent of quota and would be expected to be at lower rates of charge and with longer maturities than purchases beyond this limit, which would be financed with borrowed resources. For extended arrangements, performance criteria and purchases could be phased at semiannual intervals, provided that appropriate monitoring of macroeconomic developments, normally in the form of quarterly benchmarks, would be ensured. The Fund will review the provisions of the facility in light of the guidelines on conditionality.

Commitments of Fund resources under stand-by and extended arrangements in 1988/89 ranged from 21 to 51 percent of quota annually, with an overall average of 44 percent. This

Chart 9

Total Fund Credit Outstanding to Members (Including Trust Fund, SAF, and ESAF), Financial Years Ended April 30, 1978–89
(In billions of SDRs)



compared with a range of 19–46 percent and an overall average access of 34 percent in 1987/88. The lower end of these ranges represents a few cases where payments problems required a protracted adjustment and where the Fund's involvement was mainly catalytic in attracting lending from other sources.

Purchases

While there was a substantial increase in commitments of resources by the Fund in 1988/89, purchases (drawings) under stand-by and extended arrangements and under the various facilities in the General Resources Account decreased during the year from SDR 4.1 billion in 1987/88 to SDR 2.1 billion in 1988/89.[2] (Chart 8.) The bulk of these drawings was made by African and Latin American countries. The decline in purchases was due in part to the successful implementation of adjustment policies in the past, which helped to moderate demand for credit, and also to such factors as delays in new arrangements, slippages under existing arrangements, and the ineligibility of a number of members in arrears to the Fund to use its resources.

Purchases under the compensatory element of the CCFF and its predecessor, the compensatory financing facility, were made by five members for a total of SDR 0.24 billion, compared with SDR 1.54 billion in 1987/88. Part of the decline in such purchases can be attributed to a lower level of export shortfalls recorded during the year. For the third consecutive year, no drawings were made under the decision related to cereal import costs.

As mentioned in Section 4 above, no drawings have been made under the buffer stock financing facility during the past five years, and no amounts were outstanding under this facility at the end of 1988/89.

Repurchases

Repurchases in the General Resources Account (repayments to the Fund) remained at a high level, amounting to SDR 6.3 billion in 1988/89, compared with SDR 7.9 billion in 1987/88. Almost half of these (SDR 2.7 billion) were made by a few countries, including Brazil, India, Korea, and Thailand, that had either been in strong external positions or had refrained until recently from using Fund credit. Indeed, repurchases amounting to SDR 0.6 billion were made ahead of schedule by four members either voluntarily or under the guidelines for early repurchase. The relatively heavy volume of repayments is a consequence of the high level of use of Fund credit in the General Resources Account in the first half of the 1980s (Chart 9) and is consistent with both the revolving character of Fund resources and the short-term to medium-term maturity of its balance of payments lending. It should be noted that a similar pattern of repurchases occurred in 1978/79, following a sizable expansion of Fund credit in 1974–76.

Fund Liquidity and Borrowing

The liquid resources of the Fund consist of usable currencies, SDRs, and borrowed resources. Usable currencies, the largest component of these resources, are those of members whose balance of payments and gross reserve positions are considered sufficiently strong to warrant their use in financing Fund operations and transactions. As of April 30, 1989, the Fund's usable ordinary resources totaled SDR 42.9 billion, compared with SDR 41.0 billion a year earlier. The increase resulted from the inflow of repurchases in the General Resources Account, which was partially offset by the use of ordinary resources to repay SDR 0.8 billion of short-term Fund borrowing. Such use of ordinary resources to repay borrowing will eventually be reversed as repayments of

[2] Four members encashed SDR 413 million of their reserve tranche positions, compared with SDR 35 million of reserve tranche purchases by two members in 1987/88. Reserve tranche purchases represent use of members' own reserves held in the Fund and therefore do not constitute use of Fund credit.

drawings originally financed by borrowed resources are completed.

The Fund borrows from official sources to supplement its resources and to finance members' purchases under the enlarged access policy. On April 30, 1989, available borrowed resources amounted to SDR 3.3 billion, comprising SDR 3.0 billion under the 1986 agreement with the Government of Japan and SDR 0.3 billion held in investment balances in the Borrowed Resources Suspense Accounts with the Bank for International Settlements pending use in purchases.[3] During the financial year, available borrowed resources declined by SDR 2.0 billion because (1) the Fund used SDR 0.2 billion of borrowed resources, and (2) a balance of SDR 1.8 billion that had been available under the 1984 agreement with the Saudi Arabian Monetary Agency (SAMA) could no longer be drawn by the Fund after May 6, 1989. At the same time, the use of borrowed resources declined during 1988/89.

The Fund's liquid liabilities declined to SDR 27.3 billion at April 30, 1989 from SDR 31.3 billion at April 30, 1988. These liabilities comprise reserve tranche positions, which declined by SDR 0.5 billion to SDR 21.7 billion, and loan claims on the Fund, which fell to SDR 5.6 billion from SDR 9.1 billion.

SAF and ESAF

The Fund's financial assistance to low-income members under the structural adjustment facility and the enhanced structural adjustment facility rose significantly in 1988/89.[4] Commitments totaled SDR 2.5 billion as of April 30, 1989, up from SDR 1.4 billion a year earlier. A total of SDR 8.7 billion is expected to be made available under SAF and ESAF arrangements. Disbursements under the two facilities, taken together, amounted to SDR 554 million in 1988/89, compared with disbursements of SDR 445 million in the previous financial year.

Four SAF arrangements were approved during 1988/89, for a total of SDR 441 million, the largest being for Pakistan (SDR 382 million) and the rest for three African countries. This compared with commitments of SDR 1.0 billion in 1987/88 under SAF arrangements for 15 members, of which only 2 were not African countries. SDR 0.9 billion remained undrawn under 23 SAF arrangements as of April 30, 1989.

The first ESAF arrangements were approved in 1988/89. Commitments to seven members totaled SDR 0.95 billion, of which SDR 0.8 billion was for African countries and SDR 0.1 billion was for one Latin American country. SDR 0.7 billion remained undrawn under the arrangements as of April 30, 1989. Access approved thus far has ranged from 120 to 180 percent of quota, with a weighted average of 168 percent of quota.

Loan contributions to the ESAF Trust to date amount to about SDR 5.3 billion and subsidy contributions to about SDR 2.3 billion. Discussions are continuing with a number of contributors on the possibility of additional contributions. Loan agreements amounting to SDR 4.6 billion had entered into effect as of April 30, 1989. Some loan contributions are provided at market-related interest rates, while others bear concessional interest rates. Subsidy contributions to the ESAF take a variety of forms, including direct grants and grant elements of loans provided at concessional interest rates.

Information regarding loan contributions and subsidy contributions by donors to the ESAF Trust, including other details of their contributions, is to be found in Appendix II, Table II-12.

SDR Department

The overall level of activity in the SDR Department declined during 1988/89 from the peak level of 1987/88, but it was nonetheless higher than in any other year except 1983/84, when payments for quota increases absorbed about 29 percent of total SDR allocations. The decline in activity in 1988/89 reflected mainly a substantial decrease in transfers from the General Resources Account to participants as part of drawings and a sharp fall in transactions by agreement. Transfers from participants in repurchases and payment of charges also declined, but by small margins. Prescribed operations rose more than threefold, partly as a result of a large swap operation, the first to take place since such operations were prescribed in November 1979. Summary data on transfers of SDRs by participants, the General Resources Account, and other prescribed holders are presented in Table 2.

[3] For a summary of the Fund's borrowings from 1981 onward, see *Annual Report, 1988*, page 75. Under the agreement with the Government of Japan, the Fund may make drawings until March 31, 1991, although the period may be extended for up to two years if warranted in light of the Fund's liquidity and borrowing requirements. In addition, the Fund may borrow up to SDR 17 billion under the General Arrangements to Borrow (GAB) and a further SDR 1.5 billion under a borrowing arrangement with the Saudi Arabian Monetary Agency (SAMA) in association with the General Arrangements, when supplementary resources are needed to forestall or to cope with an impairment of the international monetary system.

[4] The establishment of the SAF, its financing from reflows of Trust Fund repayments to the Special Disbursement Account (SDA), and the terms of use for this facility were discussed in previous annual reports (*Annual Report, 1986*, pages 48–49 and 92–98, and *Annual Report, 1987*, pages 65–66). Total SDA resources available for disbursement are expected to be SDR 2.7 billion.

Table 2

Transfers of SDRs, January 1, 1970–April 30, 1989
(In millions of SDRs)

	Annual Average, January 1, 1970–April 30, 1983	Financial Years Ended April 30						Total, January 1, 1970–April 30, 1989
		1984	1985	1986	1987	1988	1989	
Transfers among participants and prescribed holders								
Transactions with designation								
From own holdings	327	89	98	449	27	—	—	5,016
From purchase of SDRs from Fund	507	2,313	2,055	1,360	1,249	986	—	14,727
Transactions by agreement	637	3,175	2,706	2,677	3,925	7,335	6,686	34,997
Prescribed operations	42	1,194	161	111	614	540	1,689	4,852
Fund-related operations	—	—	—	—	172	296	334	815
Net interest on SDRs	101	188	326	313	305	301	344	3,124
Total	1,613	6,959	5,345	4,910	6,292	9,459	9,053	63,530
Transfers from participants to General Resources Account								
Repurchases	478	392	717	1,183	1,671	2,518	2,466	15,327
Charges	486	2,168	2,927	2,915	2,283	2,002	1,734	20,513
Quota payments	425	6,195	14	1	155	—	—	12,025
Interest received on General Resources Account holdings	123	147	506	312	162	81	56	3,005
Assessments	1	3	4	4	4	4	4	40
Total	1,514	8,905	4,258	4,415	4,275	4,605	4,260	50,910
Transfers from General Resources Account to participants and prescribed holders								
Purchases	795	3,876	2,595	1,965	1,779	1,848	624	23,291
Repayments of Fund borrowings	33	787	129	533	1,007	1,999	1,782	6,674
Interest on Fund borrowings in exchange for other members' currencies	36	202	446	721	404	585	490	3,330
Acquisitions to pay charges	15	330	953	1,550	750	402	244	4,428
Acquisitions to make quota payments	26	—	—	—	—	—	—	341
Reconstitution	117	—	—	—	—	—	—	1,555
Remuneration	144	1,573	1,952	1,531	1,088	932	594	9,893
Other	23	35	14	10	10	31	20	425
Total	1,189	6,803	6,089	6,309	5,037	5,798	4,054	49,937
Total transfers	4,316	22,667	15,703	15,634	15,604	19,862	17,367	164,378
General Resources Account holdings at end of period	4,335	6,437	4,616	2,722	1,960	770	976	976

SDRs may be held by Fund members (all of which are participants in the SDR Department), by the Fund's General Resources Account, and by official entities prescribed by the Fund to hold SDRs. The number of institutions prescribed by the Fund as eligible to accept, hold, and use SDRs remained unchanged at 16 during 1988/89. Prescribed holders do not receive allocations but 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.[5]

Total SDRs in circulation remained at SDR 21.4 billion. Holdings of SDRs by participants declined in 1988/89 to SDR 19.9 billion from SDR 20.6 billion. The Fund's holdings of SDRs increased to SDR 0.98 billion from SDR 0.77 billion, and prescribed holders increased their holdings to SDR 546 million from SDR 61 million. In 1988/89, SDR holdings of developing countries as a group declined by more than 20 percent, while those of industrial countries remained virtually unchanged. (See Appendix Tables II-13 and II-14.)

[5] Prescribed holders of SDRs are the African Development Bank, African Development Fund, Andean Reserve Fund, Arab Monetary Fund, Asian Development Bank, Bank of Central African States, Bank for International Settlements, Central Bank of West African States, East African Development Bank, Eastern Caribbean Central Bank, International Bank for Reconstruction and Development, International Development Association, International Fund for Agricultural Development, Islamic Development Bank, Nordic Investment Bank, and Swiss National Bank.

There was no transaction with designation during the year, since all prospective uses of SDRs through the designation process were arranged through transactions by agreement with other participants. Transactions by agreement declined from SDR 7.34 billion in 1987/88 to SDR 6.69 billion in 1988/89, of which SDR 635 million involved prescribed holders. Participants acquired SDRs in transactions by agreement mainly to discharge obligations to the Fund, such as charges, which must be paid in SDRs, and repurchases, which may be made in SDRs. The decline in the amount of SDRs transferred in transactions by agreement from 1987/88 to 1988/89 reflected a decreased use of SDRs in repurchases, lower charges paid to the Fund, and a significant decline in transfers by the Fund in connection with purchases and operational payments. Nonetheless, the total amount of SDRs used in transactions by agreement was substantially higher than in any year prior to 1987/88.

The high volume of SDR use in transactions by agreement during the last two years was facilitated by two-way arrangements for voluntary SDR transactions. These arrangements permitted the Fund to effect potential purchases or sales of over SDR 1.2 billion in exchange for U.S. dollars, deutsche mark, French francs, pounds sterling, and Japanese yen. In 1988/89, one participant entered into such an arrangement, raising the number of these arrangements to nine. While maintaining the SDR holdings of participating members within the desired ranges, these arrangements have greatly facilitated the smooth functioning of the SDR system by avoiding recourse to the designation process and accommodating excess demand or supply created by other participants. Four other participants have standing arrangements with the Fund permitting it to sell SDRs on their behalf.

Almost half of all transfers of SDRs in 1988/89 took place between participants and the Fund. Receipts of SDRs by the General Resources Account in 1988/89 declined to SDR 4.26 billion from SDR 4.61 billion in 1987/88. Receipts consisted mainly of payments of charges on members' use of Fund resources, which amounted to SDR 1.73 billion, and repurchases made in SDRs (at participants' options), which amounted to SDR 2.47 billion. The proportion of total repurchases that was discharged in SDRs in 1988/89 was 39 percent.

Transfers from the General Resources Account to participants fell by 30 percent, to SDR 4.05 billion, in 1988/89. The total of SDRs used for interest payments and in repayments of Fund borrowings declined by 12 percent, to SDR 2.27 billion, in 1988/89. SDRs used in purchases decreased to SDR 0.62 billion from SDR 1.85 billion, while remuneration payments made in SDRs on members' creditor positions in the Fund declined to SDR 0.89 billion from SDR 0.93 billion. The total of SDRs sold to members for currencies of other members declined to SDR 0.24 billion from SDR 0.40 billion.

Participants and prescribed holders made a number of other operational uses of SDRs in 1988/89. These consisted of a swap, settlement of financial obligations, and Fund-related transfers other than those involving the General Resources Account. During 1988/89, SDR 63.0 million was transferred by participants to one prescribed holder to settle financial obligations and SDR 91.5 million was transferred by the same prescribed holder to 5 participants. For the first time, a swap operation was carried out in SDRs; it involved a transfer of SDR 503 million that was renewed at maturity and converted to two swaps with different maturities.

SDRs are used in other operations involving SAF, ESAF, and Trust Fund loans, including their repayment and interest payments; payment of special charges on SAF and Trust Fund loans; and subsidy payments to members. In 1988/89, 11 SAF and ESAF loans totaling SDR 165.3 million were disbursed in SDRs. SDR repayments of Trust Fund loans amounted to SDR 56.8 million. Interest payments made in SDRs on SAF, ESAF, and Trust Fund loans, and payments of special charges on overdue obligations related to these loans, totaled about SDR 1.8 million. Supplementary financing facility subsidy payments made in SDRs during 1988/89 amounted to SDR 35 million and contributions to the ESAF Trust Subsidy Account amounted to SDR 75 million.

Overdue Financial Obligations

Overdue financial obligations to the Fund remain a serious problem. The total amount of overdue obligations at the end of the financial year was SDR 2.9 billion, while the amount of obligations overdue from members that were in arrears to the Fund by six months or more increased to SDR 2.8 billion on April 30, 1989 from SDR 1.9 billion on April 30, 1988. The number of members in arrears on obligations to the Fund by six months or more rose from 9 to 11. All these members were in arrears to the General Resources Account; six had arrears in the SDR Department; seven had arrears to the Trust Fund; and two were in arrears on interest payments on SAF loans. Unpaid charges due from these members (deferred charges)—which are excluded from the Fund's current income—amounted to SDR 209 million in 1988/89, compared with SDR 170 million in 1987/88.

On May 6, 1988, Somalia was declared ineligible to use the general resources of the Fund, pursuant to Article XXVI, Section 2(*a*), in the light of its overdue obligations in the General Department. As of that date, Somalia had overdue obligations of SDR 23.8 million to the General Resources Account (with the longest overdue obligation having been outstanding for 10 months), SDR 0.8 million in the SDR Department (9 months), SDR 2.2 million to the Trust Fund (9 months), and SDR 0.02 million under SAF loans (4 months). Earlier declarations of ineligibility for Viet Nam (January 15, 1985), Guyana (May 15, 1985), Liberia (January 24, 1986), Sudan (February 3, 1986), Peru (August 15, 1986), Zambia (September 30, 1987), and Sierra Leone (April 25, 1988) remained in effect. These eight members accounted for 88 percent of total overdue obligations to the Fund as of April 30, 1989. Selected data on arrears to the Fund for 1985/86–1988/89 are shown in Table 3; additional data on members' overdue obligations by type and duration are shown in Appendix II, Table II-16.

Overdue financial obligations must be eliminated in order to ensure the financial integrity of the Fund and to preserve its effectiveness as a cooperative intergovernmental monetary institution. Responding to the continued increase in overdue obligations, the Board has made strenuous efforts to develop and implement a strategy for resolving members' arrears problems. The strategy has three main elements: (1) prevention of new arrears; (2) intensified collaboration among the members concerned, the Fund, and other multilateral and official bilateral financial institutions to resolve existing cases of protracted arrears; and (3) remedial action to be taken if a country with protracted arrears fails to collaborate with the Fund. One important aspect of intensified collaboration is the provision of exceptional financial assistance by creditors and donors in support of efforts on the part of members to eliminate their arrears.

The Board pursued its work on the modalities of the cooperative strategy during 1988/89 and began to implement it in a number of cases. During the financial year, some members with protracted arrears made progress in designing and implementing strong programs of economic adjustment and structural reform. Policy framework papers, outlining medium-term economic objectives and policies as well as financing requirements, were formulated by two countries and were discussed by the Executive Boards of the Fund and the World Bank. The Fund and the World Bank also cooperated closely in organizing financial assistance for these members.

A "support group" of creditor and donor countries has been established for Guyana under the leadership of Canada, to help mobilize the external financial assistance necessary to clear Guyana's arrears to the international financial institutions. The formation of other support groups is under active consideration. In the case of Guyana, after the conclusion of the financing arrangements by the support group, the Board endorsed a Fund-monitored program intended to strengthen Guyana's domestic and external position and pave the way to normalizing its relations with all creditors.

The Board has also begun to implement remedial measures in the few cases in which members have not shown a willingness to cooperate with the Fund to resolve the problem of their overdue obligations. Every effort is being made to prevent the emergence of new cases of arrears—including improved assessments of members' capacity to repay the Fund, stronger adjustment programs in cases where debt-servicing difficulties could arise, and assistance to members to

Table 3

Arrears to the Fund of Members with Obligations Overdue by Six Months or More, 1986–89
(Amounts in millions of SDRs)

	Financial Years Ended April 30			
	1986	1987	1988	1989
Amount of overdue obligations	489.0	1,186.3	1,945.2	2,801.5
Number of members	*8*	*8*	*9*	*11*
Of which:				
General Department	418.9	1,088.4	1,787.7	2,594.2
Number of members	*8*	*8*	*9*	*11*
SDR Department	12.2	15.6	25.1	35.0
Number of members	*5*	*4*	*6*	*6*
Trust Fund	57.9	82.3	132.4	172.3
Number of members	*6*	*6*	*7*	*7*
Number of ineligible members	*4*	*5*	*7*	*8*

establish arrangements to make timely payments to the Fund. The Fund is also working closely with the World Bank to develop mutually supportive approaches to arrears cases and to reinforce the two institutions' status as preferred creditors. Given the importance of a quick resolution of any new arrears problem that may emerge, the Managing Director would consult with the Board at an early stage regarding immediate and direct communications with the Fund's Governors on the matter.

Fund Income and Charges and Burden Sharing

Owing to the further increase in overdue obligations, the Board maintained the various measures taken in recent years to strengthen the Fund's financial position. For financial year 1988/89, the target amount of additions to the Fund's precautionary balances (reserves plus the Special Contingent Account) remained at 10 percent of accumulated reserves at the beginning of the year. The burden of overdue charges, reflected in the deferral of income, and the additions to the Special Contingent Account continued to be shared among debtor and creditor members through adjustments applied to the basic rates of charge and remuneration. For 1988/89, the rate of charge was accordingly increased by 95 basis points (to an adjusted rate of charge that averaged 7.38 percent), and the rate of remuneration was lowered by 90 basis points (to an adjusted rate of remuneration that averaged 6.15 percent). In December 1988, the Board reviewed the Special Contingent Account and discussed criteria that might be used in judging the adequacy of balances in this account and in deciding on their possible reduction.

Because of rising market interest rates and the consequent increase in the Fund's operational cost, the basic rate of charge on the use of ordinary resources was raised to 7.38 percent, effective November 1, 1988, from the 5.5 percent that had been in effect since the beginning of the financial year. Net income for the financial year amounted to SDR 54 million, and this amount was added to the Fund's reserves, which rose to SDR 1.31 billion on April 30, 1989 from SDR 1.26 billion on April 30, 1988, an increase of 4 percent. Total precautionary balances, which include amounts in the Special Contingent Account, reached SDR 1.46 billion at the end of 1988/89, an increase of 8.7 percent over a year earlier.

For financial year 1989/90, the Board decided to maintain existing target additions to precautionary balances of 5 percent of the Fund's reserves at the beginning of the financial year each to the Special Contingent Account and to reserves and also to make up for the shortfall of SDR 20 million of net income in 1988/89 below the target amount. For the year, the basic rate of charge will be a proportion of the SDR interest rate in order to avoid sharp fluctuations in the rate of charge that might otherwise be necessary to achieve the target amount of net income. The proportion was set at 96.3 percent; it is to be reviewed at midyear.

Quotas

As described in the 1988 *Annual Report*, the Board of Governors resolved to continue the Ninth General Review of Quotas and requested the Board to submit appropriate proposals on the Ninth Review not later than April 30, 1989. Accordingly, the Board continued its work on the Ninth Review, meeting six times during the financial year. While the Board agreed to retain the economic criteria and the formulas that were used for the Eighth General Review, it has not concluded its discussions on the role of the Fund in the 1990s and on such substantive issues as the size and distribution of an overall increase in quotas.

At its April 1989 meeting, the Interim Committee agreed that the size and distribution of any quota increase should take into account changes in the world economy since the last review of quotas as well as members' relative positions in the world economy and the need to maintain a balance between different groups of countries, the Fund's effectiveness in fulfilling its systemic responsibilities, including its role in the strengthened debt strategy, and reduce the Fund's reliance on borrowing. The Interim Committee urged the Board to complete its work on the Ninth Review with a view to the Board of Governors taking a decision on this matter before the end of 1989. In light of this request, the Executive Board has submitted a report to the Board of Governors entitled "Increases in Quotas of Members—Ninth General Review," dated April 27, 1989, and the Board of Governors has resolved to continue its review.

Membership

During financial year 1988/89, a committee of Executive Directors considered the membership application of the People's Republic of Angola. A resolution approving the application was adopted by the Board of Governors, effective July 18, 1989.

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Appendices

International Reserves

This appendix reviews recent developments in international reserves and liquidity as represented by: (1) the evolution of holdings of official reserve assets; (2) the currency composition and distribution of foreign exchange reserves; and (3) the placement of official holdings of foreign exchange reserves.

Recent Evolution of Official Reserve Assets

In 1988, total international reserves measured in terms of the SDR increased by less than 1 percent, to SDR 830 billion, reflecting an increase in the holdings of non-gold reserves partially offset by a fall in the market value of official holdings of gold (Table I.1). The growth of non-gold reserves reflected larger holdings of foreign exchange reserves by both industrial and developing countries that more than offset a decline in the holdings of Fund-related assets by developing countries.

Non-Gold Reserves

Non-gold reserves increased by 7 percent in 1988 to SDR 542 billion at the end of the year. This increase in non-gold reserves followed a sharp increase in such holdings during 1987 and a moderate expansion during 1986. The growth of non-gold reserves in 1988 mainly reflected developments in the industrial countries, which expanded their holdings of non-gold reserves at an annual rate of more than 8 percent. Developing countries as a whole also increased their non-gold reserves during 1988, but the experiences of the various subgroups of developing countries were not uniform. In particular, while the non-gold reserves of capital importing developing countries without debt-servicing problems increased by 12 percent, the holdings by those developing countries that have experienced recent debt-servicing problems declined by more than 7 percent.

Foreign Exchange Reserves

Foreign exchange reserves increased by 8½ percent in 1988 to reach SDR 493 billion by the end of the year. This moderate growth of foreign exchange reserves in 1988 followed a sharp increase in 1987 and a small expansion in 1986 (4 percent increase).

While total holdings of foreign exchange reserves grew by SDR 38 billion, the expansion of the holdings of the industrial countries accounted for a substantial part of this increase as their holdings rose by SDR 26 billion, which represented an annual rate of growth of 9 percent. Developing countries increased their holdings of foreign exchange reserves by 7 percent. This increase continued the process of accumulation of foreign exchange reserves by developing countries initiated in 1987 after successive declines in 1985 and 1986. However, the capital importing developing countries without debt problems accounted for almost all of this accumulation, and the foreign exchange reserves of those capital importing countries that have experienced debt-servicing problems fell by 4½ percent.

Holdings of Fund-Related Reserve Assets

Holdings of Fund-related assets decreased by 6 percent in 1988 to reach SDR 48 billion at the end of the year, reflecting an SDR 3 billion decline in holdings of reserve positions in the Fund. Reserve positions in the Fund, which comprise the reserve tranche position and the creditor position, had increased by SDR 16 billion between the end of 1982 and the end of 1984, but then declined by SDR 10 billion in the period 1984–87. Members' holdings of SDRs remained unchanged in 1988, following a slight increase in 1987 (SDR 0.7 billion). Except for 1983, holdings of SDRs as reserve assets have increased during the 1980s.

Gold

The market value of the global stock of gold reserves declined by 10½ percent in 1988, to SDR 288 billion. This decrease reflected a lower market price for gold, which fell from SDR 341 an ounce at the end of 1987 to SDR 305 an ounce at the end of 1988. The physical stock of gold reserves has remained fairly constant since 1972, except for 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 changed very little during the 1980s. Industrial countries held 83 percent and developing countries 17 percent of the total physical stock of gold reserves of 945 million ounces at the end of 1988.

Developments in First Quarter of 1989

Total international reserves increased by over SDR 11 billion during the first quarter of 1989 as an increase in non-gold reserves was partly offset by a decrease in the market value of official holdings of gold. The larger holdings of non-gold reserves reflected a rise in the foreign exchange reserves of both industrial countries (by SDR 10 billion) and developing countries (by SDR 12 billion).

The market value of official holdings of gold decreased from SDR 288 billion at the end of 1988 to SDR 280 billion at the end of the first quarter of 1989. The reduction in the market value of gold was due to a decrease in the market price of gold, falling to SDR 296 an ounce at the end of the quarter, which more than offset a moderate increase in total physical holdings of gold.

Currency Composition of Reserves

Since the mid-1970s, there has been a continuing diversification of the currency composition of foreign exchange reserves. Whereas that composition had remained relatively stable during 1975–77, the sharp depreciation of the U.S. dollar between 1977 and 1980 was accompanied by a decline in the share of the U.S. dollar in total foreign exchange reserves, from 79 percent at the end of 1977 to 69 percent at the end of 1980. This diversification away from the dollar was partly reversed in the early 1980s, when the dollar appreciated strongly relative to the other major currencies. As a result, the share of the dollar in reserves rose to 71 percent by the end of 1983 (Table I.2). But by 1985, the share had declined by 7 percentage points as monetary authorities again diversified the currency composition of their foreign exchange reserves, and the proportion of foreign exchange reserves denominated in the deutsche mark, the Japanese yen, and, to a lesser extent, sterling increased. The extensive foreign exchange market intervention by some major industrial countries during 1986 and 1987 was accompanied by a rise in the proportion of reserves held as dollar-denominated assets (to 67 percent in 1987) and, as a counterpart, the shares of the deutsche mark, the Japanese yen, and sterling declined slightly. However, the share of reserves held as dollar-denominated assets fell to 63 percent at the end

Table I.1

Official Holdings of Reserve Assets, End of Year 1983–88 and End of March 1989[1]
(In billions of SDRs)

	1983	1984	1985	1986	1987	1988	March 1989
All countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	39.1	41.6	38.7	35.3	31.5	28.3	27.2
SDRs	14.4	16.5	18.2	19.5	20.2	20.2	19.8
Subtotal, Fund-related assets	53.5	58.0	56.9	54.8	51.7	48.4	47.1
Foreign exchange	308.3	348.9	348.3	363.8	455.0	493.2	514.7
Total reserves excluding gold	361.8	407.0	405.2	418.6	506.6	541.6	561.8
Gold[2]							
Quantity (*millions of ounces*)	947.8	946.8	949.4	949.1	944.5	945.2	943.3
Value at London market price	345.4	297.8	282.6	303.3	322.3	288.2	279.6
Industrial countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	25.6	27.2	25.2	23.0	20.4	19.5	18.9
SDRs	11.5	13.4	14.9	16.1	16.4	17.6	17.0
Subtotal, Fund-related assets	37.1	40.6	40.1	39.1	36.8	37.0	36.0
Foreign exchange	167.9	183.9	187.3	209.8	283.3	309.5	319.0
Total reserves excluding gold	205.0	224.5	227.4	248.9	320.1	346.6	354.9
Gold[2]							
Quantity (*millions of ounces*)	786.6	786.0	86.5	785.7	781.4	781.7	779.6
Value at London market price	286.6	247.2	234.1	251.1	266.6	238.3	231.1
Developing countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	13.6	14.3	13.5	12.4	11.1	8.8	8.3
SDRs	2.9	3.1	3.3	3.4	3.8	2.6	2.8
Subtotal, Fund-related assets	16.5	17.4	16.9	15.8	14.9	11.4	11.1
Foreign exchange	140.4	165.0	161.0	154.0	171.7	183.6	195.7
Total reserves excluding gold	156.9	182.5	177.8	169.7	186.6	195.0	206.8
Gold[2]							
Quantity (*millions of ounces*)	161.2	160.8	162.9	163.5	163.1	163.6	163.7
Value at London market price	58.7	50.6	48.5	52.2	55.7	49.9	48.5
Net debtor developing countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	3.4	2.8	2.6	2.4	2.2	1.6	1.6
SDRs	1.8	1.9	2.1	2.3	2.6	1.6	1.6
Subtotal, Fund-related assets	5.2	4.7	4.7	4.8	4.8	3.2	3.2
Foreign exchange	94.9	118.1	108.8	92.4	93.5	106.5	115.4
Total reserves excluding gold	100.1	122.8	113.5	97.1	98.3	109.7	118.6
Gold[2]							
Quantity (*millions of ounces*)	138.3	137.3	139.0	139.2	136.8	131.4	131.6
Value at London market price	50.4	43.2	41.4	44.5	46.7	40.1	39.0
Net debtor developing countries with debt-servicing problems							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	1.3	1.0	0.8	0.8	0.6	0.1	0.1
SDRs	0.6	0.6	0.7	0.7	1.3	0.5	0.6
Subtotal, Fund-related assets	1.8	1.6	1.5	1.5	1.8	0.6	0.7
Foreign exchange	34.2	50.1	45.7	35.8	34.8	33.2	34.1
Total reserves excluding gold	36.1	51.7	47.3	37.4	36.7	33.9	34.8
Gold[2]							
Quantity (*millions of ounces*)	53.0	54.0	54.1	54.1	54.1	52.2	52.7
Value at London market price	19.3	17.0	16.1	17.3	18.5	15.9	15.6

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.
[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.

Table I.2

Share of National Currencies in Total Identified Official Holdings of Foreign Exchange, End of Year 1980–88[1]
(In percent)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	Memorandum: ECUs Treated Separately[2] 1988
All countries										
U.S. dollar	68.6	71.5	70.5	71.2	69.4	64.2	66.0	66.8	63.3	54.5
Pound sterling	2.9	2.1	2.4	2.6	3.0	3.1	2.8	2.7	3.1	2.9
Deutsche mark	14.9	12.8	12.3	11.6	12.3	14.9	14.9	14.7	16.2	15.1
French franc	1.7	1.3	1.2	1.0	1.0	1.3	1.2	1.2	1.7	1.6
Swiss franc	3.2	2.7	2.8	2.4	2.1	2.3	1.9	1.6	1.5	1.4
Netherlands guilder	1.3	1.1	1.1	0.8	0.8	1.0	1.1	1.2	1.1	1.0
Japanese yen	4.3	4.0	4.7	4.9	5.6	7.8	7.6	7.1	7.2	6.7
Unspecified currencies[3]	3.1	4.4	5.0	5.5	5.8	5.4	4.4	4.7	6.0	17.0
Industrial countries										
U.S. dollar	77.6	78.7	77.1	77.4	73.6	65.4	68.4	70.7	67.4	54.9
Pound sterling	0.7	0.7	0.8	0.8	1.6	2.1	1.6	1.4	1.9	1.7
Deutsche mark	14.3	12.8	12.2	12.8	14.8	19.4	17.5	16.5	18.3	16.5
French franc	0.5	0.4	0.3	0.3	0.4	0.5	0.6	0.8	1.6	1.4
Swiss franc	1.7	1.7	1.7	1.4	1.4	1.8	1.4	1.0	1.0	0.9
Netherlands guilder	0.7	0.8	0.7	0.5	0.6	1.0	1.1	1.1	1.1	1.0
Japanese yen	3.3	3.7	4.4	5.1	6.3	8.8	8.2	6.6	6.4	5.8
Unspecified currencies[3]	1.2	1.2	2.8	1.7	1.2	1.1	1.2	1.8	2.3	17.7
Developing countries[4]										
U.S. dollar	59.8	64.1	63.8	64.8	64.9	62.8	62.1	58.2	53.9	53.0
Pound sterling	5.0	3.5	4.1	4.4	4.4	4.4	4.6	5.3	5.7	5.6
Deutsche mark	15.5	12.8	12.4	10.3	9.7	9.8	10.8	11.1	11.9	11.7
French franc	2.9	2.2	2.1	1.8	1.7	2.1	2.2	2.0	1.9	1.9
Swiss franc	4.7	3.8	3.8	3.4	2.8	2.9	2.8	2.9	2.6	2.5
Netherlands guilder	1.9	1.4	1.6	1.2	0.9	1.0	1.2	1.2	1.0	1.0
Japanese yen	5.3	4.4	4.9	4.7	5.0	6.7	6.8	8.3	9.0	8.8
Unspecified currencies[3]	4.9	7.7	7.3	9.5	10.6	10.3	9.5	11.0	14.1	15.5

[1] Starting with 1980, the SDR value of ECUs issued against dollars is added to the SDR value of dollars, but the SDR value of ECUs issued against gold is excluded from the total distributed here. 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 1980 as is explained in the preceding footnote. The share of ECUs in total foreign exchange holdings was 10.2 percent for all countries and 15.6 percent for the industrial countries in 1988.

[3] The 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 1988. The counterpart of the fall in the share of the dollar was a sharp increase in the share of the deutsche mark (which increased from 15 percent at the end of 1987 to 16 percent at the end of 1988).

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 dollars is counted as part of the holdings of dollars. The overall picture of changes in trend in the currency composition of foreign exchange reserves is similar if ECUs—which were introduced in 1979 and accounted for 10 percent of total identified official holdings of foreign exchange at the end of 1988—are treated separately. In particular, the share of the dollar (excluding holdings of ECUs) in total identified reserve holdings fell from 57 percent at the end of 1987 to 54½ percent at the end of 1988 (see Table I.2).

Changes in the SDR value of foreign exchange reserves can also be decomposed into valuation (or 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 1988, total identified foreign exchange reserves increased by over SDR 33 billion as a result of a sharp, positive quantity change of SDR 28 billion and a moderate valuation gain of over SDR 5 billion.

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 dollar holdings of these institutions. These swaps are renewed every three months, and changes in the members' holdings of dollars and gold, as well as changes in the market price of gold and the foreign exchange value of the dollar, affect the amount of ECUs outstanding.[1] Quantity changes in ECU holdings depend, therefore, on the evolution of its two compo-

[1] In calculating the value of the gold holdings of the EMCF in terms of ECUs, the ECU swap price is set 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 at the two fixings on the penultimate working day of the period.

Table I.3

Currency Composition of Official Holdings of Foreign Exchange, End of Year 1983–88[1]
(In millions of SDRs)

	1983	1984	1985	1986	1987	1988
U.S. dollar						
Change in holdings	13,114	22,776	−19,210	1,777	40,093	15,953
Quantity change	4,271	10,549	2,644	20,685	72,071	3,673
Price change	8,842	12,227	−21,854	−18,907	−31,977	12,280
Year-end value	178,805	201,580	182,370	184,148	224,241	240,194
Pound sterling						
Change in holdings	818	2,271	283	−1,097	1,553	2,841
Quantity change	1,167	3,636	−678	−344	739	2,634
Price change	−349	−1,364	961	−753	814	207
Year-end change	6,838	9,110	9,392	8,296	9,849	12,690
Deutsche mark						
Change in holdings	−106	6,935	7,301	−439	9,823	12,533
Quantity change	2,354	9,816	1,805	−6,289	6,887	16,400
Price change	−2,459	−2,881	5,496	5,850	2,936	−3,867
Year-end value	30,593	37,529	44,830	44,391	54,214	66,746
French franc						
Change in holdings	−378	483	585	−169	791	2,543
Quantity change	70	700	138	−355	630	2,965
Price change	−448	−217	447	185	161	−423
Year-end value	2,690	3,173	3,757	3,588	4,379	6,922
Swiss franc						
Change in holdings	−533	−39	637	−1,174	197	288
Quantity change	−295	628	−57	−2,085	−344	912
Price change	−237	−667	695	911	541	−624
Year-end value	6,340	6,301	6,939	5,765	5,962	6,250
Netherlands guilder						
Change in holdings	−614	214	659	285	995	79
Quantity change	−370	411	313	−123	750	373
Price change	−244	−197	346	408	245	−294
Year-end value	2,152	2,366	3,025	3,310	4,305	4,384
Japanese yen						
Change in holdings	1,287	4,272	6,186	−627	3,401	3,351
Quantity change	504	4,477	4,006	−3,635	901	2,379
Price change	783	−205	2,181	3,008	2,500	972
Year-end value	12,940	17,212	23,399	22,772	26,172	29,523
ECU						
Change in holdings	4,074	−3,959	−297	2,721	13,848	−3,919
Quantity change	8,441	−429	−4,551	−306	11,483	−1,254
Price change	−4,366	−3,530	4,254	3,027	2,365	−2,665
Year-end value	41,999	38,040	37,742	40,464	54,312	50,393
Total identified holdings[2]						
Change in holdings	17,662	32,953	−3,856	1,278	70,702	33,669
Quantity change	16,141	29,788	3,619	7,549	93,116	28,082
Price change	1,521	3,165	−7,476	−6,271	−22,414	5,587
Year-end change	282,357	315,311	311,454	312,733	383,435	417,103
Total official holdings[3]						
Change in holdings	23,275	40,635	−647	15,486	91,184	38,190
Year-end value	308,304	348,939	348,292	363,778	454,962	493,153

[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.

nents, gold and dollars.[2] The SDR 4 billion fall in holdings of ECUs that occurred in 1988 resulted from both a negative quantity change (SDR 1 billion) and a negative valuation effect (SDR 3 billion).

There are significant differences in the pattern of currency diversification between industrial and developing countries (Table I.2). During 1980–86 the industrial countries experienced greater diversification of reserve holdings than the developing countries. The industrial countries' share of dollar-denominated reserves decreased by 15 percentage points during this period, whereas the developing countries' share remained relatively stable. Since 1986, moreover, the share of the dollar in the total reserve holdings of developing countries has fallen by 8 percentage points, compared with a decrease of 1 point for industrial countries. In addition, while industrial countries increased the share of the deutsche mark and the Japanese yen in their reserve portfolios by 5 and 4 percentage points, respectively, since 1980, developing countries decreased the share of reserves denominated in deutsche mark by over 2 percentage points and increased the share of sterling and the Japanese yen by 3 and 4 percentage points, respectively.

[2] The quarterly swaps are arranged at the end of the first weeks 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.

Placement of Official Holdings of Foreign Exchange

Total official holdings of foreign exchange increased during 1988 by SDR 38 billion (Table I.4). This sharp increase reflected a substantial increase in dollar claims on residents of the United States (SDR 37 billion) and an SDR 9 billion increase in the claims on residents of other countries denominated in the debtor's own currency.

Official holdings of Eurocurrencies increased by SDR 4 billion in 1988, but their share in total official holdings of foreign exchange continued to decrease. The share of ECUs in total official holdings of foreign exchange fell sharply by the end of 1988.

Table I.4

Placement of Official Holdings of Foreign Exchange Reserves, End of Year 1981–88[1]
(In billions of SDRs)

	1981	1982	1983	1984	1985	1986	1987	1988
Liabilities of residents of the United States to foreign official institutions	139	149	163	178	159	172	183	222
Items not included in reported official U.S. dollar holdings[2]	−36	−50	−52	−46	−41	−34	−33	−35
Reported official U.S. dollar claims on residents of the United States	103	99	111	132	118	138	150	187
Reported official claims on residents of other countries denominated in the debtor's own currency	39	38	40	46	56	61	79	88
Subtotal	142	137	151	178	174	199	229	275
Identified official holdings of Eurocurrencies								
Eurodollars	58	56	57	66	60	54	60	57
Other currencies	32	30	33	38	41	35	48	55
Subtotal	90	86	90	104	101	89	108	112
ECUs	43	38	42	38	38	40	54	50
Residual[3]	19	25	25	29	35	36	64	56
Total official holdings of foreign exchange	293	285	308	349	348	364	455	493

Sources: International Monetary Fund, *International Financial Statistics;* U.S. Treasury Department, *Bulletin;* Bank of England, *Quarterly Bulletin;* BIS, *International Banking and Financial Market Developments.*

[1] Official foreign exchange reserves of Fund members and certain other countries and areas, including Switzerland. Beginning in April 1978, Saudi Arabia 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 dollars deposited with the European Monetary Cooperation Fund in connection with the issuance of ECUs, 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.

Operations and Financial Transactions of the Fund

The tables in this appendix supplement the information given in the section on the Fund in 1988/89 on the activities of the Fund during the financial year ended April 30, 1989.

Table II.1

Exchange Rate Arrangements as of March 31, 1989[1]

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

[1] Current information relating to Democratic Kampuchea is unavailable.
[2] In all cases listed in this column, the U.S. dollar was the currency against which exchange rates showed limited flexibility.
[3] This category consists of countries participating in the exchange rate mechanism of the European Monetary System. In each case, the exchange rate is maintained within a margin of 2.25 percent around the bilateral central rates against other participating currencies, with the exception of Italy, in which case the exchange rate is maintained within a margin of 6 percent.
[4] Member maintains multiple exchange arrangements involving more than one exchange rate. The arrangement shown is that maintained in the major market.
[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 ± 7.5 percent.
[7] Formerly Burma.
[8] The exchange rate is maintained within margins of ± 2.0 percent.
[9] The exchange rate is maintained within margins of ± 2.25 percent.
[10] The exchange rate is maintained within margins of ± 3.0 percent.
[11] 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.

Table II.2

Summary of Arrangements Approved During the Financial Years Ended April 30, 1953–89

Financial Year	Number of Arrangements Approved					Amount Committed Under Arrangements (*In millions of SDRs*)				
	Stand-by	EFF	SAF	ESAF	Total	Stand-by	EFF	SAF	ESAF	Total
1953	2				2	55.00				55.00
1954	2				2	62.50				62.50
1955	2				2	40.00				40.00
1956	2				2	47.50				47.50
1957	9				9	1,162.28				1,162.28
1958	11				11	1,043.78				1,043.78
1959	15				15	1,056.63				1,056.63
1960	14				14	363.88				363.88
1961	15				15	459.88				459.88
1962	24				24	1,633.13				1,633.13
1963	19				19	1,531.10				1.531.10
1964	19				19	2,159.85				2,159.85
1965	24				24	2,159.05				2,159.05
1966	24				24	575.35				575.35
1967	25				25	591.15				591.15
1968	32				32	2,352.36				2,352.36
1969	26				26	541.15				541.15
1970	23				23	2,381.28				2,381.28
1971	18				18	501.70				501.70
1972	13				13	313.75				313.75
1973	13				13	321.85				321.85
1974	15				15	1,394.00				1,394.00
1975	14				14	389.75				389.75
1976	18	2			20	1,188.02	284.20			1,472.22
1977	19	1			20	4,679.64	518.00			5,197.64
1978	18	0			18	1,285.09	—			1.285.09
1979	14	4			18	507.85	1,092.50			1,600.35
1980	24	4			28	2,479.36	797.35			3,276.71
1981	21	11			32	5,197.93	5,220.60			10,418.53
1982	19	5			24	3,106.21	7,907.75			11,013.96
1983	27	4			31	5,449.98	8,671.26			14,121.24
1984	25	2			27	4,287.33	94.50			4,381.83
1985	24	0			24	3,218.33	—			3,218.33
1986	18	1			19	2,123.40	825.00			2,948.40
1987	22	0	10		32	4,117.51	—	487.69		4,605.20
1988	14	1	15		30	1,701.90	245.40	1,008.63		2,955.93
1989	12	1	4	7	24	2,956.03	207.30	441.42	954.97[1]	4,559.72

[1] Includes SDR 194.7 million previously committed under SAF arrangements that were subsequently replaced by ESAF arrangements.

Table II.3
Summary of Arrangements in Effect as of April 30, 1953–89

Financial Year	Number of Arrangements in Effect as of April 30					Amount Committed as of April 30 (*In millions of SDRs*)				
	Stand-by	EFF	SAF	ESAF	Total	Stand-by	EFF	SAF	ESAF	Total
1953	2				2	55.00				55.00
1954	3				3	112.50				112.50
1955	3				3	112.50				112.50
1956	3				3	97.50				97.50
1957	9				9	1,194.78				1,194.78
1958	9				9	967.53				967.53
1959	11				11	1,013.13				1,013.13
1960	12				12	351.38				351.38
1961	12				12	416.13				416.13
1962	21				21	2,128.63				2,128.63
1963	17				17	1,520.00				1,520.00
1964	19				19	2,159.85				2,159.85
1965	23				23	2,154.35				2,154.35
1966	24				24	575.35				575.35
1967	25				25	591.15				591.15
1968	31				31	2,227.36				2,227.36
1969	25				25	538.15				538.15
1970	23				23	2,381.28				2,381.28
1971	18				18	501.70				501.70
1972	13				13	313.75				313.75
1973	12				12	281.85				281.85
1974	15				15	1,394.00				1,394.00
1975	12				12	337.25				337.25
1976	17	2			19	1,158.96	284.20			1,443.16
1977	17	3			20	4,672.92	802.20			5,475.12
1978	19	3			22	5,075.09	802.20			5,877.29
1979	15	5			20	1,032.85	1,610.50			2,643.35
1980	22	7			29	2,340.34	1,462.85			3,803.19
1981	22	15			37	5,331.03	5,464.10			10,795.13
1982	23	12			35	6,296.21	9,910.10			16,206.31
1983	30	9			39	9,464.48	15,561.00			25,025.48
1984	30	5			35	5,448.16	13,121.25			18,569.41
1985	27	3			30	3,925.33	7,750.00			11,675.33
1986	24	2			26	4,075.73	831.00			4,906.73
1987	23	1	10		34	4,313.10	750.00	327.45		5,390.55
1988	18	2	25		45	2,187.23	995.40	1,357.38		4,540.01
1989	14	2	23	7	46	3,054.05	1,032.30	1,566.25	954.97[1]	6,607.57

[1] Includes SDR 194.7 million previously committed under SAF arrangements that were subsequently replaced by ESAF arrangements.

Table II.4

Stand-By and Extended Fund Facility Arrangements in Effect During the Financial Year Ended April 30, 1989
(In millions of SDRs)

Member	Number[1]	Arrangement Dates		Approved in 1986/87		Approved in 1987/88		Approved in 1988/89		Undrawn Balance	
		Date of inception	Date of expiration	Total amount	Borrowed resources	Total amount	Borrowed resources	Total amount	Borrowed resources	At date of termination	As at 4/30/89
Argentina	12	07/23/87	09/30/88	—	—	947.50	631.67	—	—	331.00	—
Brazil	11	08/23/88	02/28/90	—	—	—	—	1,096.00	—	—	730.70
Cameroon	1	09/19/88	03/31/90	—	—	—	—	69.53	—	—	46.35
Central African Republic	6	06/01/87	05/31/88	—	—	8.00	—	—	—	7.00	—
Costa Rica	10	10/28/87	03/31/89	—	—	40.00	—	—	—	40.00	—
Côte d'Ivoire	4	02/29/88	04/30/89	—	—	94.00	62.67	—	—	87.00	—
Ecuador	13	01/04/88	02/28/89	—	—	75.35	65.38	—	—	60.28	—
Egypt	4	05/15/87	11/30/88	—	—	250.00	—	—	—	134.00	—
Gabon	2	12/22/86	12/31/88	98.69	56.65	—	—	—	—	—	—
Guatemala	11	10/26/88	02/28/90	—	—	—	—	54.00	—	—	30.84
Guinea	3	07/29/87	08/28/88	—	—	11.60	—	—	—	11.60	—
Hungary	3	05/16/88	05/15/89	—	—	—	—	265.35	—	—	50.00
Jamaica	7	03/02/87	05/31/88	85.00	56.67	—	—	—	—	—	—
		09/19/88	05/31/90[2]	—	—	—	—	82.00	54.67	—	68.30
Kenya	8	02/01/88	07/31/89	—	—	85.00	—	—	—	—	22.40
Madagascar	9	09/02/88	07/01/89	—	—	—	—	13.30	—	—	10.50
Malawi	6	03/02/88	05/30/89	—	—	13.02	—	—	—	—	3.77
Mali	12	08/05/88	10/04/89	—	—	—	—	12.70	—	—	10.16
Mauritania	2	05/04/87	05/03/88	—	—	10.00	—	—	—	—	—
Morocco	8	08/30/88	12/31/89	—	—	—	—	210.00	140.00	—	140.00
Nigeria	18	02/03/89	04/30/90	—	—	—	—	475.00	—	—	475.00
Pakistan	7	12/28/88	03/27/90	—	—	—	—	273.15	—	—	104.89
Philippines	12	10/24/86	08/23/88[3]	198.00	131.17	—	—	—	—	—	—
Senegal	7	10/26/87	10/25/88	—	—	21.28	—	—	—	2.64	—
Somalia	1	06/29/87	02/28/89[4]	—	—	33.15	22.10	—	—	27.62	—
Togo	7	03/16/88	04/15/89	—	—	13.00	8.67	—	—	—	—
Trinidad and Tobago	11	01/13/89	02/28/90	—	—	—	—	99.00	—	—	56.50
Tunisia	8	11/04/86	05/31/88[5]	103.65	—	—	—	—	—	12.65	—
Yugoslavia	11	06/28/88	06/27/89	—	—	—	—	306.00	—	—	183.60
Zaïre	8	05/15/87	05/14/88	—	—	100.00	80.66	—	—	75.50	—
Subtotal Stand-By Arrangements				485.34	244.49	1,701.90	871.14	2,956.03	194.67	789.29	1,933.01
Chile	1	08/15/85	08/14/89[6]	825.00	370.83	—	—	—	—	—	37.50
Ghana	1	11/06/87	11/05/90[7]	—	—	245.40	69.57	—	—	147.85	—
Tunisia	1	07/25/88	07/24/91	—	—	—	—	207.30	70.27	—	207.30
Subtotal Extended Arrangements				825.00	370.83	245.40	69.57	207.30	70.27	147.85	244.80
Total Stand-By and Extended Arrangements				1,310.34	615.32	1,947.30	940.71	3,163.33	264.94	937.14	2,177.81

[1] Total number of stand-by or extended arrangements approved for member since 1953
[2] Extended from November 30, 1989.
[3] Extended from April 23, 1988.
[4] Canceled as at June 28, 1988.
[5] Extended from May 3, 1988.
[6] Approved in 1985/86, mix of resources modified, extended from August 14, 1988 and amount increased from SDR 750 million.
[7] Canceled as at November 9, 1988.

Table II.5

Extended Fund Facility Arrangements, July 7, 1975–April 30, 1989
(In millions of SDRs)

Member	Arrangement Dates: Date of inception	Arrangement Dates: Date of expiration	Amount Approved: Total amount	Amount Approved: Borrowed resources	Undrawn Balance: At date of termination	Undrawn Balance: As at 4/30/89
Approved in previous financial years						
Bangladesh	12/08/80	12/07/83[1]	800.00	480.80	580.00	—
Brazil	03/01/83	02/28/86	4,239.38	2,842.88	1,496.25	—
Chile	08/15/85	08/14/89[2]	825.00	370.83	—	37.50
Costa Rica	06/17/81	06/16/84[3]	276.75	190.65	254.25	—
Côte d'Ivoire	02/27/81	02/22/84	484.50	324.90	38.47	—
Dominica	02/06/81	02/05/84	8.55	4.49	—	—
Dominican Republic	01/21/83	01/20/86[4]	371.25	255.75	247.50	—
Egypt	07/28/78	07/27/81	600.00	—	525.00	—
Gabon	06/27/80	12/31/82	34.00	—	34.00	—
Ghana	11/06/87	11/05/90[5]	245.40	69.57	147.85	—
Grenada	08/24/83	08/23/86[6]	13.50	8.98	12.37	—
Guyana	06/25/79	06/24/82[7]	62.75	35.00	52.75	—
	07/25/80	07/24/83[8]	150.00	116.37	98.27	—
Haiti	10/25/78	10/24/81	32.20	—	21.40	—
Honduras	06/28/79	06/27/82	47.60	—	23.70	—
India	11/09/81	11/08/84[9]	5,000.00	2.595.50	1,100.00	—
Jamaica	06/09/78	06/08/81[10]	200.00	—	130.00	—
	06/11/79	06/10/81[11]	260.00	227.10	175.00	—
	04/13/81	04/12/84[12]	477.70	390.55	74.90	—
Kenya	07/07/75	07/06/78	67.20	—	59.50	—
Malawi	09/19/83	09/18/86[13]	81.00	62.47	24.00	—
Mexico	01/01/77	12/31/79[14]	518.00	—	518.00	—
	01/01/83	12/31/85	3,410.63	2,287.13	907.95	—
Morocco	10/08/80	10/07/83[15]	810.00	600.00	663.00	—
	03/09/81	10/07/83[16]	817.05	567.00	680.55	—
Pakistan	11/24/80	11/23/83[17]	1,268.00	869.00	919.00	—
	12/02/81	11/23/83	919.00	490.12	189.00	—
Peru	06/07/82	06/06/85[18]	650.00	311.56	385.00	—
Philippines	04/02/76	04/01/79[19]	217.00	—	—	—
Senegal	08/08/80	08/07/83[20]	184.80	126.00	143.70	—
Sierra Leone	03/30/81	02/22/84[21]	186.00	121.81	152.50	—
Sri Lanka	01/01/79	12/31/81	260.30	—	—	—
Sudan	05/04/79	05/03/82[22]	427.00	303.80	176.00	—
Zaïre	06/22/81	06/21/84[23]	912.00	632.94	737.00	—
Zambia	05/08/81	05/07/84[24]	800.00	674.00	500.00	—
Subtotal previous financial years			25,656.56	14,959.20	11,066.91	37.50
Approved in financial year 1988/89						
Tunisia	07/25/88	07/24/91	207.30	70.27	—	207.30
Subtotal financial year 1988/89			207.30	70.27	—	207.30
Total			25,863.86	15,029.47	11,066.91	244.80

[1] Canceled as at June 21, 1982.
[2] Mix of resources modified, arrangement extended from August 14, 1988, and increased from SDR 750 million.
[3] Canceled as at December 20, 1982 and replaced by a stand-by arrangement.
[4] Canceled as at January 17, 1985.
[5] Mix of resources modified, and arrangement canceled as at November 9, 1988.
[6] Canceled as at January 23, 1984.
[7] Canceled as at June 24, 1980.
[8] Augmented by SDR 50 million in July 1981 to a total of SDR 150 million. Canceled as at July 22, 1982.
[9] Canceled as at May 1, 1984.
[10] Canceled as at June 10, 1979.
[11] Canceled as at April 12, 1981.
[12] Augmented by SDR 241.30 million in June 1981 to a total of SDR 477.70 million.
[13] Decreased from SDR 100 million. Canceled as at August 5, 1986.
[14] Includes augmentation by repurchase equivalent to SDR 100 million.
[15] Canceled as at March 8, 1981.
[16] Canceled as at April 25, 1982 and replaced by a stand-by arrangement.
[17] Canceled as at December 1, 1981.
[18] Canceled as at April 24, 1984 and replaced by a stand-by arrangement.
[19] Includes augmentation by repurchase equivalent to SDR 38.75 million.
[20] Canceled as at September 10, 1981 and replaced by a stand-by arrangement.
[21] Augmented by SDR 22.30 million in June 1981 to a total of SDR 186 million. Canceled as at April 6, 1982.
[22] Augmented by SDR 227 million in November 1980 to a total of SDR 417 million. Canceled as at February 17, 1982 and replaced by a stand-by arrangement.
[23] Canceled as at June 21, 1982.
[24] Canceled as at July 3, 1982.

Table II.6

Arrangements Under the Structural Adjustment Facility and Enhanced Structural Adjustment Facility in Effect During the Financial Year Ended April 30, 1989

(In millions of SDRs)

Member	Arrangement Dates: Date of inception	Arrangement Dates: Date of expiration	1986/87 Total amount approved	1987/88 Total amount approved	1988/89 Total amount approved	Undisbursed Balance: At date of ESAF arrangement[1]	Undisbursed Balance: As at 4/30/89
SAF Arrangements							
Bangladesh	02/06/87	02/05/90	201.25	—	—	—	18.69
Bolivia	12/15/86	07/27/88	63.49	—	—	45.35	—
Burundi	08/08/86	08/07/89	29.89	—	—	—	8.54
Central African Republic	06/01/87	05/31/90	—	21.28	—	—	6.08
Chad	10/30/87	10/29/90	—	21.42	—	—	15.30
Dominica	11/26/86	11/25/89	2.80	—	—	—	0.26
Equatorial Guinea	12/07/88	12/06/91	—	—	12.88	—	9.20
Gambia	09/17/86	11/23/88	11.97	—	—	3.42	—
Ghana	11/06/87	11/09/88	—	143.15	—	102.25	—
Guinea	07/29/87	07/28/90	—	40.53	—	—	11.58
Guinea-Bissau	10/14/87	10/13/90	—	5.25	—	—	3.75
Haiti	12/17/86	12/16/89	30.87	—	—	—	22.05
Kenya	02/01/88	01/31/91	—	99.40	—	—	71.00
Lesotho	06/29/88	06/28/91	—	—	10.57	—	7.55
Madagascar	08/31/87	08/30/90	—	46.48	—	—	33.20
Mali	08/05/88	08/04/91	—	—	35.56	—	25.40
Mauritania	09/22/86	09/21/89	23.73	—	—	—	6.78
Mozambique	06/08/87	06/07/90	—	42.70	—	—	—
Nepal	10/14/87	10/13/90	—	26.11	—	—	7.46
Niger	11/17/86	12/12/88	23.59	—	—	6.74	—
Pakistan	12/28/88	12/27/91	—	—	382.41	—	273.15
Senegal	11/10/86	11/21/88	59.57	—	—	17.02	—
Sierra Leone	11/14/86	11/13/89	40.53	—	—	—	28.95
Somalia	06/29/87	06/28/90	—	30.94	—	—	22.10
Sri Lanka	03/09/88	03/08/91	—	156.17	—	—	111.55
Tanzania	10/30/87	10/29/90	—	74.90	—	—	21.40
Togo	03/16/88	03/15/91	—	26.88	—	—	19.20
Uganda	06/15/87	04/17/89	—	69.72	—	19.92	—
Zaïre	05/15/87	05/14/90	—	203.70	—	—	145.50
Total SAF Arrangements			487.69	1,008.63	441.42	194.70	868.69

Member	Arrangement Dates: Date of inception	Arrangement Dates: Date of expiration	Amount Approved 1988/89: Special Disbursement Account resources	Amount Approved 1988/89: ESAF Trust resources	Amount Approved 1988/89: Total amount	Amount Disbursed: Special Disbursement Account resources	Amount Disbursed: ESAF Trust resources[2]	Amount Disbursed: Total amount	Undisbursed as at 4/30/89
ESAF Arrangements									
Bolivia	07/27/88	07/26/91	45.35	90.70	136.05	27.21	18.14	45.35	90.70
Gambia	11/23/88	11/22/91	3.42	17.10	20.52	1.15	2.27	3.42	17.10
Ghana	11/09/88	11/08/91	102.25	265.85	368.10	30.68	55.63	86.30	281.80
Malawi	07/15/88	07/14/91	26.04	29.76	55.80	7.44	11.16	18.60	37.20
Niger	12/12/88	12/11/91	6.74	43.81	50.55	2.27	6.15	8.43	42.13
Senegal	11/21/88	11/20/91	17.02	127.65	144.67	11.49	48.08	59.57	85.10
Uganda	04/17/89	04/16/92	19.92	159.36	179.28	9.96	32.37	42.33	136.95
Total ESAF Arrangements			220.74	734.23	954.97	90.20	173.79	264.00	690.98

[1] Undisbursed amounts have been subsequently committed under an ESAF arrangement (see second part of table) that replaced the SAF arrangement on date shown as SAF expiration date.

[2] Financed with drawings under the following ESAF borrowing agreements: Export-Import Bank of Japan (SDR 55.6 million); Caisse Centrale de Coopération Economique—France (SDR 50.3 million); Bank of Spain (SDR 15.2 million); Canada (SDR 9.1 million); and the Bank of Norway (SDR 5.6 million). The balance of SDR 38.0 million was financed using resources available under the borrowing agreement with the Swiss Confederation.

Table II.7

Summary of Purchases and Disbursements, and Repurchases and Repayments, Financial Years Ended April 30, 1948–89
(In millions of SDRs)

	Purchases and Disbursements					Repurchases and Repayments			
Financial Year	Purchases[1]	Trust Fund loans	SAF loans	ESAF loans	Total	Repurchases[2]	Trust Fund repayments	Total	Fund Credit Outstanding[3]
1948	606.04				606.04	—		—	133.90
1949	119.44				119.44	—		—	192.70
1950	51.80				51.80	24.21		24.21	204.10
1951	28.00				28.00	19.09		19.09	175.80
1952	46.25				46.25	36.58		36.58	213.50
1953	66.12				66.12	184.96		184.96	178.20
1954	231.29				231.29	145.11		145.11	132.10
1955	48.75				48.75	276.28		276.28	54.90
1956	38.75				38.75	271.66		271.66	72.00
1957	1,114.05				1,114.05	75.04		75.04	610.60
1958	665.73				665.73	86.81		86.81	1,026.50
1959	263.52				263.52	537.32		537.32	897.60
1960	165.53				165.53	522.41		522.41	329.60
1961	577.00				577.00	658.60		658.60	551.50
1962	2,243.20				2,243.20	1,260.00		1,260.00	1,022.80
1963	579.97				579.97	807.25		807.25	1,058.90
1964	625.90				625.90	380.41		380.41	951.80
1965	1,897.44				1,897.44	516.97		516.97	1,480.10
1966	2,817.29				2,817.29	406.00		406.00	3,039.00
1967	1,061.28				1,061.28	340.12		340.12	2,945.30
1968	1,348.25				1,348.25	1,115.51		1,115.51	2,462.50
1969	2,838.85				2,838.85	1,542.33		1,542.33	3,299.00
1970	2,995.65				2,995.65	1,670.69		1,670.69	4,020.20
1971	1,167.41				1,167.41	1,656.86		1,656.86	2,556.30
1972	2,028.49				2,028.49	3,122.33		3,122.33	840.20
1973	1,175.43				1,175.43	540.30		540.30	998.20
1974	1,057.72				1,057.72	672.49		672.49	1,084.70
1975	5,102.45				5,102.45	518.08		518.08	4,869.20
1976	6,591.42				6,591.42	960.10		960.10	9,759.80
1977	4,910.33	31.61			4,941.94	868.19		868.19	13,686.91
1978	2,503.01	268.24			2,771.25	4,485.01		4,485.01	12,366.05
1979	3,719.58	670.05			4,389.63	4,859.18		4,859.18	9,843.30
1980	2,433.26	961.54			3,394.80	3,775.83		3,775.83	9,967.44
1981	4,860.01	1,059.87			5,919.88	2,852.93		2,852.93	12,536.13
1982	8,040.62				8,040.62	2,009.88		2,009.88	17,792.93
1983	11,391.89				11,391.89	1,546.64	18.45	1,565.09	26,562.76
1984	11,517.73				11,517.73	2,015.09	110.97	2,126.06	34,603.47
1985	6,288.87				6,288.87	2,730.39	212.34	2,942.73	37,622.18
1986	4,101.22				4,101.22	4,289.01	412.71	4,701.72	36,877.03
1987	3,684.56		139.34		3,823.90	6,169.32	579.32	6,748.64	33,443.29
1988	4,152.56		444.87		4,597.43	7,934.57	528.15	8,462.72	29,542.99
1989	2,541.18		290.14	264.00	3,095.32	6,257.74	447.23	6,704.97	25,520.37

[1] Includes reserve tranche purchases.
[2] Includes repurchase of reserve tranche purchases prior to the Second Amendment, and excludes sales of currencies, which have the effect of repurchase.
[3] Includes SAF/ESAF and Trust Fund loans.

Table II.8

Purchases of Currencies and SDRs, Financial Year Ended April 30, 1989

(In millions of SDRs)

			Stand-By Arrangements		Extended Arrangements				Financed by		
									Ordinary resources		Enlarged access resources
Member	Reserve Tranche	Credit Tranche	Ordinary resources	Enlarged access resources	Ordinary resources	Enlarged access resources	Compensatory Financing[1]	Total Purchases[2]	Currencies	SDRs	Currencies
Algeria	72.05	—	—	—	—	—	—	72.05	52.05	20.00	—
Bangladesh	—	71.88[3]	—	—	—	—	—	71.88	70.38	1.50	—
Bolivia	—	—	—	—	—	—	45.28	45.28	35.28	10.00	—
Brazil	—	—	365.30	—	—	—	—	365.30	235.30	130.00	—
Cameroon	—	—	23.18	—	—	—	46.35	69.53	69.18	0.35	—
Chile	—	—	—	—	137.50	—	—	137.50	133.50	4.00	—
Gabon	—	—	17.05	34.10	—	—	—	51.16	17.05	—	34.10
Ghana	—	—	—	—	50.00	—	—	50.00	50.00	—	—
Guatemala	—	—	23.16	—	—	—	21.60	44.76	40.76	4.00	—
Hungary	—	—	215.35	—	—	—	—	215.35	182.10	33.25	—
Iran, Islamic Republic of	70.77	—	—	—	—	—	—	70.77	—	70.77	—
Jamaica	—	36.38[3]	9.57	19.13	—	—	—	65.08	45.69	0.25	19.13
Kenya	—	—	46.95	—	—	—	40.00	86.95	83.72	3.23	—
Madagascar	—	—	2.80	—	—	—	—	2.80	2.80	—	—
Mali	—	—	2.54	—	—	—	—	2.54	2.54	—	—
Morocco	—	—	23.33	46.67	—	—	—	70.00	23.33	—	46.67
Pakistan	—	—	168.26	—	—	—	—	168.26	77.42	90.84	—
Philippines	—	—	23.33	46.67	—	—	—	70.00	23.33	—	46.67
Senegal	—	—	8.60	—	—	—	—	8.60	8.60	—	—
Swaziland	0.03	—	—	—	—	—	—	0.03	—	0.03	—
Togo	—	—	3.47	6.94	—	—	—	10.41	3.47	—	6.94
Trinidad and Tobago	16.20	—	42.50	—	—	—	85.05	143.75	117.70	26.05	—
Venezuela	253.93	342.88[4]	—	—	—	—	—	596.80	368.93	227.88	—
Yugoslavia	—	—	122.40	—	—	—	—	122.40	121.09	1.31	—
Total	412.98	451.13	1,097.79	153.51	187.50	—	238.28	2,541.18	1,764.22	623.45	153.51

[1] During 1988/89, all purchases made under the compensatory and contingency financing facility were related to export shortfalls.
[2] Includes reserve tranche purchases of SDR 412.98 million. Purchases excluding reserve tranche total SDR 2,128 million (see Table 1).
[3] Emergency purchase.
[4] First credit tranche purchase.

Table II.9

Repurchases of Currencies and SDRs, Financial Year Ended April 30, 1989
(In millions of SDRs)

Member	Ordinary Resources				Borrowed Resources		
	Credit tranche	Extended Fund facility	Compensatory financing	Buffer stock	Supplementary financing facility	Enlarged access resources	Total
Argentina	120.51	—	37.88	—	—	110.27	268.65
Bangladesh	13.05	18.33	27.48	—	3.31	—	62.17
Barbados	2.59	—	—	—	—	4.15	6.74
Belize	2.08	—	0.45	—	—	—	2.53
Bolivia	—	—	34.10	—	—	—	34.10
Brazil	—	166.24	124.15	—	—	342.89	633.28
Central African Republic	6.47	—	—	—	—	1.19	7.66
Chad	—	—	1.75	—	—	—	1.75
Chile	75.48	—	17.65	—	—	63.16	156.29
Costa Rica	13.54	1.88	4.65	—	1.41	13.84	35.32
Côte d'Ivoire	36.00	26.60	—	0.24	60.56	1.66	125.06
Dominica	0.49	0.68	—	—	0.94	—	2.11
Dominican Republic	18.19	11.53	1.94	—	—	15.47	47.13
Ecuador	33.54	—	32.03	—	—	21.58	87.15
Egypt	—	6.25	—	—	—	—	6.25
El Salvador	1.94	—	—	—	—	—	1.94
Equatorial Guinea	1.25	—	—	—	—	—	1.25
Ethiopia	—	—	—	—	—	6.47	6.47
Fiji	—	—	2.38	—	—	—	2.38
Gambia, The	0.66	—	—	—	1.20	1.53	3.38
Ghana	75.95	—	59.23	—	—	42.49	177.67
Grenada	—	—	—	—	—	0.28	0.28
Guatemala	9.49	—	—	—	—	8.69	18.18
Guinea-Bissau	0.94	—	—	—	—	—	0.94
Haiti	4.95	0.90	—	—	—	4.95	10.80
Honduras	5.22	3.98	—	—	—	6.62	15.83
Hungary	126.63	—	—	—	—	110.44	237.07
India	—	325.00	—	—	300.00	187.50	812.50
Indonesia	—	—	41.96	—	—	—	41.96
Jamaica	28.95	23.45	36.30	—	28.86	42.54	160.10
Jordan	—	—	28.70	—	—	—	28.70
Kenya	14.64	—	4.74	—	11.18	46.61	77.16
Korea	160.00	—	174.81	—	—	—	334.81
Liberia	1.06	—	—	—	0.23	—	1.29
Madagascar	12.17	—	7.20	—	1.19	10.28	30.84
Malawi	—	2.35	6.90	—	1.72	7.88	18.85
Mali	8.03	—	—	—	—	5.91	13.94
Mauritania	2.85	—	—	—	2.29	—	5.14
Mauritius	6.02	—	3.75	—	7.27	15.24	32.27
Mexico	36.42	133.75	—	—	—	310.33	480.50
Morocco	24.68	24.34	28.78	—	4.27	109.18	191.24
Myanmar	—	—	7.29	—	—	—	7.29
Nepal	1.28	—	—	—	—	—	1.28
Niger	10.27	—	4.50	—	—	1.20	15.97
Pakistan	—	90.32	—	—	98.45	—	188.78
Panama	—	—	0.51	—	—	—	0.51
Peru	—	—	0.03	—	—	—	0.03
Philippines	60.63	6.67	—	—	25.00	17.25	109.54
Portugal	39.99	—	105.45	—	—	62.57	208.01
Romania	22.11	—	—	—	—	250.85	272.97
Senegal	19.32	3.43	—	—	7.95	14.15	44.85
Sierra Leone	—	—	0.01	—	—	—	0.01
Solomon Islands	0.12	—	—	—	—	—	0.12
Somalia	0.58	—	4.08	—	—	3.84	8.50
Sri Lanka	11.53	43.38	—	—	—	4.30	59.22
Swaziland	—	—	1.13	—	—	—	1.13
Thailand	25.50	—	69.38	2.73	—	89.27	186.87
Togo	13.80	—	—	—	—	3.48	17.29
Turkey	91.41	—	—	—	173.75	—	265.16
Uganda	—	—	—	—	—	55.00	55.00
Uruguay	20.12	—	16.53	—	—	23.51	60.15
Western Samoa	1.74	—	0.14	—	—	0.37	2.25
Yugoslavia	105.16	—	—	—	305.54	46.72	457.42
Zaïre	33.34	5.62	5.64	—	—	27.38	71.98
Zimbabwe	16.66	—	—	—	—	25.11	41.77
Total	1,317.34	894.69	891.46	2.97	1,035.13	2,116.14	6,257.74

Table II.10

Outstanding Fund Credit by Facility and Policy, April 30, 1983–89

(In millions of SDRs)

	Financial Year Ended April 30													
	1983		1984		1985		1986		1987		1988		1989	
	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
General Resources Account														
Credit tranche (ordinary)	4,721	17.8	5,197	15.0	5,511	14.6	6,315	17.1	6,575	19.7	5,732	19.4	5,964	23.4
Compensatory financing	6,837	25.7	7,304	21.1	7,490	19.9	6,430	17.4	4,779	14.3	4,342	14.7	3,689	14.5
Buffer stock financing	307	1.2	375	1.1	237	0.6	73	0.2	34	0.1	3	—	—	—
Oil facility (1974 and 1975)	27	0.1	—	—	—	—	—	—	—	—	—	—	—	—
Extended Fund facility	3,317	12.5	5,568	16.1	6,529	17.4	6,498	17.6	6,242	18.7	5,762	19.5	5,055	19.8
Supplementary financing	6,039	22.7	6,920	20.0	6,310	16.8	5,276	14.3	3,769	11.3	2,161	7.3	1,126	4.4
Enlarged access policy	2,342	8.8	6,378	18.4	8,896	23.6	10,047	27.2	10,247	30.6	9,829	33.3	7,867	30.8
Total	23,590	88.8	31,742	91.7	34,973	93.0	34,640	93.9	31,646	94.6	27,829	94.2	23,700	92.9
Special Disbursement Account														
SDA resources	—	—	—	—	—	—	—	—	139	0.4	584	2.0	965[1]	3.8
Administered Accounts														
Trust Fund	2,973	11.2	2,862	8.3	2,650	7.0	2,237	6.1	1,658	5.0	1,129	3.8	682	2.7
ESAF Trust resources	—	—	—	—	—	—	—	—	—	—	—	—	174	0.7
Total	2,973	11.2	2,862	8.3	2,650	7.0	2,237	6.1	1,658	5.0	1,129	3.8	856	3.4
Total, General Resources, Special Disbursement, and Administered Accounts	26,563	100.0	34,603	100.0	37,622	100.0	36,877	100.0	33,443	100.0	29,543	100.0	25,520	100.0

[1] Includes SDR 90 million used to finance disbursements under ESAF arrangements.

Table II.11

Supplementary Financing Facility Borrowings and Repayments to Lenders, May 29, 1980–April 30, 1989

(In millions of SDRs)

	Total Amount of Agreement	Amount Borrowed	Amount Undrawn at Expiration of Agreement[1]	Amount Repaid[2]	Borrowing Outstanding April 30, 1989
Abu Dhabi	150.00	105.22	44.78	105.10	0.12
Austrian National Bank	50.00	50.00	—	41.29	8.71
Banque Nationale de Belgique	150.00	12.34	137.66	12.34	—
Canada	200.00	173.61	26.39	173.61	—
Deutsche Bundesbank	1,050.00	1,050.00[3]	—	1,050.00	—
Banco de Guatemala	30.00	8.36[4]	21.64	8.36	—
Japan	900.00	886.69	13.31	784.68	102.01
Central Bank of Kuwait	400.00	400.00	—	347.87	52.13
De Nederlandsche Bank, N.V.	100.00	100.00	—	88.84	11.16
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	1,654.64	252.10
Swiss National Bank	650.00	650.00	—	581.95	68.05
United States	1,450.00	1,450.00	—	1,318.11	131.89
Central Bank of Venezuela	500.00	369.42	130.58	356.10	13.32
Total	7,784.00	7,232.22	551.78	6,592.75	639.48

[1] Agreements lapsed on February 22, 1984.
[2] Repayments began on November 24, 1982.
[3] Claims totaling SDR 172.01 million 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 financed 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

Enhanced Structural Adjustment Facility—Contributions as of June 30, 1989[1]
(In millions of SDRs)

Contributor	Loans[2]	Subsidies (Grant or Grant Equivalent)[3]
Austria	—	(32)
Belgium	—	(65)
Canada	300	(140)
Denmark	—	39
Finland	—	32
France	800	(326)
Germany, Fed. Rep. of	700	130
Greece	—	(19)
Iceland	—	2
Italy	370	(172)
Japan	2,200[4]	312
Korea	65	(40)
Luxembourg	—	4
Malaysia	—	(27)
Netherlands	—	56
Norway	90	23
Saudi Arabia	200	(93)
Singapore	—	(18)
Spain	260	(19)
Sweden	—	103
Switzerland	200	(102)
United Kingdom	—	406
United States	—	120
Other[5]	132	31
Total	5,317	2,312

[1] Some of the contributions listed are subject to parliamentary approval or completion of other internal procedures.
[2] Loan contributions are provided either at concessional interest rates or on the basis of weighted averages of market interest rates in the five currencies comprising the SDR basket. The interest rate basis for one market-related loan is somewhat higher than for other loans.
[3] The subsidy contributions listed take a variety of forms, including grants and the grant element of resources provided for the benefit of the ESAF at concessional rates of interest. Figures indicated are partly staff estimates taking into account information on the likely timing of subsidy contributions in relation to projected operational needs and estimated investment earnings on balances held by or for the benefit of the Subsidy Account. Amounts in parentheses represent estimates of the subsidy value of contributions at concessional interest rates or in the form of grants sufficient to reduce the effective interest rate on accompanying loans to 0.5 percent or less; in general, the calculated subsidy value of these contributions will rise or fall with increases or decreases in interest rates over time. The other amounts listed are based on specific grant amounts indicated by contributors. Contributions expressed in local currency are valued at June 30, 1989 exchange rates.
[4] Additional loan amounts up to SDR 0.3 billion could be provided by Japan, subject to the availability of further contributions to the Subsidy Account to subsidize those amounts down to 0.5 percent, and to the extent that total loan contributions do not thereby exceed SDR 6 billion. With the possibility of this additional loan amount, the total of loan contributions could rise to up to SDR 5.6 billion.
[5] Includes contributions that have not been announced publicly or that have been advised, but on which discussions are continuing.

Table II.13

Summary of Transactions and Operations in SDRs, Financial Year Ended April 30, 1989
(In thousands of SDRs)

Holders	Total Holdings April 30, 1988	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 Assessment (Net)	Positions as at April 30, 1989		
		Designated	Other	Designated	Other				Holdings	Net cumulative allocations	Holdings as percent of cumulative allocations
PARTICIPANTS											
Afghanistan	10,271	—	—	—	—	—	—	−1,086	9,185	26,703	34.4
Algeria	143,833	—	1,992	—	165,106	22,430	—	−473	2,676	128,640	2.1
Antigua and Barbuda	3	—	—	—	—	—	—	—	3	—	—
Argentina	4,353	—	166,619	—	—	46,474	194,739	−20,124	2,583	318,370	0.8
Australia	257,270	—	—	—	—	1,523	—	−14,089	244,704	470,545	52.0
Austria	161,256	—	136,450	—	133,166	14,134	—	+285	178,959	179,045	100.0
Bahamas, The	213	—	402	—	—	263	—	−647	231	10,230	2.3
Bahrain	14,736	—	—	—	—	5	—	+561	15,302	6,200	246.8
Bangladesh	17,312	—	93,139	—	17,845	1,901	88,660	−2,315	3,531	47,120	7.5
Barbados	171	—	459	—	—	823	773	−513	168	8,039	2.1
Belgium	488,869	—	215,723	—	308,415	11,134	—	−984	406,327	485,246	83.7
Belize	128	—	—	—	—	421	443	+3	109	—	—
Benin	171	—	675	—	—	—	—	−602	243	9,409	2.6
Bhutan	143	—	—	—	—	20	—	+10	174	—	—
Bolivia	—	—	16,656	—	21,527	13,804	7,085	−1,713	136	26,703	0.5
Botswana	15,725	—	—	—	—	733	—	+766	17,224	4,359	395.1
Brazil	5,186	—	204,702	—	130,000	132,977	187,495	−22,914	2,456	358,670	0.7
Burkina Faso	5,646	—	—	—	—	239	—	−244	5,641	9,409	60.0
Burundi	143	—	13,310	—	12,810	445	—	−794	295	13,597	2.2
Cameroon	526	—	5,200	—	—	422	2,468	−1,566	2,114	24,463	8.6
Canada	571,246	—	538,000	—	134,421	58,472	—	−5,769	1,027,528	779,290	131.9
Cape Verde	58	—	—	—	—	—	—	−37	21	620	3.4
Central African Republic	3,048	—	13,120	—	826	19	9,232	−429	5,699	9,325	61.1
Chad	6,189	—	—	—	—	7	1,336	−223	4,636	9,409	49.3
Chile	9,040	—	81,879	—	3,750	4,933	72,180	−7,514	12,409	121,924	10.2
China	446,455	—	—	—	—	9,768	39,921	+13,152	429,454	236,800	181.4
Colombia	114,274	—	—	—	—	—	—	−19	114,255	114,271	100.0
Comoros	135	—	—	—	—	—	—	−38	96	716	13.4
Congo	1,646	—	—	—	—	9	634	−546	475	9,719	4.9
Costa Rica	976	—	—	—	—	5,672	5,091	−1,514	43	23,726	0.2
Côte d'Ivoire	5,581	—	33,253	—	—	233	31,070	−2,188	5,808	37,828	15.4
Cyprus	292	—	400	—	—	980	—	−1,246	426	19,438	2.2
Denmark	213,801	—	79,000	—	147,169	7,430	—	+447	153,509	178,864	85.8
Djibouti	322	—	—	—	—	29	—	−56	295	1,178	25.1
Dominica	89	—	2,809	—	11	4	2,473	−18	400	592	67.5
Dominican Republic	163	—	—	—	—	14,728	12,004	−2,010	876	31,585	2.8
Ecuador	703	—	117,932	—	—	237	110,874	−1,871	6,126	32,929	18.6
Egypt	3,984	—	32,227	—	14,292	118	8,146	−8,695	5,196	135,924	3.8
El Salvador	391	—	—	—	—	1,260	39	−1,609	2	24,985	—
Equatorial Guinea	381	—	1,850	—	—	5	1,027	−366	843	5,812	14.5
Ethiopia	784	—	950	—	—	2,784	2,774	−699	1,045	11,160	9.4
Fiji	10,405	—	4,500	—	—	262	249	+324	15,242	6,958	219.1
Finland	192,940	—	64,436	—	112,720	6,177	—	+2,498	153,331	142,690	107.5
France	1,070,582	—	35,000	—	196,893	47,855	—	−1,389	955,154	1,079,870	88.5
Gabon	8,886	—	—	—	—	189	4,293	−422	4,361	14,091	30.9

Gambia, The	3,352	—	3,780	—	1,003	10	4,402	−226	1,512	5,121	29.5
Germany, Federal Republic of	1,361,310	—	—	—	248,103	200,620	—	+12,629	1,326,456	1,210,760	109.6
Ghana	5,834	—	38,000	—	—	582	34,559	−3,906	5,951	62,983	9.4
Greece	1,029	—	3,944	—	—	3,222	—	−6,665	1,530	103,544	1.5
Grenada	—	—	—	—	—	119	52	−60	7	930	0.7
Guatemala	560	—	—	—	3,150	7,956	3,587	−1,778	1	27,678	—
Guinea	767	—	5,829	—	3,346	282	1,401	−1,098	1,034	17,604	5.9
Guinea-Bissau	53	—	39	—	—	60	73	−76	3	1,212	0.2
Guyana	—	—	—	—	—	1,234	6	−942	286	14,530	2.0
Haiti	—	—	—	—	—	2,139	1,254	−885	—	13,697	—
Honduras	—	—	—	—	—	3,586	2,705	−881	—	19,057	—
Hungary	260	—	32,496	—	32,750	37,471	37,161	+59	375	—	—
Iceland	1,667	—	—	—	—	11	—	−973	705	16,409	4.3
India	148,500	—	1,008,694	—	—	15,716	986,553	−37,353	149,003	681,170	21.9
Indonesia	14,373	—	33,000	—	—	889	32,183	−15,076	1,003	238,956	0.4
Iran, Islamic Republic of	294,000	—	130,046	—	250,738	71,152	—	−177	244,283	244,056	100.1
Iraq	1,408	—	2,648	—	—	1,686	—	−4,360	1,382	68,464	2.0
Ireland	128,334	—	—	—	—	5,726	—	+2,823	136,883	87,263	156.9
Israel	1,547	—	3,500	—	—	4,005	—	−6,850	2,202	106,360	2.1
Italy	677,220	—	—	—	—	40,155	—	−807	716,567	702,400	102.0
Jamaica	980	—	4,692	—	—	27,338	29,616	−2,596	799	40,613	2.0
Japan	2,055,462	—	119,421	—	404,896	98,530	—	+74,390	1,942,905	891,690	217.9
Jordan	13,292	—	—	—	11,374	2,718	2,995	−697	943	16,887	5.6
Kampuchea, Democratic	—	—	—	—	—	—	—	—	—	15,417	—
Kenya	971	—	98,161	—	129	3,488	98,131	−2,165	2,196	36,990	5.9
Kiribati	4	—	—	—	—	—	—	—	5	—	—
Korea	15,072	—	339,888	—	—	384	349,131	−4,071	2,141	72,911	2.9
Kuwait	153,412	—	—	—	85,762	9,986	—	+8,590	86,227	26,744	322.4
Lao People's Democratic Republic	7	—	—	—	—	789	—	−606	190	9,409	2.0
Lebanon	3,600	—	—	—	—	923	—	−31	4,492	4,393	102.2
Lesotho	580	—	522	—	—	2	—	−188	915	3,739	24.5
Liberia	—	—	—	—	—	670	—	−670	—	21,007	—
Libyan Arab Jamahiriya	202,699	—	—	—	—	13,223	—	+9,781	225,704	58,771	384.0
Luxembourg	18,067	—	—	—	—	403	—	+80	18,550	16,955	109.4
Madagascar	1,621	—	10,601	—	—	88	9,409	−1,212	1,689	19,270	8.8
Malawi	726	—	6,702	—	562	202	5,332	−672	1,066	10,975	9.7
Malaysia	116,174	—	—	—	—	6,557	—	−1,380	121,351	139,048	87.3
Maldives	28	—	—	—	—	—	—	−17	11	282	3.8
Mali	599	—	14,560	—	10,160	208	3,459	−1,003	745	15,912	4.7
Malta	47,463	—	—	—	—	1,361	—	+2,413	51,238	11,288	453.9
Mauritania	9,113	—	21,978	—	27,659	93	2,373	−280	874	9,719	9.0
Mauritius	9,576	—	34,154	—	533	32	38,888	−686	3,655	15,744	23.2
Mexico	420,051	—	731,178	—	5,000	1,732	746,046	+3,073	404,988	290,020	139.6
Morocco	6,000	—	64,167	—	6,741	563	51,795	−5,081	7,113	85,689	8.3
Mozambique	20	—	—	—	—	—	—	+1	21	—	—
Myanmar	1,044	—	3,000	—	—	17	183	−2,787	1,091	43,474	2.5
Nepal	464	—	800	—	—	1,063	1,246	−511	571	8,105	7.0
Netherlands	638,342	—	165,137	—	307,760	28,764	—	+4,065	528,548	530,340	99.7
New Zealand	6,932	—	5,000	—	—	—	—	−8,870	3,062	141,322	2.2
Nicaragua	—	—	—	—	—	1,269	—	−1,269	—	19,483	—
Niger	788	—	8,375	—	4,370	335	3,438	−571	1,118	9,409	11.9
Nigeria	2,526	—	6,109	—	—	5,866	1,188	−10,107	3,206	157,155	2.0
Norway	376,697	—	128,000	—	215,588	22,881	—	+11,992	323,982	167,770	193.1
Oman	7,554	—	—	—	—	1,542	—	+122	9,218	6,262	147.2
Pakistan	8,998	—	28,252	—	70,000	91,708	35,842	−10,597	12,519	169,989	7.4

Table II.13 (*concluded*)

Summary of Transactions and Operations in SDRs, Financial Year Ended April 30, 1989

(In thousands of SDRs)

Holders	Total Holdings April 30, 1988	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, 1989: Holdings	Positions as at April 30, 1989: Net cumulative allocations	Positions as at April 30, 1989: Holdings as percent of cumulative allocations
Panama	—	—	—	—	—	—	—	—	—	26,322	—
Papua New Guinea	3,248	—	—	—	—	108	—	−397	2,959	9,300	31.8
Paraguay	45,413	—	—	—	—	660	—	+2,103	48,175	13,697	351.7
Peru	—	—	—	—	—	7,737	26	−5,917	1,795	91,319	2.0
Philippines	9,637	—	55,493	—	—	10,020	56,319	−7,382	11,449	116,595	9.8
Poland	84	—	—	—	—	—	—	+6	90	—	—
Portugal	16,612	—	122,575	—	—	361	135,601	−2,478	1,468	53,320	2.8
Qatar	25,109	—	—	—	—	1,016	—	+833	26,958	12,822	210.3
Romania	1,037	—	184,577	—	—	22,061	125,076	−4,891	77,708	75,950	102.3
Rwanda	7,982	—	—	—	—	167	—	−374	7,775	13,697	56.8
St. Lucia	10	—	—	—	—	53	—	−48	15	742	2.0
St. Vincent	5	—	—	—	—	25	—	−23	8	354	2.2
Sao Tome and Principe	1	—	—	—	—	41	—	−40	2	620	0.3
Saudi Arabia	418,855	—	—	—	2,000,776	1,948,900	—	+15,876	382,855	195,527	195.8
Senegal	1,736	—	25,502	—	10,622	90	12,884	−1,513	2,310	24,462	9.4
Seychelles	6	—	30	—	—	—	—	−26	10	406	2.4
Sierra Leone	—	—	—	—	—	—	—	—	—	17,455	—
Singapore	83,056	—	—	—	10,000	3,984	—	+4,327	81,366	16,475	493.9
Solomon Islands	42	—	150	—	—	94	207	−40	39	654	6.0
Somalia	—	—	—	—	—	3,879	2,326	−1,554	—	13,697	—
South Africa	3,037	—	16,250	—	—	286	—	−14,138	5,435	220,360	2.5
Spain	427,861	—	—	—	—	33,901	—	+9,175	470,937	298,805	157.6
Sri Lanka	13,120	—	19,836	—	—	178	23,437	−4,375	5,323	70,868	7.5
Sudan	—	—	—	—	—	3,420	41	−3,379	—	52,192	—
Suriname	1	—	—	—	—	501	—	−500	2	7,750	—
Swaziland	1,571	—	1,000	—	—	33	1,156	−317	1,131	6,432	17.6
Sweden	295,957	—	211,727	—	292,286	10,043	—	+732	226,173	246,525	91.7
Syrian Arab Republic	513	—	—	—	—	2,566	—	−2,358	722	36,564	2.0
Tanzania	29	—	22	—	53	5,062	3,044	−2,017	—	31,372	—
Thailand	46,562	—	252,000	—	18,348	344	226,870	−3,224	50,466	84,652	59.6
Togo	741	—	4,125	—	—	58	3,565	−686	674	10,975	6.1
Tonga	59	—	—	—	—	26	—	+5	90	—	—
Trinidad and Tobago	636	—	677	—	5,625	27,384	2,363	−2,890	17,821	46,231	38.5
Tunisia	34,837	—	4,217	—	8,900	175	13,784	−289	16,255	34,243	47.5
Turkey	3,792	—	41,315	—	—	164	34,996	−7,178	3,098	112,307	2.8
Uganda	—	—	72,210	—	57,697	13,009	12,847	−1,872	12,803	29,396	43.6
United Arab Emirates	80,368	—	—	—	—	24	—	+2,735	83,127	38,737	214.6
United Kingdom	1,015,120	—	526,357	—	599,745	31,295	—	−59,505	913,522	1,913,070	47.8
United States	6,927,913	—	—	—	181,375	353,130	—	+139,285	7,238,953	4,899,530	147.7
Uruguay	44,560	—	53,500	—	—	149	77,748	−1,408	19,053	49,977	38.1
Vanuatu	272	—	—	—	—	42	—	+19	333	—	—
Venezuela	540,621	—	503,409	—	1,222,081	238,309	1,714	+2,567	61,111	316,890	19.3
Viet Nam	—	—	—	—	—	3,613	—	−3,613	—	47,658	—
Western Samoa	2,519	—	1,700	—	150	4	2,496	+84	1,661	1,142	145.4
Yemen Arab Republic	4,600	—	31,103	—	19,248	2	—	+183	16,641	6,160	270.1

Yemen, People's Democratic Republic of	12,837	—	4,334	—	3,791	1	—	−624	12,759	22,583	56.5
Yugoslavia	2,596	—	101,972	—	900	2,141	91,898	−9,929	3,983	155,161	2.6
Zaïre	1,220	—	25,946	—	—	36,524	58,121	−5,570	—	86,309	—
Zambia	—	—	—	—	—	—	—	—	—	68,298	—
Zimbabwe	5,243	—	42,500	—	—	49	46,895	−516	381	10,200	3.7
Total Participants	20,626,824	—	7,215,885	—	7,520,172	3,889,903	4,199,425	−65,972	19,947,044	21,433,330	93.1
PRESCRIBED HOLDERS											
Arab Monetary Fund	25,074	—	159,636	—	183,493	—	—	+1,064	2,281	—	—
Bank of Central African States	940	—	10,000	—	11,050	—	—	+169	59	—	—
Bank for International Settlements	14,136	—	1,263,265	—	928,862	164,000	—	+13,084	525,623	—	—
East African Development Bank	563	—	—	—	203	—	—	+33	392	—	—
Eastern Caribbean Central Bank	1,240	—	—	—	—	—	—	+82	1,322	—	—
International Bank for Reconstruction and Development	3,438	—	35,962	—	34,968	—	—	+329	4,760	—	—
Islamic Development Bank	1,416	—	—	—	—	—	—	+93	1,509	—	—
Nordic Investment Bank	263	—	—	—	—	—	—	+17	281	—	—
Swiss National Bank	14,569	—	—	—	6,000	—	—	+939	9,508	—	—
Total Prescribed Holders	61,637	—	1,468,863	—	1,164,577	164,000	—	+15,811	545,735	—	—
GENERAL RESOURCES ACCOUNT	770,307	—	4,199,425	—	4,053,903	—	—	+60,123	975,951	—	—
Total	21,458,767	—	12,884,173	—	12,738,652	4,053,903	4,199,425	+9,963	21,468,730	21,433,330	—

Table II.14

Holdings of SDRs by All Participants and by Groups of Countries as Percent of Their Cumulative Allocations of SDRs and of Their Non-Gold Reserves, Financial Years Ended April 30, 1970–89

			Developing Countries				
					Net debtor countries[2]		
	All Participants[1]	Industrial Countries	All developing countries	Net creditor countries	All net debtor countries	With recent debt-servicing problems	Without recent debt-servicing problems
Holdings of SDRs as percent of cumulative allocations							
1970	93.8	102.1	72.2	100.0	71.5	82.7	53.9
1971	92.3	103.9	62.3	2.8	63.7	72.0	50.8
1972	90.2	100.4	64.2	34.5	64.9	61.7	69.9
1973	93.4	106.1	60.7	55.4	60.8	57.0	66.6
1974	94.6	106.5	64.2	59.5	64.3	61.9	68.1
1975	94.5	106.8	62.9	72.5	62.7	64.8	59.4
1976	95.1	108.9	59.5	99.1	58.5	60.9	54.9
1977	91.7	106.1	54.8	106.3	53.5	56.6	48.6
1978	85.3	96.0	57.6	117.6	56.2	60.0	50.2
1979	90.3	97.6	73.7	112.3	70.7	70.5	71.0
1980	91.9	97.6	79.5	148.3	74.1	70.0	80.0
1981	74.5	81.9	59.5	139.6	52.3	52.3	52.3
1982	74.6	82.7	57.8	140.5	50.3	44.4	58.4
1983	79.8	96.1	46.3	207.9	31.6	19.4	48.4
1984	69.8	81.2	46.5	183.9	34.0	19.5	53.7
1985	78.4	96.1	42.0	182.2	29.3	17.7	45.0
1986	87.3	106.3	48.1	192.5	35.0	22.8	51.6
1987	90.8	111.1	49.1	195.4	35.8	21.4	55.4
1988	96.2	117.1	53.5	202.8	39.9	31.9	50.8
1989	93.1	117.6	42.6	181.6	30.0	20.7	42.7
Holdings of SDRs as percent of non-gold reserves							
1970	7.5	9.2	4.1	0.8	4.8	5.7	3.4
1971	9.2	10.0	5.9	0.0	7.3	8.7	5.4
1972	9.1	9.4	6.8	0.4	8.7	9.4	7.9
1973	8.0	8.9	4.7	0.5	5.8	6.1	5.4
1974	7.3	9.4	3.5	0.4	4.3	4.5	4.0
1975	6.1	9.0	2.3	0.2	3.7	3.8	3.7
1976	5.5	8.4	1.9	0.2	3.2	3.5	2.9
1977	4.5	7.4	1.4	0.2	2.2	2.5	1.9
1978	3.6	5.3	1.4	0.2	2.0	2.4	1.6
1979	4.8	5.8	2.8	1.1	3.5	4.0	2.9
1980	5.7	7.1	3.4	1.5	4.3	4.7	3.8
1981	5.0	6.2	2.9	1.8	3.4	4.1	2.8
1982	5.5	6.9	2.9	1.6	3.7	4.5	3.1
1983	5.5	7.3	2.3	2.2	2.3	2.3	2.3
1984	4.3	5.6	2.0	1.9	2.1	1.8	2.2
1985	4.6	6.3	1.6	1.7	1.6	1.4	1.8
1986	5.2	6.7	2.0	1.8	2.1	2.0	2.3
1987	4.9	5.7	2.0	1.4	2.4	2.1	2.6
1988	4.6	5.1	1.9	1.4	2.4	3.1	2.0
1989	4.1	4.7	1.4	1.2	1.6	2.2	1.4

Source: International Monetary Fund, *International Financial Statistics*, various issues.
[1] This category consists of member countries that are participants in the Fund's SDR Department. At the end of financial year 1989, of the total SDRs allocated to participants in the SDR Department (SDR 21.4 billion), SDR 1.53 billion was not held by participants but by the Fund (SDR 0.98 billion) and by prescribed holders (SDR 0.55 billion).
[2] Countries with recent debt-servicing problems are those countries that incurred external payments arrears or rescheduled their debts during the period 1985–87.

Table II.15

Purchases and Subsidy Payments Under Supplementary Financing Facility, May 29, 1980–April 30, 1989
(In millions of SDRs)

	Cumulative Purchases	Cumulative Subsidy Payments
Recipients of subsidy at the full rate[1]		
Bangladesh	110.0	16.35
Bolivia	25.5	3.89
Dominica	4.5	0.58
Gambia, The	4.8	0.61
Guyana	30.9	4.65
India	1,200.0	146.36
Kenya	94.8	13.72
Liberia	42.9	6.18
Madagascar	22.2	3.30
Malawi	28.1	4.18
Mauritania	16.0	2.30
Pakistan	537.1	74.03
Philippines	333.0	49.14
Senegal	54.2	7.65
Sierra Leone	17.2	3.63
Sri Lanka	—	0.59[2]
Sudan	171.4	25.25
Tanzania	16.3	2.45
Togo	7.3	1.07
Zambia	—	3.52[3]
Subtotal	2,716.2	369.45
Recipients of subsidy at half the full rate[4]		
Côte d'Ivoire	286.4	18.42
Jamaica	227.1	16.65
Mauritius	69.2	5.06
Morocco	137.5	10.23
Peru	195.1	15.06
Subtotal	915.3	65.42
Total	3,631.5	434.87[5]

[1] Members with per capita incomes equal to or below the level of per capita income used to determine eligibility for assistance from the International Development Association (IDA) are eligible for the full rate subsidy (not to exceed 3 percent per annum).
[2] Subsidy paid in respect of Fund holdings in excess of 140 percent of quota under the Fund's policy on exceptional use.
[3] Subsidy paid in respect of Fund holdings in excess of 200 percent of quota under the Fund's policy on exceptional use.
[4] Members with per capita incomes in excess of the IDA level but not more than the per capita income of the member with the highest per capita income in 1979 that was eligible to receive assistance from the Trust Fund.
[5] Including SDR 4.5 million of subsidies approved but not paid to five members on account of nonpayment of SFF charges by these members.

Table II.16

Arrears to the Fund of Members with Obligations Overdue by Six Months or More, by Type and Duration, as of April 30, 1989
(In millions of SDRs)

	Arrears							
		By Type			By Duration			
Member	Total	General Department	SDR Department	Trust Fund	Less than one year	One–two years	Two–three years	Three years or more
Guyana	92.1	86.5	—	5.7	15.4	20.3	21.2	35.2
Kampuchea, Democratic	33.7	28.7	5.0	—	2.0	1.8	1.8	28.0
Liberia	260.6	233.4	3.1	24.1	53.6	65.5	74.6	67.0
Panama	117.0	114.8	2.1	—	77.1	39.8	—	—
Peru	572.8	572.8	—	—	151.6	163.3	188.3	69.5
Sierra Leone	59.9	48.9	2.2	8.8	20.5	34.4	5.0	—
Somalia	59.8	55.5	—	4.3	34.4	25.4	—	—
Sudan	764.5	698.9	—	65.7	148.7	193.7	177.0	245.2
Viet Nam	100.2	39.9	13.8	46.5	12.5	18.8	18.7	50.2
Zaïre[1]	108.9	108.9	—	—	108.9	—	—	—
Zambia	631.9	605.9	8.8	17.2	199.9	253.2	178.8	—

[1] Zaïre completed settlement of its overdue obligations to the Fund on May 17, 1989.

Table II.17

SDR Interest Rate and Rate of Remuneration

Week Beginning	SDR Interest Rate and Rate of Remuneration[1]
1988	
April 25	5.52
May 2	5.60
May 9	5.71
May 16	5.66
May 23	5.59
May 30	5.62
June 6	5.74
June 13	5.70
June 20	5.85
June 27	6.03
July 4	6.16
July 11	6.29
July 18	6.47
July 25	6.48
August 1	6.64
August 8	6.58
August 15	6.76
August 22	6.77
August 29	7.00
September 5	6.96
September 12	6.94
September 19	6.87
September 26	6.88
October 3	6.90
October 10	6.94
October 17	6.95
October 24	7.00
October 31	6.94
November 7	6.98
November 14	7.02
November 21	7.19
November 28	7.35
December 5	7.38
December 12	7.38
December 19	7.62
December 26	7.54
1989	
January 2	7.58
January 9	7.63
January 16	7.58
January 23	7.66
January 30	7.76
February 6	7.88
February 13	7.91
February 20	8.00
February 27	8.19
March 6	8.14
March 13	8.16
March 20	8.17
March 27	8.26
April 3	8.15
April 10	8.05
April 17	7.98
April 24	8.05

[1] The rate of remuneration was raised to 100 percent of the SDR interest rate effective February 1, 1987.

Table II.18

Members That Have Accepted the Obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement

Member	Effective Date of Acceptance	Member	Effective Date of Acceptance
Antigua and Barbuda	November 22, 1983	Luxembourg	February 15, 1961
Argentina	May 14, 1968	Malaysia	November 11, 1968
Australia	July 1, 1965	Mexico	November 12, 1946
Austria	August 1, 1962	Netherlands	February 15, 1961
Bahamas, The	December 5, 1973	New Zealand	August 5, 1982
Bahrain	March 20, 1973	Nicaragua	July 20, 1964
Belgium	February 15, 1961	Norway	May 11, 1967
Belize	June 14, 1983	Oman	June 19, 1974
Bolivia	June 5, 1967	Panama	November 26, 1946
Canada	March 25, 1952	Papua New Guinea	December 4, 1975
Chile	July 27, 1977	Peru	February 15, 1961
Costa Rica	February 1, 1965	Portugal	September 12, 1988
Denmark	May 1, 1967	Qatar	June 4, 1973
Djibouti	September 19, 1980	St. Kitts and Nevis	December 3, 1984
Dominica	December 13, 1979	St. Lucia	May 30, 1980
Dominican Republic	August 1, 1953	St. Vincent	August 24, 1981
Ecuador	August 31, 1970	Saudi Arabia	March 22, 1961
El Salvador	November 6, 1946	Seychelles	January 3, 1978
Fiji	August 4, 1972	Singapore	November 9, 1968
Finland	September 25, 1979	Solomon Islands	July 24, 1979
France	February 15, 1961	South Africa	September 15, 1973
Germany, Federal Republic of	February 15, 1961	Spain	July 15, 1986
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
Indonesia	May 7, 1988	Uruguay	May 2, 1980
Ireland	February 15, 1961	Vanuatu	December 1, 1982
Italy	February 15, 1961	Venezuela	July 1, 1976
Jamaica	February 22, 1963		
Japan	April 1, 1964		
Kiribati	August 22, 1986		
Korea	November 1, 1988		
Kuwait	April 5, 1963		

Technical Assistance and Training, Relations with International Organizations, and External Relations

Technical assistance and training is extended to members in specific economic and financial topics, either at Fund headquarters or through staff missions to the member country concerned. To meet members' requests, staff from almost every department and bureau of the Fund may be provided. Assistance may relate to a whole range of subjects, including general economic policy, balance of payments adjustment programs, legal matters, debt management, the problems that arise from inflation, exchange and trade systems, public finance issues, financial sector issues, accounting, statistics, and data processing.

The *IMF Institute* trains officials of member countries, both at headquarters and overseas, through courses and seminars that are held in either Arabic, English, French, or Spanish. It also organizes briefings for visiting officials and assists training programs of member countries and other international organizations by providing lectures in the Fund's field of expertise.

During 1988/89, training at headquarters consisted of 15 courses and 3 high-level seminars, attended by 559 participants. The courses comprised two 16-week courses on financial analysis and policy, three 12-week courses on financial programming and policy, three 10-week courses on public finance, two 8-week courses on techniques of economic analysis, two 8-week courses on balance of payments methodology, two 8-week courses on money and banking statistics, and one 8-week course on government finance statistics. The courses on public finance were conducted in collaboration with the Fiscal Affairs Department, and those on balance of payments methodology, on government finance statistics, and on money and banking statistics in collaboration with the Bureau of Statistics. The three high-level seminars—on current legal issues affecting central banks, on public expenditure management, and on central banking—were conducted in collaboration with the Legal, Fiscal Affairs, and Central Banking Departments, respectively. In addition, the Institute organized 27 briefings at headquarters for a total of 232 visiting officials.

The provision of technical assistance represents an important part of the *Fiscal Affairs Department*'s activities, and in 1988/89, as in previous years, this covered a wide range of issues, including tax policy and administration; budget presentation, preparation, and control; government accounting; fiscal reporting; and public enterprise finances. While the bulk of this assistance was to developing countries, the department also provided technical advice to an increasing number of developed and industrial countries.

Moreover, with the rapid expansion of SAF and ESAF activities, fiscal technical assistance played a key role in the design of Fund-supported structural adjustment programs. After detailed technical analysis, recommendations were made to increase government revenue, mainly through a broadening of the tax base; to rationalize expenditure policy; and to strengthen control procedures.

In 1988/89, technical assistance was provided mainly through staff missions and the use of members of the fiscal panel. Such assistance was provided to 57 countries (up from 50 in 1987/88), which comprised 24 long-term panel and 69 short-term staff/panel assignments in the field involving 61 panel members and 34 staff members. Staff at headquarters continued to provide support and guidance to experts on long-term assignments in the field. As in the preceding year, technical assistance consisted increasingly of short-term assignments and on-the-spot advice to country authorities.

The objective of the technical assistance provided by the *Central Banking Department* is to assist member countries in strengthening their technical and organizational capabilities in managing monetary policy and in regulating and developing the financial system. In recent years, financial sector reforms and modernization of monetary policy instruments have become key features of many Fund-supported adjustment programs, in particular SAF and ESAF programs. In the framework of these programs, the assistance has been used to explore options in the design of financial sector measures and to strengthen central banks so as to facilitate program implementation. At present, a considerable share of the department's technical assistance activity is directly or indirectly related to these structural issues.

This technical assistance takes the form of staff advisory missions, assignment of long-term experts, and provision of information on issues of interest to member countries. In 1988/89, staff undertook 31 advisory missions, providing advice on a wide range of policy issues including bank regulation and supervision; financial sector structure and competitiveness; monetary policy design and implementation; financial sector reforms; development of money markets and open market policies; establishment of unit trusts; and reorganization of the banking sector. A special arrangement to provide consultant services to a member country in connection with a World Bank loan was also carried out. In addition, departmental staff participated in 5 joint Bank-Fund advisory missions. Central banking experts were assigned to the monetary authorities of 51 member countries and 4 regional organizations, providing a total of almost 72 man-years of assistance. About 91 percent of this assistance was in the areas of research and policy and bank regulation and supervision; management, general operations, external debt, and accounting made up the remaining 9 percent.

As in recent years, the *Bureau of Statistics* again placed emphasis on providing technical assistance to member countries that are actual or prospective users of Fund resources. Priority was also given to meeting requests from countries whose statistical base was at an early stage of development.

Assistance was provided primarily through missions comprising staff members of the bureau and through training of national statisticians at Fund headquarters. Staff also participated in a number of area department missions when statistical issues were particularly important or complex. Mission activity was designed to improve the currentness, coverage, and quality of data required for the Fund's analytical and operational needs. The principal areas of statistics covered were money and banking, government finance, balance of payments, international banking and external debt, and general economic data. Training activities at Fund headquarters consisted of familiarizing national statisticians with current statistical methodologies as well as with their application to individual cases.

During the year the staff of the bureau participated in 58 technical assistance missions to 34 countries and provided training at headquarters to officials from 9 member countries. Staff also provided lecturing assistance on public finance statistics at a World Bank seminar in Costa Rica and on balance of payments statistics at seminars organized by the Center for Latin American Monetary Studies in Cuba and by the Central American Monetary Council in El Salvador.

The *Bureau of Computing Services* provides narrowly focused technical assistance on electronic data processing to member countries. Although budgetary constraints and reduced staff resources limited the number of technical assistance missions provided during the financial year, short-term missions were authorized where it was felt they could facilitate existing Fund programs; improve the processing and analysis of economic information (such as money and banking statistics); and provide advice and guidance on data organization and modeling, on data base management systems, and on data processing strategies and procedures to implement information management systems. Missions were undertaken to Abu Dhabi, Cyprus, Jordan, Malaysia, and Poland to advise on improving the methodology for processing economic and financial data and to provide operational guidance not generally available elsewhere.

As a result of the expanding role of technology, an increased number of representatives from member countries, regional institutions, international organizations, and private companies visited the bureau to acquaint themselves with and to share experiences on the management and operation of economic and financial data systems. These visits ranged from one to three days of general overview briefings to a one-month hands-on training program. They covered such aspects as data administration and data modeling capabilities, financial reporting, and computer operations to improve the quality and usefulness of information bases and to provide for easy access and exchange of data with other organizational units inside and outside national institutions.

Relations with Other International Organizations

Cooperation with other international and regional organizations with related responsibilities or common interests continue to play an important role in enabling the Fund to fulfill its responsibilities with respect to international monetary and financial matters. Close ties are maintained with a number of international and regional organizations, including the United Nations, the General Agreement on Tariffs and Trade, the Organization for Economic Cooperation and Development, the Commission of the European Communities, and the Bank for International Settlements.

The Director of the Fund Office in the United Nations and the Special Representative to the United Nations is responsible for relations with the UN and its subsidiary bodies. The Office in Europe, located in Paris, deals in particular with the BIS, CEC, and OECD. The Geneva Office maintains close relations with the GATT, the UN Conference on Trade and Development, and other UN organizations located in Geneva. Liaison activities include attendance at meetings, participation in seminars and expert groups, and exchange of information and pertinent documents. The work of these offices is supplemented, as necessary, by assignment of staff and technical experts from headquarters. In addition, staff in the field attend and participate in numerous meetings and seminars, such as those of the regional economic and financial organizations in Africa, Asia and the Pacific, Latin America and the Caribbean, and the Middle East, including the regional development banks.

The Fund enjoys a unique relationship with the World Bank, and collaboration between the two institutions includes joint participation in missions, attendance at each other's Executive Board meetings, regular exchange of documents and information, and attendance at and participation in conferences and seminars (see also the discussion above on Fund-Bank collaboration). Fund staff attended a number of aid coordination meetings held under World Bank auspices, including Aid Groups, Consultative Groups, and Donors' Conferences, and provided background documents for some of these meetings.

Long-standing cooperative arrangements with the GATT regarding consultations with common member countries on trade restrictions imposed for balance of payments purposes continued to involve staff participation and provision of pertinent documents. In addition, Fund staff attended meetings of the GATT Council of Representatives as well as the annual session of the CONTRACTING PARTIES to the GATT. Progess within the Uruguay Round of multilateral trade negotiations continued to be closely monitored in the Fund through staff attendance at meetings of many of the trade negotiating groups and through contacts with the GATT Secretariat. Reflecting the increasing importance to the Fund of the GATT's work in this area, the Managing Director addressed the Ministerial Mid-Term Review of the Uruguay Round in Montreal on December 6, 1988.

The *Managing Director* participated in a number of meetings convened under the auspices of various international and regional organizations, most notably the United Nations, where he attended regular meetings of the Administrative Committee on Coordination (ACC) and the Economic and Social Council (ECOSOC). On September 12, 1988 he addressed the Ad Hoc Committee of the Whole of the General Assembly on the Mid-Term Review of Implementation of the United Nations Program of Action for African Economic Recovery and Development, 1986–1990 (UNPAAERD).

External Relations

During the year, the Fund significantly broadened efforts to explain its role and policies to a wider audience, and continued to place priority on reversing the negative perceptions of the Fund held in a number of member countries. The Fund was actively involved in a concentrated public information program in the Federal Republic of Germany before the 1988 Annual Meeting of the Board of Governors held in Berlin (West). This information effort, which was coordinated by the German authorities and involved Fund-wide staff participation, was largely credited with ameliorating the impact of anti-Fund propaganda throughout Germany.

Considerable interest in the Fund by the general public and the press was stimulated by the creation of an external contingency mechanism in the Fund, the review of the extended Fund facility, the first programs under the newly created enhanced structural adjustment facility, developments under the debt strategy, and the continuing discussions on the Ninth Quota Review. To help meet this growing interest, the Managing Director and senior staff delivered addresses on a wide range of international economic issues at both international and national forums. Fund staff also delivered papers and participated in conferences, seminars, and symposia. The seminar program for nonofficials again played an important role in the Fund's external relations effort. One seminar was held during the financial year, in Hamburg on May 5–7, 1988, and arrangements were completed for four other seminars.

During the financial year, the Fund continued to expand its contacts with the news media in Africa, Asia, Europe, Latin America and the Caribbean, and North America as part of an ongoing effort to improve public understanding of the institution and its role in the international monetary system. Presentations on the role and work of the Fund were also given to representatives of academic, business, financial, labor, and political groups under the Visitors' Program. The IMF Visitors' Center maintained an active calendar of seminars on a variety of international economic issues, as well as presenting art exhibitions (in collaboration with embassies of member countries) and other cultural events such as film screenings and concerts.

The Fund's publications play a major role in disseminating information on its work. The Fund has a vigorous publications program, and both the number of titles and the variety of subject matter have continued to expand. A new pamphlet series was introduced to explain the Fund's policies and activities to a broader audience in nontechnical language, and five pamphlets were produced during the financial year in English, French, German, and Spanish. The *World Economic Outlook* and other publications in the "World Economic and Financial Surveys" series generate considerable public attention, as do the more specialized topics covered in the "Occasional Papers" series.

Executive Directors and Staff

A list of Executive Directors and their voting power on April 30, 1989 is given in Appendix VI. The changes in membership of the Executive Board during 1988/89 are shown in Appendix VII.

In the financial year ended April 30, 1989, there were 132 appointments to the Fund's regular staff and 93 separations. At the end of the financial year, the staff numbered 1,691 and was drawn from 100 countries.

Table III.1

Publications Issued, Financial Year Ended April 30, 1989

Reports and Other Documents

Annual Report of the Executive Board for the Financial Year Ended April 30, 1988
(English, French, German, and Spanish). Free.

Annual Report on Exchange Arrangements and Exchange Restrictions, 1988
$12.00 each.

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

Selected Decisions of the International Monetary Fund and Selected Documents, Thirteenth Issue (French and Spanish). Free.

Selected Decisions of the International Monetary Fund and Selected Documents, Supplement to Thirteenth Issue (English). Free.

Summary Proceedings of the Forty-Third Annual Meeting of the Board of Governors. Free.

Subscription Publications

Balance of Payments Statistics
A two-part yearbook and 12 monthly issues. $54.00 a year. $27.00 to university faculty members and students. $25.00 for yearbook only.

Direction of Trade Statistics
Monthly, with yearbook. $52.00 a year. $26.00 to university faculty members and students. $18.00 for yearbook only.

Government Finance Statistics Yearbook
Introduction and titles of lines in English, French, and Spanish. $32.00. $16.00 to university faculty members and students.

International Financial Statistics
Monthly, with yearbook (English, French, and Spanish). $148.00 a year. $74.00 to university faculty members and students. Yearbook, $30.00. Individual monthly copies, $15.00 each.

Staff Papers
Four times a year. $24.00 a year. $12.00 to university faculty members and students.

The five publications listed above may be obtained at a special rate of $230.00 ($115.00 for university faculty members and students).
For users of Fund publications that have access to a computer, magnetic tape subscriptions to *Balance of Payments Statistics, Direction of Trade Statistics, Government Finance Statistics Yearbook,* and *International Financial Statistics* are available at $1,850.00 a year each for single users and $7,500.00 a year each for time-sharing companies. This price includes the book version. The price for universities is $950.00 a year for each publication.

Occasional Papers

No. 58. *The Implications of Fund-Supported Adjustment Programs for Poverty: Experiences in Selected Countries*
By Peter S. Heller, A. Lans Bovenberg, Thanos Catsambas, Ke-Young Chu, and Parthasarathi Shome.

No. 59. *The Measurement of Fiscal Impact: Methodological Issues*
Edited by Mario I. Blejer and Ke-Young Chu.

No. 60. *Policies for Developing Forward Foreign Exchange Markets*
By Peter J. Quirk, Graham Hacche, Viktor Schoofs, and Lothar Weniger.

No. 61. *Policy Coordination in the European Monetary System. Part I: The European Monetary System: A Balance Between Rules and Discretion*
By Manuel Guitián.

Part II: Monetary Coordination Within the European Monetary System: Is There a Rule?
By Massimo Russo and Giuseppe Tullio.

No. 62. *The Common Agricultural Policy of the European Community: Principles and Consequences*
By Julius Rosenblatt, Thomas Mayer, Kasper Bartholdy, Dimitrios Demekas, Sanjeev Gupta, and Leslie Lipschitz.

No. 63. *Issues and Developments in International Trade Policy*
By Margaret Kelly, Naheed Kirmani, Miranda Xafa, Clemens Boonekamp, and Peter Winglee.

No. 64. *The Federal Republic of Germany: Adjustment in a Surplus Country*
By Leslie Lipschitz, Jeroen Kremers, Thomas Mayer, and Donogh McDonald.

Occasional Papers are available for $7.50 each, with a special price of $4.50 each for university faculty members and students.

World Economic and Financial Surveys

International Capital Markets: Developments and Prospects
By a Staff Team from the Exchange and Trade Relations and Research Departments.
$15.00 ($10.00 for university faculty members and students).

Multilateral Official Debt Rescheduling: Recent Experience
By Peter M. Keller, with Nissanke E. Weerasinghe.
$10.00 ($6.00 for university faculty members and students).

Primary Commodities: Market Developments and Outlook
By the Commodities Division of the Research Department
$10.00 ($6.00 for university faculty members and students).

Staff Studies for the World Economic Outlook
By the Research Department of the International Monetary Fund
$15.00 ($10.00 for university faculty members and students).

World Economic Outlook, October 1988: Revised Projections by the Staff of the International Monetary Fund
$12.00 ($8.00 for university faculty members and students).

World Economic Outlook, April 1989: A Survey by the Staff of the International Monetary Fund
$25.00 ($15.00 for university faculty members and students).

Books

Aspectos del presupuesto público
Edited by A. Premchand and A.L. Antonaya.
$12.50.

Economic Development in Seven Pacific Island Countries
By Christopher Browne, with Douglas A. Scott.
$18.00.

Economic Policy Coordination: Proceedings of an International Seminar Held in Hamburg.
Moderator, Wilfried Guth.
$15.00.

Table III.1 (*concluded*)

Publications Issued, Financial Year Ended April 30, 1989

External Debt: Definition, Statistical Coverage and Methodology, A Report by an International Working Group on External Debt Statistics of the World Bank, International Monetary Fund, Bank for International Settlements, Organization for Economic Cooperation and Development (English, French, and Spanish).
$12.00.

Politiques Economiques, Croissance et Equilibre Extérieur dans les Pays du Maghreb.
$18.00.

Value-Added Tax: International Practice and Problems
By Alan A. Tait.
$29.50.

Booklets

Helping the Poor: The IMF's New Facilities for Structural Adjustment
By Joslin Landell-Mills (English, French, German, and Spanish). Free.

Promoting Economic Stability: The IMF's Compensatory and Contingency Financing Facility
By David M. Cheney (English). Free.

Ten Common Misconceptions About the Fund
By the External Relations Department (English, French, German, and Spanish). Free.

The IMF and the World Bank: How Do They Differ?
By David D. Driscoll (English, French, German, and Spanish). Free.

What Is the International Monetary Fund?
By David D. Driscoll (English, French, German, and Spanish). Free.

Other

Finance and Development
Issued jointly with the 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 at an annual rate of $45.00.

Copies of the Fund's publications may be obtained from Publication Services, International Monetary Fund, 700 19th Street, N.W., Washington, D.C. 20431, U.S.A.

Principal Policy Decisions of the Executive Board

A. Policy on Enlarged Access to the Fund's Resources—Extension of Period and Access Limits for 1989

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 buffer stock financing facility of the Fund, and confirming that the policy on enlarged access will be reviewed in light of the outcome of the Ninth General Review of Quotas, decides that:

1. In paragraph a. of Decision No. 7599-(84/3), as amended,[1] "1988" shall be replaced by "1989."

2. (a) In the third sentence of paragraph a. of Decision No. 7600-(84/3), as amended,[2] "1986, 1987, and 1988" shall be replaced by "1986, 1987, 1988, and 1989."

(b) In paragraph b. of Decision No. 7600-(84/3), as amended,[2] "1988" shall be replaced by "1989."

3. The review of the policy on enlarged access and access limits thereunder in the light of the outcome of the Ninth General Review of Quotas shall be completed not later than the effective date of any quota increase under such review.

Decision No. 9028-(88/171)
November 22, 1988

B. Compensatory and Contingency Financing Facility

(a) Establishment

Section I. General Provisions

1. The Fund is prepared to extend financial assistance, in accordance with the provisions of this decision, to members that encounter balance of payments difficulties arising out of (i) temporary export shortfalls, (ii) adverse external contingencies, or (iii) excess costs of cereal imports.

2. Purchases under this decision will be financed with ordinary resources.

3. Purchases under this decision and holdings resulting from such purchases shall be excluded for the purposes of the definition of "reserve tranche purchase" pursuant to Article XXX(*c*).

4. For the purpose of applying the Fund's policies on the use of its general resources, holdings resulting from the use of the Fund's resources under any of the policies set forth in this decision shall be considered to be separate from the holdings resulting from the use of the Fund's resources under any other policy.

5. In order to carry out the purposes of this decision, the Fund will be prepared to grant a waiver of the limitation of 200 percent of quota in Article V, Section 3(*b*)(iii), whenever necessary to permit purchases under this decision or to permit other purchases that would raise the Fund's holdings of the purchasing member's currency above that limitation because of purchases outstanding under this decision.

[1] See *Selected Decisions*, Thirteenth Issue, pages 50–51.
[2] Ibid., pages 51–52.

6. The Fund shall indicate in an appropriate manner which purchases by a member are made pursuant to Section II, III, or IV of this decision, and the export shortfall component and the cereal import cost component of each purchase under Section IV.

7. When a request for a purchase is made by a member under any section of this decision on account of circumstances that have already been taken into account in calculating the amounts of purchases made or to be made under any other section, double compensation shall be avoided when calculating the amount of the requested purchase.

8. (a) Subject to the other limitations on purchases specified by this decision, the Fund's holdings of a member's currency resulting from purchases under this decision shall not exceed any of the following access limits:

(i) a combined limit of 105 percent of the member's quota for the sum of purchases on account of export shortfalls under Section II or Section IV and purchases on account of external contingencies under Section III; the sum of purchases on account of export shortfalls under Section II or Section IV and purchases on account of an excess in cereal import costs under Section IV; and the sum of purchases on account of external contingencies under Section III and purchases on account of an excess in cereal import costs under Section IV;

(ii) a limit of 83 percent of the member's quota for purchases on account of export shortfalls under Section II or Section IV if at the time of the request for the purchase the member's balance of payments position apart from the effects of the export shortfall is satisfactory, and a limit of 40 percent of the member's quota for such purchases in all other cases;

(iii) a limit of 40 percent of the member's quota for purchases on account of external contingencies under Section III;

(iv) a limit of 83 percent of the member's quota for purchases on account of an excess in cereal import costs under Section IV if at the time of the request for the purchase the member's balance of payments position apart from the effects of the excess in cereal import costs is satisfactory, and a limit of 17 percent of the member's quota for such purchases in all other cases; and

(v) a combined limit of 122 percent of the member's quota for the sum of purchases on account of export shortfalls under Section II or Section IV, purchases on account of external contingencies under Section III and purchases on account of an excess in cereal import costs under Section IV.

(b) Notwithstanding the provisions of subparagraph (a)(ii), (iii), and (iv) above, the limits of 40 and 17 percent above may be exceeded to permit additional purchases under this decision, provided that the aggregate amount of the Fund's holdings of the member's currency resulting from such additional purchases shall not exceed 25 percent of the member's quota.

9. In providing financing pursuant to this decision, the Fund, as under other policies of the Fund, shall pay due attention to the member's capacity to service its financial obligations to the Fund.

10. (a) Wherever used in this decision, the expression "Fund arrangement" will mean a stand-by or an extended arrangement. It

will also mean a structural adjustment facility (SAF) arrangement or an enhanced structural adjustment facility (ESAF) arrangement, provided that the Fund shall decide to provide financing on the basis of a SAF or ESAF arrangement only if the program supported by the arrangement, at the time of the decision, meets the criteria for the use of the Fund's general resources in the upper credit tranches.

(b) The total amount available under Section III to a member eligible for SAF or ESAF arrangements shall not exceed the total amount that would be available under that section to the same member if it were not so eligible.

Section II. Compensatory Financing of Export Fluctuations

11. The Fund is prepared to assist members, particularly primary exporters, encountering payments difficulties produced by temporary export shortfalls, and has decided that such members may continue to expect that their requests for purchases will be met, subject to the provisions of this decision, where the Fund is satisfied that:

(a) the shortfall is of a short-term character and is largely attributable to circumstances beyond the control of the member; and

(b) the member satisfies the conditions of cooperation with the Fund in accordance with paragraph 12.

12. (a) Subject to the provisions of subparagraph (b) below, a member may expect that its request for a purchase on account of an export shortfall under this section or Section IV will be met immediately, whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed:

(i) 40 percent of the member's quota, if the Fund is satisfied that the member will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties; and

(ii) 65 percent of the member's quota, if the member has a Fund arrangement under which performance is broadly satisfactory, or if the Fund approves such an arrangement for the member at the time of the request, or if the member's current and prospective policies are such as would, in the Fund's view, meet the criteria for the use of the Fund's general resources in the upper credit tranches.

(b) If the Fund considers that there are substantial indications that the existing policies of the member in dealing with its balance of payments difficulties are seriously deficient or that the member's record of cooperation with the Fund in the recent past has not been satisfactory, the member may expect that its request for a purchase on account of an export shortfall under this section or Section IV will be met whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed:

(i) 20 percent of the member's quota, if the Fund is satisfied that the member has taken action that gives, prior to submission of the request, a reasonable assurance that policies corrective of the member's balance of payments problem will be adopted;

(ii) 40 percent of the member's quota, if the member has a Fund arrangement under which performance is broadly satisfactory, or if the Fund approves such an arrangement for the member at the time of the request, or if the member's current and prospective policies are such as would, in the Fund's view, meet the criteria for the use of the Fund's general resources in the upper credit tranches; and

(iii) 65 percent of the member's quota, if the member has a Fund arrangement under which a review is completed by the Fund at the time of the request, or, if the member's policies in the recent past, as well as its current and prospective policies, are such as would, in the Fund's view, continue to meet the criteria for the use of the Fund's general resources in the upper credit tranches.

(c) Notwithstanding subparagraphs (a) and (b) above, if a member's balance of payments position apart from the effects of the export shortfall is satisfactory, such member may expect that its request for a purchase on account of an export shortfall under this section or Section IV will be met whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed 83 percent of the member's quota.

(d) Approval in principle of a Fund arrangement shall be deemed to fulfill the conditions in subparagraphs (a)(i) and (b)(i) above.

13. If, in the opinion of the Fund, adequate data on receipts from travel and workers' remittances are available, the member requesting a purchase under this section shall specify whether the receipts shall be included or excluded in the calculation of the shortfall. The choice by the member shall continue to apply for a period of five years.

14. The existence and amount of an export shortfall for the purpose of any purchase under this section shall be determined with respect to the latest 12-month period preceding the request for which the Fund has sufficient statistical data, provided that a member may request a purchase in respect of a shortfall year for which not more than 6 months of the data on merchandise exports, and 12 months of the data on travel and workers' remittances, are estimated.

15. In order to identify more clearly what are to be regarded as export shortfalls of a short-term character, the Fund, in conjunction with the member concerned, will seek to establish reasonable estimates regarding the medium-term trend of the member's exports based partly on statistical calculation and partly on appraisal of export prospects. For the purposes of this section, the shortfall shall be the amount by which the member's export earnings in the shortfall year are less than the geometric average of the member's export earnings for the five-year period centered on the shortfall year. In computing the five-year geometric average, the Fund, in conjunction with the member, will use an estimate based on a judgmental forecast for the period of the two postshortfall years, provided that any amount by which the forecast for the period of the two postshortfall years would exceed the member's export earnings for the period of the two preshortfall years by more than 20 percent shall not be included in such computation. When the Fund allows a member to purchase under the proviso in paragraph 14, the Fund may use such methods as it considers reasonable for estimating exports during the period for which sufficient statistical data are not available.

16. (a) When a member has made a purchase under the proviso in paragraph 14 on the basis of estimated data and the amount of the purchase exceeds the amount that could have been purchased on the basis of actual data for the full 12-month period under paragraph 15, the member will be expected to make a prompt

repurchase in respect of the outstanding purchase, in an amount equivalent to the excess.

(b) If a member requests a purchase under this section in relation to a shortfall year that in whole or in part is included in the period of the two postshortfall years concerning any earlier purchase under this section or Section IV, the amount of the requested purchase shall be adjusted so as to take into account any amount by which such earlier purchase differs from the amount that could have been purchased on the basis of data available at the time of the request.

Section III. External Contingency Financing

17. When approving a Fund arrangement, the Fund will be prepared to decide, at the request of the member and subject to the provisions of this decision, that, should adverse external contingencies occur during the period of the arrangement, it will provide to the member external contingency financing in association with the arrangement.

18. Such external contingency financing will only be provided in association with a Fund arrangement, generally on the basis of a review by the Executive Board, to a member facing unanticipated deviations from the baseline projections of key external variables that cover a substantial proportion of the exogenous components of the member's current account and that relate to the specified external contingencies during the period of the projections (hereinafter called the "baseline period"), if:

(a) the deviations from the baseline projections are outside of the control of the member;

(b) the member's performance under the associated Fund arrangement is satisfactory; and

(c) the member is prepared to adapt its adjustment policies as may be necessary to ensure the viability of the program supported by the associated arrangement through a mix of adjustment and financing appropriate to the circumstances of the member.

19. (a) When the Fund approves an arrangement in association with which external contingency financing is to be provided under this section, it will specify for the arrangement:

(i) the external contingencies that will be taken into account;

(ii) the maximum amount of purchases that may be permitted in case of unfavorable external contingent deviations;

(iii) the minimum threshold, which shall generally be 10 percent of the member's quota, that must be exceeded by the applicable net sum of deviations before external contingency purchases may be permitted or adjustments pursuant to paragraph 27 may be required;

(iv) the proportion of the applicable net sum of deviations that may be financed under this section, subject to any subsequent changes that may be required pursuant to paragraph 18(c) to ensure the viability of the member's program supported by the arrangement; and

(v) the maximum amount by which the associated arrangement could be reduced or other adjustments pursuant to paragraph 27 could be required in case of favorable external contingent deviations, which amount will normally be the same as the amount specified pursuant to (ii) above.

(b) For purposes of this section, the expression "net sum of deviations" shall mean the net aggregate effect on the member's balance of payments of deviations in the variables relating to the external contingencies specified pursuant to subparagraph (a)(i) above; and the expression "applicable net sum of deviations" shall mean the net sum of deviations in the situations covered by paragraph 20(b) or the net sum of deviations adjusted for the limit on interest cost deviations in the situations covered by paragraph 20(c), as appropriate.

(c) The Fund shall determine the length of each baseline period, which shall generally be from 12 to 18 months, and the maximum amount of external contingency purchases that may be permitted on account of deviations that occur during such baseline period.

(d) When a member makes a request under paragraph 17, every effort will be made to obtain contingent financing from other sources.

20. (a) Subject to the limitations specified by this decision, the amount of an external contingency purchase under this section shall be determined on the basis of the applicable net sum of deviations in accordance with subparagraphs (b) and (c) below. Deviations will be calculated in relation to baseline projections established for each baseline period.

(b) Except as provided in subparagraph (c) below, the amount that may be financed under this section shall be determined as the net sum of deviations reduced by the equivalent of 4 percent of the member's quota and subsequently multiplied by the proportion specified pursuant to paragraph 19(a)(iv).

(c) In case of a favorable or unfavorable deviation in net interest costs that, when multiplied by the proportion specified pursuant to paragraph 19(a)(iv), would exceed the percentage of the member's quota that is available for purchases under paragraph 21(a), the amount that may be financed under this section shall be determined as the sum of:

(i) the net aggregate amount of the deviations, other than a deviation in net interest costs, multiplied by the proportion specified pursuant to paragraph 19(a)(iv); and

(ii) the amount of the deviation in net interest costs reduced by the equivalent of 4 percent of the member's quota and multiplied by the same proportion, up to a limit equivalent to the percentage of the member's quota available for purchases under paragraph 21(a), except that any excess of a favorable or unfavorable deviation in net interest costs over such limit shall be included in the calculation as required to avoid or to reduce an unfavorable or favorable net sum of deviations.

For the cases covered by this subparagraph (c), the net sum of deviations shall be determined by dividing the amount that may be financed by the proportion specified pursuant to paragraph 19(a)(iv) and by adding an amount equivalent to 4 percent of the member's quota.

(d) Once the 4 percent adjustment in subparagraph (b) or subparagraph (c) above has been made for a purchase in respect of a baseline period, no further such adjustment shall be made for later purchases in respect of that period.

(e) Purchases under this section shall be permitted only when the applicable net sum of deviations exceeds the minimum threshold specified by the Fund pursuant to paragraph 19(a)(iii), provided that in applying this subparagraph (e) the limit specified by subparagraph (c)(ii) above shall be disregarded.

21. (a) Subject to the other limitations on purchases specified in

this decision, the Fund's holdings of a member's currency resulting from purchases on account of deviations in net interest costs in association with all Fund arrangements for the member shall not exceed 35 percent of the member's quota.

(b) For purposes of applying the limitation in subparagraph (a) above, when a purchase under this section is attributable to unfavorable deviations in net interest costs and in one or more other variables relating to external contingencies, the portion of the purchase that is to be allocated to a deviation in net interest costs shall be determined on the basis of the share of such deviation in the applicable net sum of deviations, and in determining this share the portion of the 4 percent reduction in paragraph 20(b) that is to be allocated to net interest costs shall be determined on the same basis.

22. The maximum amount of external contingency purchases in association with a Fund arrangement to be specified pursuant to paragraph 19(a)(ii) will generally not exceed 70 percent of the amount of the arrangement, and the maximum amount of external contingency purchases in respect of any baseline period, to be specified pursuant to paragraph 19(c), will generally not exceed 70 percent of the amount available under the arrangement for the same period.

23. When, at the request of a member, the Fund has decided to provide financing to the member under this section that would cause the Fund's holdings of the member's currency resulting from purchases under this section to exceed 40 percent of the member's quota, the amount of such excess over 40 percent of quota shall not be available under paragraph 8(b) for other purchases under this decision in respect of the baseline period for which the Fund decides to provide such financing, unless the member notifies the Fund that it will not avail itself of such financing in excess of 40 percent under this section.

24. The Fund will provide financing under this section only if the program supported by the associated arrangement continues to be adequately financed, including, if necessary, through the provision of financing from other sources.

25. (a) Purchases under this section shall be subject to the observance of any applicable performance criteria, adjusted by the Fund as may be necessary, or other conditions specified in the associated arrangement, as if such purchases were drawings to be made under that arrangement.

(b) Purchases under this section shall be phased to coincide with the drawings scheduled to be made under the associated arrangement in respect of the baseline period for which the Fund decides to provide the external contingency financing. The phasing shall take into account the effects of the applicable net sum of deviations on the program supported by the associated arrangement and the timing of the additional measures to be taken by the member in accordance with paragraph 18(c).

26. When a member has made a purchase on the basis of estimated data and the amount of the purchase exceeds the amount that could have been purchased on the basis of actual data, the member will be expected, unless the Fund decides otherwise, to make a prompt repurchase in an amount equivalent to the overcompensation.

27. If, in respect of any baseline period, the Fund finds that a favorable applicable net sum of deviations with respect to the contingencies specified pursuant to paragraph 19(a)(i) has occurred, the following provisions shall apply, subject to the maximum amount specified pursuant to paragraph 19(a)(v):

(a) when no purchase under this section has been made by the member in respect of the baseline period for which the Fund makes such finding, as a preference, the limits on, or objectives for, the member's reserves under the associated Fund arrangement shall be increased or, as a second option, the amount of the associated Fund arrangement shall be reduced, or both, as determined by the Fund, by an amount that shall be equivalent to a substantial part of the applicable net sum of deviations not exceeding the amount that would have been financed under this section if the applicable net sum of deviations would have been unfavorable; and

(b) when one or more purchases under this section had earlier been made by the member in respect of the baseline period for which the Fund makes such finding, as a preference, the limits on, or objectives for, the member's reserves under the associated Fund arrangement shall be increased or, as a second option, the amount of the associated Fund arrangement shall be reduced, or both, as determined by the Fund, by an amount that shall be equivalent to a substantial part of the applicable net sum of deviations not exceeding the amount that would have been financed under this section if the applicable net sum of deviations that have occurred since the latest of any such earlier purchases would have been unfavorable, provided that the member may choose to substitute for a reduction of the amount of the arrangement a repurchase of a corresponding amount of the Fund's holdings of the member's currency in respect of such earlier purchases.

Section IV. Compensatory Financing of Fluctuations in the Cost of Cereal Imports

28. For the remainder of the period of eight years from May 13, 1981, the Fund will be prepared to extend financial assistance subject to the provisions of this decision to members that encounter a balance of payments difficulty produced by an excess in the cost of their cereal imports.

29. For a period of three years from the date of a member's first request for a purchase in respect of cereal imports under Decision No. 6860-(81/81)[3] or under this section, any purchases by the member in respect of its export shortfalls shall be made under this section instead of under Section II of this decision. The same provision shall apply if, after the end of the three-year period, the member makes a new purchase in respect of cereal imports under this section.

30. A member with balance of payments difficulties may continue to expect that its request for a purchase under this section will be met if the Fund is satisfied that:

(a) any shortfall in exports and any excess costs of cereal imports that result in a net shortfall in the member's exports are of a short-term character and are largely attributable to circumstances beyond the control of the member; and

(b) the member satisfies the conditions of cooperation with the Fund in accordance with paragraph 36.

31. (a) Subject to the limits specified in paragraphs 8 and 36, a member may request a purchase under this section for an amount equal to the net shortfall in its exports calculated as the sum of its export shortfall and the excess in its cereal import costs.

(b) (i) For the calculation of the net shortfall in exports, an excess in exports shall be considered a negative shortfall in exports and a shortfall in cereal import costs shall be

[3] See *Selected Decisions,* Thirteenth Issue, pages 89–94.

considered a negative excess in cereal import costs.

(ii) An export shortfall shall be determined in accordance with Section II.

(iii) An excess in cereal import costs shall be determined in accordance with paragraphs 32 and 33.

32. The existence and amount of an excess in the cost of cereal imports shall be determined, for the purpose of purchases under this section, with respect to the latest 12-month period preceding the request for which the Fund has sufficient statistical data, provided that the Fund may allow a member to make a purchase on the basis of estimated data in respect of a 12-month period ending not later than 12 months after the latest month for which the Fund has sufficient statistical data on the member's cereal import costs. The estimates used for this purpose shall be made in consultation with the member. The calculation of a member's shortfall or excess in exports and its excess or shortfall in the cost of its cereal imports shall be made for the same 12-month period.

33. In order to identify more clearly what are to be regarded as excess costs of cereal imports of a short-term character, the Fund, in consultation with the member concerned, will seek to establish reasonable estimates regarding the medium-term trend of the member's cereal import costs. For the purposes of this section, the excess in a member's cereal imports for the 12-month period referred to in paragraph 32 shall be the amount by which the member's cereal imports in that 12-month period are more than the arithmetic average of the member's cereal imports for the five-year period centered on that 12-month period.

34. The amount of a purchase under this section, as defined in paragraph 31, may be either on account of an export shortfall or on account of an excess in cereal import costs, or the amount may consist of two components, one on account of an export shortfall and the other on account of an excess in cereal import costs. The total amount of the purchase and the amount of each component are subject to the limits specified in paragraphs 8 and 36.

35. (a) The part of a purchase relating to an export shortfall, subject to the limits in paragraphs 8 and 36, shall not exceed the lesser of the export shortfall defined in paragraph 31(b)(ii) and the net shortfall in exports defined in paragraph 31(a).

(b) The amount of a purchase relating to an excess in cereal import costs, subject to the limits in paragraphs 8 and 36, shall not exceed the lesser of the excess in cereal import costs defined in paragraph 31(b)(iii) and the net shortfall in exports defined in paragraph 31(a).

36. (a) The provisions of paragraph 12 shall apply to purchases on account of export shortfalls under this section.

(b) Subject to the provisions of subparagraph (c) below, a member may expect that its request for a purchase on account of an excess in cereal import costs under this section will be met immediately, whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed:

(i) 17 percent of the member's quota, if the Fund is satisfied that the member will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties; and

(ii) 42 percent of the member's quota, if the member has a Fund arrangement under which performance is broadly satisfactory, or if the Fund approves such an arrangement at the time of the request, or if the member's current and prospective policies are such as would, in the Fund's view, meet the criteria for the use of the Fund's general resources in the upper credit tranches.

(c) If the Fund considers that there are substantial indications that the existing policies of the member in dealing with its balance of payments difficulties are seriously deficient or that the member's record of cooperation with the Fund in the recent past has not been satisfactory, the member may expect that its request for a purchase on account of an excess in cereal import costs under this section will be met whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed:

(i) 17 percent of the member's quota, if the Fund is satisfied that the member has taken action that gives, prior to submission of the request for the purchase, a reasonable assurance that policies corrective of the member's balance of payments problem will be adopted; and

(ii) 42 percent of the member's quota, if the member has a Fund arrangement under which a review is completed by the Fund at the time of the request for the purchase, or, if the member's policies in the recent past, as well as its current and prospective policies, are such as would, in the Fund's view, continue to meet the criteria for the use of the Fund's general resources in the upper credit tranches.

(d) Notwithstanding subparagraphs (b) and (c) above, if a member's balance of payments position apart from the effects of the excess in cereal import costs is satisfactory, such member may expect that its request for a purchase on account of an excess in cereal import costs under this section will be met whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed 83 percent of the member's quota.

(e) Approval in principle of a Fund arrangement shall be deemed to fulfill the conditions in subparagraphs (b)(i) and (c)(i) above.

37. A member shall allocate the amount of its purchase as between the export shortfall and cereal import components, where the sum of the two components, each as limited by paragraph 8,

(a) exceeds the limit of 105 percent of the member's quota, if, at the time of the request for the purchase, the member's balance of payments position apart from the effects of the export shortfall or the excess in cereal import costs is satisfactory; or

(b) exceeds the amount that the member may purchase pursuant to the access limits in paragraph 8, in all other cases.

38. (a) When a member has made a purchase under this section on the basis of estimated statistical data and the amount of the purchase exceeds the amount that could have been purchased on the basis of actual statistical data, the member will be expected to make a prompt repurchase in respect of the outstanding purchase, in an amount equivalent to the excess.

(b) If a member requests a purchase under this section in relation to a shortfall year that in whole or in part is included in the period of the two postshortfall years concerning any earlier purchase under Section II or this section, the amount of the requested purchase shall be adjusted so as to take into account any amount by which such earlier purchase differs from the amount that could have been purchased on the basis of data available at the time of the request.

39. (a) Subject to paragraph 38(a), when a reduction in the Fund's holdings of a member's currency is attributed to a purchase

under this section, the member shall attribute that reduction between the outstanding cereal import component and export shortfall component of the purchase.

(b) When the Fund's holdings of a member's currency resulting from a purchase under this section or Section II are reduced by the member's repurchase or otherwise, the member's access to the Fund's resources under this section will be restored pro tanto, subject to the limits in paragraphs 8 and 36.

40. (a) After the expiration of the period referred to in paragraph 29, the total amount of the export shortfall components of a member's purchases outstanding under this section shall be counted as having been purchased under Section II.

(b) The provisions of Section II shall continue to apply to the export shortfall component of a purchase under this section after the expiration of the period referred to in paragraph 29 or the expiration of this section.

41. The Fund will review this section not later than May 13, 1989.

Section V. Transitional and Other Provisions

42. This decision shall apply to all purchases on account of export shortfalls, on account of external contingencies, or on account of an excess in cereal import costs made after August 23, 1988, provided that purchases on account of export shortfalls or on account of an excess in cereal import costs that are made before November 1, 1988 shall be governed by Decision No. 6224-(79/135)[4] and by Decision No. 6860-(81/81),[5] as the case may be, if they result from requests initiated before the date of this decision.

43. For purposes of calculating the Fund's holdings of a member's currency under this decision, purchases made under Decision No. 6224-(79/135)[4] or Decision No. 6860-(81/81)[5] prior to August 23, 1988 or under paragraph 42, shall be deemed to have been made under Section II or Section IV of this decision, as the case may be.

44. Notwithstanding the provisions of paragraph 17, the Fund will be prepared to decide, when completing a review of a Fund arrangement approved before November 1, 1988, that external contingency financing will be provided under this decision for the remaining period of the arrangement, if such period is at least one year. The provisions of Section III shall apply to mutatis mutandis that decision.

45. If on August 23, 1988 the Fund's holdings of a member's currency resulting from purchases on account of export shortfalls exceed 65 percent of the member's quota, purchases by the member on account of export shortfalls under Section II or Section IV and purchases on account of external contingencies under Section III may be permitted, up to a transitional combined access limit for the sum of such purchases, in excess of the 105 percent and 122 percent limits specified in paragraph 8(a). The transitional access limit shall be equal to the sum of such holdings of the Fund (expressed in terms of the member's quota) on August 23, 1988 and 40 percent of the member's quota. The transitional access limit shall apply until the Fund's holdings of the member's currency resulting from purchases on account of export shortfalls are reduced to 65 percent of the member's quota or the Fund's holdings of the member's currency resulting from both purchases on account of export shortfalls and purchases on account of external contingencies are reduced to 105 percent of the member's quota, whichever shall come first.

46. (a) Rule I-6(4) shall be amended by inserting the following new subparagraph (vi):

"or (vi) under the Compensatory and Contingency Financing Facility (Executive Board Decision No. 8955-(88/126))."

(b) Decision No. 5703-(78/39)[6] shall be amended by inserting the following clause in paragraph 1(a) immediately after the reference to Decision No. 6860-(81/81)[7]:

"or the decision on the Compensatory and Contingency Financing Facility (Decision No. 8955-(88/126))."

47. The Fund will review this decision not later than December 1, 1989.

Decision No. 8955-(88/126)
August 23, 1988

(b) Compensatory Financing of Fluctuations in the Cost of Cereal Imports—Extension

In Section IV of the decision on the compensatory and contingency financing facility (Decision No. 8955-(88/126),[8] adopted August 23 1988):

a. Paragraph 28 shall read as follows:

For the remainder of the period from May 13, 1981 to December 1, 1989, the Fund will be prepared to extend financial assistance subject to the provisions of this decision to members that encounter a balance of payments difficulty produced by an excess in the cost of their cereal imports.

b. Paragraph 41 shall read as follows:

The Fund will review this section not later than December 1, 1989.

Decision No. 9101-(89/30)
March 7, 1989

(c) Time of Occurrence of External Contingencies

1. Paragraph 17 of the decision on the compensatory and contingency financing facility (Decision No. 8955-(88/126),[9] adopted August 23, 1988), shall be amended to read as follows:

17. When approving a Fund arrangement, the Fund will be prepared to decide, at the request of the member and subject to the provisions of this Decision, that, should unfavorable deviations in the member's balance of payments due to adverse external contingencies occur during the period of the program supported by the arrangement, it will provide to the member external contingency financing in association with the arrangement.

2. This amendment shall apply to existing arrangements that provide for external contingency financing in association with the arrangement.

Decision No. 9153-(89/59)
May 19, 1989

[4] See *Selected Decisions*, Thirteenth Issue, pages 83–86.
[5] Ibid., pages 89–94.
[6] Ibid., pages 122–24.
[7] Ibid., pages 89–94.
[8] See Item (a) above.
[9] Ibid.

C. Special Charges on Overdue Financial Obligations to the Fund

(a) Review

The Fund has reviewed Decision No. 8165-(85/189) G/TR,[10] adopted December 30, 1985, as amended by Decision No. 8496-(87/3) G/TR,[11] adopted January 7, 1987.

Decision No. 8922-(88/110) G/TR
July 21, 1988

(b) Calculation

The last sentence of paragraph I.3 of Decision No. 8165-(85/189) G/TR,[10] adopted December 30, 1985, as amended by Decision No. 8496-(87/3) G/TR,[11] adopted January 7, 1987, shall read as follows:

For the purposes of this calculation, any adjustments in the rate of charge referred to in Rule I-6(4) that may be made to cover deferred income or for placement to the Special Contingent Account shall not be taken into consideration.

Decision No. 8923-(88/110) G/TR
July 21, 1988

D. Fund's Income Position

(a) Principles of "Burden Sharing," Rate of Charge, Amount for Special Contingent Account, and Implementation of "Burden Sharing" in FY 1990

Section I. 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. Determination of the Rate of Charge

1. The rate of charge for financial year 1990 referred to in Rule I-6(4)(a) shall be adjusted in accordance with the provisions of Section IV.
2. The rate of charge in force as of the end of financial year 1990, as adjusted under Section IV, shall continue to apply subsequently unless it is otherwise decided.

Section III. Amount for Special Contingent Account

1. An amount equivalent to SDR 65 million shall be generated during financial year 1990, in accordance with the provisions of Section IV, and shall be placed to the Special Contingent Account.

Section IV. Implementation of "Burden Sharing"

1. During financial year 1990, 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 amount to be placed in financial year 1990 to the Special Contingent Account in accordance with Section III, the rate of charge and, subject to the limitation in (c), the rate of remuneration shall be adjusted, 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, subject to the limitation in (c), the rate of remuneration shall be further adjusted, 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, as amended,[12] shall not be taken into account.

(c) No adjustment 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) The adjustments under this paragraph shall be made as of May 1, 1989, as of August 1, 1989, as of November 1, 1989, and as of February 1, 1990:

shortly after July 31 of the period from May 1 to July 31;
shortly after October 31 for the period from August 1 to October 31;
shortly after January 31 for the period from November 1 to January 31;
shortly after April 30 for the period from February 1 to April 30;

(e) The operation of this decision shall be reviewed when the adjustment in the rate of remuneration reduces the remuneration coefficient to the limit in (c) above.

3. A midyear review of the Fund's income position shall be held shortly after October 31, 1989. 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) Subject to paragraph 3 of Decision No. 8780-(88/12),[13] adopted January 29, 1988, the balances held in the Special Contingent Account 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 for deferred charges shall be distributed, in accordance with the provi-

[10] See *Selected Decisions,* Thirteenth Issue, pages 129–30.
[11] See *Annual Report, 1987,* page 98.
[12] See *Selected Decisions,* Thirteenth Issue, pages 129–30.
[13] See *Selected Decisions,* Supplement to Thirteenth Issue, pages 51–53.

sions of this paragraph, to members that have paid additional charges or have received reduced remuneration, 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 quarterly.

(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),[14] adopted April 30, 1986, or any subsequent decision of the Fund.

(e) Subject to paragraph 4 of Decision No. 8780-(88/12),[13] adopted January 29, 1988, if any loss is charged against the Special Contingent Account, it shall be recorded in accordance with the principles of proportionality set forth in (c).

Decision No. 9135-(89/46)
April 26, 1989

(b) Disposition of Net Income for FY 1989

The Fund's net income for financial year 1989 of SDR 54,223,804 shall be placed to the Special Reserve.

Decision No. 9184-(89/74)
June 14, 1989

(c) Net Income Target for FY 1990

The target amount of net income referred to in Rule I-6(4)(a) for financial year 1990 shall be 5 percent of the Fund's reserves at the beginning of the year plus an amount equivalent to the shortfall in the target amount of net income for financial year 1989.

Decision No. 9185-(89/74)
June 14, 1989

(d) Rate of Charge on Use of Ordinary Resources for FY 1990

1. During financial year 1990, and notwithstanding Rule I-6(4), the rate of charge referred to in Rule I-6(4) shall be a proportion of the SDR interest rate under Rule T-1.
2. The proportion shall be 96.3 percent for the financial year.
3. In accordance with Section IV, paragraph 3 of Decision No. 9135-(89/46),[15] adopted April 26, 1989, a midyear review of the Fund's income position shall be held shortly after October 31, 1989. At that time, the proportion of the SDR interest rate shall be reviewed on the basis of (i) the then prevailing SDR interest rate, and (ii) the revised estimated income and expense of the Fund during the year and the target amount of net income for the year. If after any adjustments under Section IV, paragraph 2 of Decision No. 9135-(89/46),[15] adopted April 26, 1989, 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 by December 15 no agreement has been reached as a result of this consideration, the proportion of the SDR interest rate shall be increased as of November 1 to the level necessary to reach the target amount of net income for the year.
4. When estimating income, no deduction shall be made for projected deferred income.
5. The Executive Board shall be notified shortly after the end of each quarter, of the average rate of charge for the quarter.
6. The rate of charge under this Decision shall be further adjusted in accordance with Section IV, paragraph 2 of Decision No. 9135-(89/46),[15] adopted April 26, 1989.

Decision No. 9186-(89/74)
June 14, 1989

[14] See *Selected Decisions*, Thirteenth Issue, page 131.
[15] See Item (a) above.

E. Structural Adjustment Facility, Enhanced Structural Adjustment Facility, and Enhanced Structural Adjustment Facility Trust—Review of Operation

Pursuant to paragraph 4 of Decision No. 8757-(87/176) SAF/ESAF,[16] adopted December 18, 1987, the Fund has reviewed the operation of the enhanced structural adjustment facility, of the structural adjustment facility, and of the Enhanced Structural Adjustment Facility Trust. The operation of these facilities shall be further reviewed before June 30, 1990.

Decision No. 9114-(88/40) SAF/ESAF
March 29, 1989

F. Structural Adjustment Facility Within the Special Disbursement Account

(a) Regulations for Administration—Amendment

The following sentence shall be added at the end of paragraph 4(3) of the Regulations for the Administration of the Structural Adjustment Facility annexed to Decision No. 8238-(86/56) SAF, adopted March 26, 1986, as amended[17]:

> (3) . . . If the member's potential access is increased after all disbursements under the three-year commitment have been made, but before the expiration of the commitment, an amount not in excess of the balance may be disbursed to the member at its request, upon a determination by the Fund that the member is continuing to make a reasonable effort to strengthen its balance of payments position.

Decision No. 9118-(88/40) SAF
March 29, 1989

(b) Increase in Third-Year Access

Paragraph 2 of Decision No. 8240-(86/56) SAF, adopted March 26, 1986, as amended,[18] shall be amended to read as follows:

> The potential access of each eligible member to the resources of the Facility as of March 29, 1989 shall be 70 percent of quota; no more than 20 percent of quota shall be disbursed under the first annual arrangement; no

[16] See *Selected Decisions*, Supplement to Thirteenth Issue, pages 65–66.
[17] See *Selected Decisions*, Thirteenth Issue, pages 142–47.
[18] Ibid., 147–49.

more than 30 percent of quota shall be disbursed under the second annual arrangement; and no more than 20 percent of quota shall be disbursed under the third annual arrangement.

Decision No. 9117-(88/40) SAF
March 29, 1989

G. Enhanced Structural Adjustment Facility

(a) Amendment

The Managing Director is authorized to conclude agreements on the extension of commitment and disbursement periods for agreements pursuant to paragraph 3 of Decision No. 8757-(87/176) SAF/ESAF,[19] adopted December 18, 1987, on behalf of the Fund.

Decision No. 9116-(88/40) ESAF
March 29, 1989

(b) Enhanced Structural Adjustment Facility Trust—Amendment

The Instrument to Establish the Enhanced Structural Adjustment Facility Trust annexed to Decision No. 8759-(87/176) ESAF,[20] adopted December 18, 1987, shall be amended to read as follows:

a. In Section II, paragraph 1(d), 1990 shall be substituted for 1989 to read as follows:

> Commitments under three-year arrangements may be made during the period from January 1, 1988 to November 30, 1990.

b. The following sentence shall be added at the end of Section III, paragraph 3:

> The Managing Director is authorized to conclude such agreements on behalf of the Trustee.

Decision No. 9115-(88/40) ESAF
March 29, 1989

(c) Enhanced Structural Adjustment Facility Trust—Review of Access Limits

Pursuant to Section II, paragraph 2(a) of the Instrument to Establish the Enhanced Structural Adjustment Facility Trust (the Instrument),[20] the Fund as Trustee has reviewed the maximum limit on access to the resources of the Enhanced Structural Adjustment Facility Trust and the exceptional maximum access limit established by Decision No. 8845-(88/61) ESAF,[21] adopted April 20, 1988. These access limits shall be further reviewed in accordance with Section II, paragraph 2(a) of the Instrument and in any event not later than June 30, 1990.

Decision No. 9119-(88/40) ESAF
March 29, 1989

[19] See *Selected Decisions*, Supplement to Thirteenth Issue, pages 65–66.
[20] Ibid., pages 7–27.
[21] Ibid., pages 27–28.

H. Enhanced Structural Adjustment Facility Trust—Prescribed Operations in SDRs

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

1. A participant or prescribed holder, by agreement with a prescribed holder and at the instruction of the Fund, may transfer SDRs to that prescribed holder in effecting a payment due to the Fund in connection with financial operations under the Enhanced Structural Adjustment Facility Trust or under an administered account established for the benefit of the Enhanced Structural Adjustment Facility Trust.
2. A prescribed holder, by agreement with a participant or another prescribed holder and at the instruction of the Fund, may transfer SDRs to that participant or other prescribed holder in effecting a payment due from the Fund in connection with financial operations under the Enhanced Structural Adjustment Facility Trust or under an administered account established for the benefit of the Enhanced Structural Adjustment Facility Trust.
3. The Fund shall record operations pursuant to these prescriptions in accordance with Rule P-9.

Decision No. 8937-(88/118) ESAF/S
July 28, 1988

I. SDR Transactions by Agreement—Amendment of Rule P-6

Rule P-6, adopted April 1, 1978, is hereby replaced by the following:

Transactions by Agreement Between Participants

P-6. (a) The exchange rate in a transaction by agreement between participants shall be determined under Rule O-2 as of the date of the agreement, unless the transaction is carried out at another exchange rate pursuant to authorization by the Fund under Article XIX, Section 7(*b*). Settlement shall take place on the date of the agreement or any business day within three business days from that date, as agreed between the participants.

(b) No participant shall levy any charge or commission in respect of a transaction under Article XIX, Section 2(*b*).

Decision No. 8890-(88/89) S
June 1, 1988

J. Supplementary Financing Facility Subsidy Account—Amendment of Subsidy Account Instrument, Additional Subsidy Payments for May 1, 1987 Through June 30, 1987, and Subsidy Payments for July 1, 1987 Through June 30, 1988

1. The last sentence in Section 10 of the Instrument establishing the Supplementary Financing Facility Subsidy Account, as amended,[22] is further amended to read as follows:

> For the purpose of the calculation of charges under (a) and (b), any adjustment in the rate of charge referred to in Rule I-6(4) that may be made to cover deferred income and placements to the Special Contingent Account shall not be taken into consideration.

[22] See *Selected Decisions*, Thirteenth Issue, pages 379–86.

2. In accordance with the Instrument establishing the Supplementary Financing Facility Subsidy Account, as amended, additional subsidy payments shall be made with respect to charges paid on holdings of currency referred to in Section 7 of the Instrument for the period May 1, 1987 through June 30, 1987, in the amount indicated to each of the eligible members as listed in Column 2 of the attachment.

3. In accordance with the Instrument establishing the Supplementary Financing Facility Subsidy Account, as amended, subsidy payments shall be made with respect to charges paid on holdings of currency referred to in Section 7 of the Instrument for the period July 1, 1987 through June 30, 1988, in the amount indicated to each of the eligible members as listed in Column 5 of the attachment.

4. The subsidy payments shall be made to each eligible member on August 2, 1988, or as soon thereafter as the member has paid all outstanding charges, if any, on balances eligible for the subsidy.

Decision No. 8941-(88/122) SBS
August 2, 1988

Attachment

SFF Subsidy Account: Past Disbursements and Proposed Disbursements for May–June 1987 and July 1987–June 1988

(In SDRs)

	Cumulative Approved Subsidies for Period 1981–June 1987[2] (1)	Proposed Amount of Disbursement[1]				
		Additional Subsidy Disbursement May 1987–June 1987 (2)	July–December 1987 (3)	January–June 1988 (4)	Total July 1987–June 1988[3] (5)	Grand Total[4] (6)
(a) Members eligible to receive subsidy at the full rate						
Bangladesh	16,021,251	19,565	253,382	53,217	306,599	326,164
Bolivia	3,888,663	966	2,550	—	2,550	3,516
Dominica	518,808	1,940	36,193	27,334	63,527	65,467
Gambia, The	531,915	2,302	43,643	34,103	77,746	80,048
Guyana	4,597,034	3,511	45,258	16,084	61,342	64,853
India	123,669,834	641,865	12,227,055	9,824,795	22,051,850	22,693,715
Kenya	13,105,018	23,990	377,628	209,338	586,966	610,956
Liberia	5,914,663	10,650	174,695	100,161	274,856	285,506
Madagascar	3,216,410	3,820	55,122	22,489	77,611	81,431
Malawi	4,088,038	4,398	64,702	25,282	89,984	94,382
Mauritania	2,193,654	3,834	65,751	39,163	104,914	108,748
Pakistan	68,276,722	185,216	3,299,085	2,267,706	5,566,791	5,752,007
Philippines	47,726,363	62,494	921,530	428,279	1,349,809	1,412,303
Senegal	7,192,866	15,847	268,037	173,745	441,782	457,629
Sierra Leone	2,465,005	3,195	52,097	19,270	71,367	74,562
Sri Lanka[5]	591,705	—	—	—	—	—
Sudan	24,433,714	32,008	511,718	273,493	785,211	817,219
Tanzania	2,430,259	1,434	15,391	—	15,391	16,825
Togo	1,049,110	1,277	18,994	5,126	24,120	25,397
Zambia[5]	3,520,127	—	—	—	—	—
Subtotal	335,431,159	1,018,312	18,432,831	13,519,585	31,952,416	32,970,728
(b) Members eligible to receive subsidy at half the full rate						
Côte d'Ivoire	16,218,051	65,825	1,210,751	926,710	2,137,461	2,203,286
Jamaica	15,962,386	23,445	406,195	261,872	668,067	691,512
Mauritius	4,908,245	5,831	95,200	53,096	148,296	154,127
Morocco	10,035,513	9,709	145,864	35,179	181,043	190,752
Peru	15,051,477	1,691	8,003	—	8,003	9,694
Subtotal	62,175,672	106,501	1,866,013	1,276,857	3,142,870	3,249,371
Total	397,606,831	1,124,813	20,298,844	14,796,442	35,095,286	36,220,099

[1] Subject to full payment by members of the relevant charges.
[2] These figures include SDR 3,270,811 not disbursed pending payment of overdue SFF charges.
[3] This is the disbursement for the period July 1, 1987 to June 30, 1988 (i.e., the sum of Columns 3 and 4).
[4] This is the sum of the additional disbursement for May–June 1987 and the disbursement for the year ended June 30, 1988 (i.e., the sum of Columns 2 and 5).
[5] Sri Lanka and Zambia have no outstanding holdings purchased under the SFF.

K. Increases in Quotas of Members—Ninth General Review

Report of the Executive Board to the Board of Governors

1. Article III, Section 2(*a*) of the Articles of Agreement provides that "The Board of Governors shall at intervals of not more than five years conduct a general review, and if it deems it appropriate propose an adjustment, of the quotas of the members." The five-year period since the completion of the previous review of quotas ended on March 31, 1988. The Board of Governors decided in April 1988 to continue its review and requested the Executive Board to report on this matter and submit appropriate proposals to the Board of Governors not later than April 30, 1989. The Executive Board believes that further consideration is needed of the substantive issues relating to the Ninth Review before it will be in a position to make appropriate recommendations to the Board of Governors. The Executive Board is submitting this report, and the attached draft resolution, to the Board of Governors, the organ competent under the Articles to deal with an adjustment of quotas, in accordance with Article III, Section 2 and Resolution No. 43-1,[23] adopted April 22, 1988.

2. In the course of the past year, the Executive Board has considered all the main elements relating to the Ninth Review. The main issues that have been discussed by Executive Directors are (i) the role of the Fund in the early 1990s; (ii) the size of the overall increase in quotas; (iii) the issues bearing on the distribution of the overall increase, including an examination of the position of the developing countries in the Fund and, in particular, those members with very small quotas; (iv) the question of ad hoc quota increases in the context of the quota review; (v) the mode of payment for the increase in quotas; and (vi) technical issues relating to the economic data and the formulas used to make quota calculations. The Directors have concluded certain technical aspects of their work but they have not concluded their discussions on most of the substantive issues, including the size of the overall increase in quotas, its distribution, and the media of payment for the increased subscriptions. Directors will also continue their discussion of the role of the Fund in the early 1990s. Consequently, the Executive Board is not in a position to make recommendations in time for the Board of Governors to adopt a resolution completing the Ninth General Review by April 30, 1989.

3. The Interim Committee considered the subject of the Ninth General Review during the thirty-first and thirty-second meetings of the Committee in Berlin (West) on September 25–26, 1988 and in Washington on April 3, 1989, respectively. In connection with its latest meeting, the Executive Board submitted a report on the Ninth General Review which outlined the progress made in its work relating to the Ninth General Review and requested guidance from the Committee on the main issues discussed in the report. Paragraph 5 of the communiqué issued at the conclusion of the meeting reads as follows:

> The Committee agreed that the size and distribution of any quota increase should take into account changes in the world economy since the last review of quotas as well as members' relative positions in the world economy and the need to maintain a balance between different groups of countries, the Fund's effectiveness in fulfilling its . . . role in the strengthened debt strategy, and reduce the Fund's reliance on borrowing. The Committee urged the Executive Board to complete its work on the Ninth Review with a view to a decision on this matter by the Board of Governors before the end of this year.

A further report on the Ninth General Review will be made to the Interim Committee at its next meeting on September 24, 1989.

4. In the light of the above, and taking into account the conclusion of the Interim Committee as expressed in its latest communiqué, the Executive Board proposes that the Board of Governors continue its review and that the Executive Board submit a report to the Board of Governors, together with appropriate recommendations regarding the size of the overall increase in quotas, increases in the quotas of individual members, and on the mode of payment of increases in subscriptions, with a view to enable the Board of Governors to complete the Ninth Review by December 31, 1989.

5. In view of the foregoing considerations, it is recommended that the Board of Governors adopt the resolution set forth in the attachment to this report.

[23] See *Annual Report, 1988*, pages 138–39.

Attachment

Proposed Resolution Submitted to the Board of Governors Increases in Quotas of Members—Ninth General Review

RESOLVED:

That the Board of Governors, having noted the report of the Executive Board entitled *Increases in Quotas of Members—Ninth General Review,* hereby resolves to continue its review of quotas under Article III, Section 2(*a*), and requests the Executive Board to complete its work on the Ninth General Review of Quotas with a view to a decision by the Board of Governors on the completion of the Ninth Review before the end of this year.

Board of Governors Resolution No. 44-1
Adopted May 30, 1989

Press Communiqués of the Interim Committee and the Development Committee

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

PRESS COMMUNIQUÉS

Thirty-First Meeting, Berlin (West), September 25–26, 1988

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its thirty-first meeting in Berlin (West) on September 25–26, 1988, under the chairmanship of Mr. H. Onno Ruding, Minister of Finance of the Netherlands. Mr. Michel Camdessus, Managing Director of the International Monetary Fund, participated in the meeting, which was also attended by observers from a number of international and regional organizations and from Switzerland.

2. In assessing international economic developments and prospects, the Committee noted that growth in the industrial countries has been stronger than expected, world trade has been buoyant, and inflation has been kept moderate. Payments imbalances, though still large, have begun to narrow, and the strength of many non-oil commodity prices, together with improved policies, has caused strong growth of export earnings for some developing countries. These results are encouraging, but vigilance is still required to ensure sustainability of noninflationary growth, reduction of imbalances, and stability in financial and exchange markets. The Committee also observed that the debt burden in a number of developing countries is still very high and that, despite economic expansion in the industrial world, current and projected growth in many developing countries remains inadequate.

In dealing with external payments imbalances, Committee members stressed that the economic policy coordination process initiated in 1985 remains valid. In the United States, the federal budget deficit should be reduced further and measures taken to raise private sector savings. In Europe, macroeconomic policies need to be complemented by structural changes to sustain the momentum of growth and reduce unemployment while facilitating the world adjustment process. In those European countries where external surpluses remain large, strong domestic demand growth is required. In Japan, where policy efforts have succeeded in raising domestic expenditure faster than output, structural reforms should be pursued to support and sustain the greater reliance on domestic demand-led growth. Committee members also noted the strong performance of the newly industrializing economies in Asia and the increased contribution some of them should make to the reduction in global imbalances.

With respect to the developing countries, Committee members reemphasized the importance of policies to strengthen financial stability, encourage saving, raise capital formation, and improve efficiency. It is also imperative that creditors provide timely and adequate financial support for resolute and well-conceived reform efforts.

Committee members stressed that industrial countries must maintain and improve a favorable international environment—including sustained noninflationary growth and more open markets for goods and services. Concern was expressed at the persistent strength of protectionist pressures, the continuing tendency toward an intensification of nontariff barriers to trade, and the adverse effects of distorting industrial and agricultural support policies of industrial countries on their own economies and on trading partners, including in particular developing countries. Committee members stressed the paramount importance of resisting protectionism and imparting renewed momentum to trade liberalization in the context of the Uruguay Round. Substantial progress must be made at the GATT midterm review in December 1988 in Montreal.

3. Committee members welcomed the progress made over the past three years, partly through the use of indicators, in strengthening the process of international economic policy coordination among the larger industrial countries. The challenge ahead is to build on that progress by improving the appropriateness, the consistency, and the timeliness of policy implementation. Toward that end, the Committee encouraged the Executive Board to explore the possible strengthening of surveillance, both in the fields of economic indicators and in the area of structural policies. It recalled that the Executive Board has a continuing responsibility under the Articles of Agreement to keep the working of the international monetary system under review, and to identify ways for its improved functioning within a multilateral framework.

4. The Committee reiterated its support for the current debt strategy. It emphasized the continued central role of the Fund in implementing the debt strategy by helping members design medium-term growth-oriented adjustment programs, monitoring the adjustment process, supporting these with its own resources, and mobilizing other financing. It noted the importance of close collaboration with the World Bank in these endeavors. In discussing the strategy, Committee members expressed concern that many countries continue to face severe financing and adjustment difficulties, which have become more severe owing to the recent increase in interest rates. More forceful actions are needed in the context of the current cooperative, case-by-case approach to resolve these difficulties. In particular, Committee members underscored the continuing need for countries with debt-servicing problems to adopt credible growth-oriented adjustment programs that can help restore domestic and foreign confidence and thereby discourage capital flight and enhance these countries' access to private capital markets. While recognizing that new money continues to be of primary importance in financing packages for countries undertaking adjustment, but remains difficult to secure, the Committee agreed that the menu approach should be broadened further, including through voluntary market-based techniques which increase financial flows and which reduce the stock of debt without transferring risk from private lenders to official creditors. Banks should be encouraged to provide adequate refinancing and not only rescheduling of amortization payments. The Committee encouraged creditor countries to explore whether their tax and regulatory regimes are consistent with the continued broadening of the menu approach.

The Committee expressed great interest in the intention of Japan to extend, on a case-by-case basis, additional financing through the Export-Import Bank of Japan—in the form of untied loans at below-market rates in parallel with Fund arrangements—mainly to middle-income countries undertaking Fund-supported adjustment programs. The Committee invited the Executive Board to study the modalities of this proposal through which Japan intends to promote growth in developing countries and to contribute to the solution of the debt problem.

The Committee welcomed the recent adaptations in Fund facilities, including the commencement of operations of the enhanced structural adjustment facility (ESAF) to assist low-income countries, the modifications in the operational modalities of the extended Fund facility (EFF), and the establishment of the compensatory and contingency financing facility (CCFF). The Committee emphasized that it was now essential for low-income countries to come forward with programs that could merit support of the ESAF and urged countries that have not already done so to contribute to the facility.

The Committee warmly welcomed the agreement by governments of creditor countries to provide additional debt relief through Paris Club reschedulings and by multilateral development institutions to provide concessional assistance to the poorest of the indebted countries that are implementing growth-oriented adjustment programs. The Committee urged close coordination of the form, timing, and conditions of the official assistance provided in support of such adjustment programs.

5. The Committee had an exchange of views on the question of overdue financial obligations to the Fund. The Committee stressed the adverse impact of overdue obligations on the effectiveness of the Fund as a cooperative monetary institution, as well as the heavy financial burdens they impose on other debtors and on creditors of the Fund, while recognizing the extremely severe plight of some of these countries. It welcomed the intention of the Executive Board to pursue a multifaceted approach to this problem involving preventive measures and intensified collaboration where members with overdue obligations are cooperating with the Fund. Intensified collaboration will need to involve coordinated assistance, provision of bilateral financing to members that undertake strong programs of economic reform and seek to regularize their relations with the Fund, and prospective support from the international financial institutions. The Committee urged all members, within the limits of their laws, to treat the Fund as a preferred creditor and to lend their active and tangible support to this cooperative endeavor so as to bring countries with overdue obligations back into the mainstream of international economic relations. The Committee requested the Executive Board to pursue its work on the modalities of this cooperative approach and to report back to the Committee at its meeting in April 1989.

6. The Committee discussed the Fund's policy on enlarged access and agreed that the present access limits should be maintained for 1989. The Committee indicated that the enlarged access policy should be reviewed in the light of the outcome of the Ninth General Review of Quotas.

7. In connection with the Ninth General Review of Quotas, which also would reduce the reliance of the Fund on borrowing, the Committee noted the progress made and urged the Executive Board to give high priority to its work on the review and to report to the Committee before the Committee's next meeting so that appropriate proposals can be made to the Board of Governors not later than April 30, 1989, as agreed.

8. The Committee noted that the Executive Board had continued to monitor developments in international liquidity and to examine the implications of these developments for the role of the SDR in the international monetary system. The Committee welcomed the consideration of issues related to the concept and measurement of international liquidity and it requested the Executive Board to pursue its work in this area. In assessing the potential role of the SDR in improving the performance of the international monetary system, the Committee encouraged the Executive Board to continue its study of how to increase the usefulness of the SDR as a reserve asset. The question of a resumption of SDR allocations during the remainder of the fifth basic period from 1988–91 should be kept under consideration.

9. The Committee agreed to hold its next meeting in Washington, D.C., on April 3, 1989.

Annex: Interim Committee Attendance
September 25–26, 1988

Chairman

H.O. Ruding, Minister of Finance, Netherlands

Managing Director

Michel Camdessus

Members or Alternates

Mohammad Abalkhail, Minister of Finance and National Economy, Saudi Arabia
Hikmat Omar Al-Hadithi, Minister of Finance, Iraq
Giuliano Amato, Minister of the Treasury, Italy
Pierre Bérégovoy, Minister of State for Economy, Finance, and the Budget, France
Nicholas F. Brady, Secretary of the Treasury, United States
S.B. Chavan, Minister of Finance, India
DAIM Zainuddin, Minister of Finance, Malaysia
Paul J. Keating, Treasurer, Australia
Nigel Lawson, Chancellor of the Exchequer, United Kingdom
QIU Qing, Deputy Governor, People's Bank of China (Alternate for LI Guixian, State Councillor and Governor of the People's Bank of China)
Philippe Maystadt, Minister of Finance, Belgium
Satoshi Sumita, Governor of the Bank of Japan (Alternate for Kiichi Miyazawa, Vice Prime Minister and Minister of Finance, Japan)
Mailson Ferreira da Nobrega, Minister of Finance, Brazil
Bader-Eddine Nouioua, Governor, Banque Centrale d'Algérie
Chu S.P. Okongwu, Minister of Finance, Nigeria
PAY PAY wa Syakassighe, Governor, Banque du Zaïre
Niels Helveg Petersen, Minister of Economic Affairs, Denmark
W.F. Duisenberg, President, De Nederlandsche Bank, N.V. (Alternate for H.O. Ruding, Minister of Finance, Netherlands)
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
Michael H. Wilson, Minister of Finance, Canada

Observers

Yves Berthelot, Deputy Secretary-General, UNCTAD
B.T.G. Chidzero, Chairman, Development Committee
Barber B. Conable, President, World Bank
Arthur Dunkel, Director-General, GATT
Alexandre Lamfalussy, General Manager, BIS
Markus Lusser, Chairman of the Governing Board, Swiss National Bank
Abel Matutes, Commissioner for Credit, Investments, and Financial Instruments, CEC
Göran Ohlin, Assistant Secretary-General, Office for Development Research and Policy Analysis, Department of International Economic and Social Affairs, UN
Jean-Claude Paye, Secretary-General, OECD
Jafar M. Saad, Acting Director of Research Division and Head of Economics and Finance Department, OPEC

Thirty-Second Meeting, Washington, April 3–4, 1989

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its thirty-second meeting in Washington, D.C., on April 3–4, 1989, under the chairmanship of Mr. H. Onno Ruding, Minister of Finance of the Netherlands. Mr. Michel Camdessus, Managing Director of the International Monetary Fund, participated in the meeting, which was also attended by observers from a number of international and regional organizations and from Switzerland.

2. The Committee noted that over the last year output and investment in the industrial countries have expanded strongly, employment gains have been significant and more widespread than in earlier periods, and the larger external imbalances have narrowed, especially in real terms. The rapid expansion of world trade has helped to ease the debt position of a number of developing countries, particularly the exporters of manufactures.

There have also been developments, however, that require close attention and action. In the industrial world, the pace of external adjustment recently has slowed, there are signs of intensifying inflationary pressures in some countries, and interest rates have risen sharply in some countries; and, in many heavily indebted developing countries, growth has slackened, debt-servicing burdens have worsened, and inflation has accelerated.

The Committee agreed that it was essential to deal promptly and effectively with emerging price pressures in order to ensure the sustainability of the current expansion, and it noted that action in this direction had been taken in many industrial countries. The evolving process of economic policy coordination provides an appropriate framework for these countries to develop an adequate mix of fiscal and monetary policies, supported by structural policies, in order to maintain noninflationary growth and reduce external imbalances. In the deficit countries, measures to increase national saving are urgently needed. In particular, early action to reduce the U.S. federal budget deficit is essential as well as steps to improve the external position of the United States without pushing up interest rates. The Federal Republic of Germany and Japan should pursue macroeconomic and structural policies that will sustain noninflationary growth of domestic demand and facilitate external adjustment. Other surplus countries, including some of the newly industrializing economies of Asia, could both enhance their standard of living and contribute further to the process of international adjustment through stepped-up domestic deregulation, external liberalization, and exchange rates which reflect fundamentals.

In view of the vital importance of saving behavior for macroeconomic stability, economic growth, and external balances, the Committee thought it important that the Executive Board undertake a study of developments in national saving and of the policy measures needed to foster saving formation conducive to sustained economic expansion.

The failure of growth and investment to recover adequately in most countries with debt-servicing difficulties suggests that these countries need to intensify their efforts to raise domestic saving, encourage investment, promote efficiency, control inflation, and encourage the repatriation of flight capital. For their part, creditors need to ensure that determined reform efforts are met with appropriate and timely financial support.

Efforts in industrial countries to achieve sustained growth with low inflation, a reduction in world interest rates, and a more open trading system, including agriculture, remain of vital importance not only to themselves but also to the developing countries and would also contribute to improving the debt situation. In this regard, the Committee underscored the continuing need to resist protectionist pressures and emphasized that a successful completion of the discussions currently in progress on the midterm review of the Uruguay Round was critical.

Intensified economic policy coordination has made an important contribution to greater stability of exchange rates and to more consistent policy implementation. The Committee urged the Executive Board to continue to strengthen the analytical framework underlying multilateral surveillance, to examine the effects of structural measures, and to develop criteria for identifying desirable and sustainable policies in a medium-term perspective.

In the context of the Fund's responsibility for overseeing the operation of the international monetary system, the Committee welcomed the recent examination by the Executive Board of key issues in the functioning of the system, and of the questions related to the concept, measurement, and distribution of international liquidity. It also noted the discussion of various approaches to enhancing the role of the SDR as a monetary asset. The Committee encouraged the Executive Board to continue work on these matters. It agreed that the question of a resumption of SDR allocations during the remainder of the fifth basic period from 1989–91 should be kept under consideration and reported to the next meeting of the Committee.

3. The Committee welcomed the fact that new proposals had been made by several countries—including France and Japan, and most recently by the Secretary of the U.S. Treasury—designed to strengthen the debt strategy and to place greater emphasis on debt and debt-service reduction. These proposals build on the basic principles of the collaborative debt strategy as it has evolved over the past few years. The Committee thus reaffirmed the validity of the case-by-case approach and the central importance of sustained implementation of growth-oriented policy reforms and improvement in the investment climate in debtor countries. New financing flows

from private and official sources—which will remain crucially important—and reflows of flight capital depend on appropriate debtor countries' policies. However, official and private lenders must make a determined effort to accelerate their financial support.

The Committee emphasized the central part that continued to be played by the Fund in finding solutions to the debt problem, and stressed in particular its role in assisting countries to adopt and sustain sound economic policies.

The Committee requested the Executive Board to consider as a matter of urgency the issues and actions involved in the proposals that had been put forward. The Committee agreed that the Fund should provide resources in appropriate amounts to members to facilitate debt-reduction operations for countries undertaking such sound economic reforms, by setting aside a portion of members' purchases under Fund-supported arrangements. The question of provision of resources for limited interest support for transactions involving significant debt or debt-service reduction should be examined. Particular attention should be given to the qualification criteria for such operations. In clarifying and elaborating those issues and actions, due account would have to be taken of the mandate of the Fund under the Articles of Agreement and of the need to preserve the financial integrity of the institution. The Committee also stressed that official creditors should not substitute for private lenders and that Fund financial participation in debt-alleviation operations should be accompanied by strong financial support, including new money, from commercial banks. The Committee emphasized the importance of proceeding promptly with implementation in cases where members were embarking on strong adjustment programs. In this connection, the Committee warmly welcomed the intention of Japan to extend additional finance in parallel to Fund arrangements within the framework of the strengthened debt strategy. The Committee also considered it important that the World Bank play its commensurate role in the strategy and that the two institutions work in close collaboration on these matters.

The prospect of an improvement in the quality of their claims should encourage commercial banks to move expeditiously in negotiating the necessary waivers to existing contract provisions that may act as impediments to debt-alleviation operations. The Committee encouraged the creditor governments to review the extent to which members' tax, regulatory, and accounting systems might unnecessarily constrain the participation of commercial banks in such operations.

The Committee pointed out that it was also essential for countries that have maintained market access, but continue to face the challenge of sustaining high growth rates through steadfast adjustment efforts, to be given adequate support. The Fund has an important role to play in such cases, by making available its policy advice, catalyzing foreign financing, and offering its own financial assistance.

With regard to low-income countries, the Committee warmly welcomed the rapid implementation of the Berlin agreement on Paris Club reschedulings to provide concessional assistance to the poorest countries, as well as the additional concessional resources made available through international financial institutions. The Committee noted that particular problems remain for those countries that are not benefiting from access to exceptional debt relief yet cannot afford to finance themselves on market terms. The Committee urged that the policy framework paper process be used to improve coordination of policy advice and to mobilize additional external assistance in support of growth-oriented adjustment programs by structural adjustment facility (SAF) and enhanced structural adjustment facility (ESAF) eligible countries.

At the same time, the Committee urged all parties concerned—eligible countries, donors, and international institutions—to seize upon the opportunity offered by the ESAF and to move rapidly toward the conclusion of related arrangements. Committee members also stressed that members should ensure that their full contributions be made available to the ESAF Trust, and they emphasized the importance of additional subsidy contributions to the Trust.

4. The Committee welcomed the progress made since its last meeting in developing and implementing the Fund's cooperative approach to reducing and eliminating overdue financial obligations. It noted, in particular, that the number of countries with overdue obligations had tended to decline although the overall amount of arrears had continued to rise. It was further noted that several members had made progress in strengthening economic policies that should provide a basis for the mobilization through support groups of the external assistance needed to address the problem. The Committee called upon all members with overdue obligations to take strong action to adjust their economies and regularize their relations with the Fund, and urged creditors and donors to provide adequate financing in support of genuine collaborative efforts on the part of these members. To attain this objective, the cooperative approach will need to be implemented forthrightly in all of its three main elements—preventive, collaborative, and remedial. In this endeavor, the Fund, whose preferred creditor status was reaffirmed by the Interim Committee meeting in Berlin (West), must permanently enjoy the full support of the entire membership.

5. The Committee agreed that the size and distribution of any quota increase should take into account changes in the world economy since the last review of quotas as well as members' relative positions in the world economy and the need to maintain a balance between different groups of countries, the Fund's effectiveness in fulfilling its systemic responsibilities, including its role in the strengthened debt strategy, and reduce the Fund's reliance on borrowing. The Committee urged the Executive Board to complete its work on the Ninth Review with a view to a decision on this matter by the Board of Governors before the end of this year.

6. The Committee agreed to hold its next meeting in Washington, D.C., on September 24, 1989.

Annex: Interim Committee Attendance
April 3–4, 1989

Chairman

H.O. Ruding, Minister of Finance, Netherlands

Managing Director

Michel Camdessus

Members or Alternates

Hamad Al-Sayari, Governor, Saudi Arabian Monetary Agency (Alternate for Mohammad Abalkhail, Minister of Finance and National Economy, Saudi Arabia)
Hikmat Omar Al-Hadithi, Minister of Finance, Iraq
Giuliano Amato, Minister of the Treasury, Italy

Pedro Aspe, Secretary of Finance and Public Credit, Mexico
Pierre Bérégovoy, Minister of State for Economy, Finance, and the Budget, France
Nicholas F. Brady, Secretary of the Treasury, United States
S.B. Chavan, Minister of Finance, India
Peter Morris, Minister Assisting the Treasurer, Australia (Alternate for Paul J. Keating, Treasurer, Australia)
Nigel Lawson, Chancellor of the Exchequer, United Kingdom
QIU Qing, Deputy Governor, People's Bank of China (Alternate for LI Guixian, State Councillor and Governor of the People's Bank of China)
Philippe Maystadt, Minister of Finance, Belgium
Satoshi Sumita, Governor of the Bank of Japan (Alternate for Tatsuo Murayama, Minister of Finance, Japan)
Mailson Ferreira da Nobrega, Minister of Finance, Brazil
Bader-Eddine Nouioua, Governor, Banque Centrale d'Algérie
Chu S.P. Okongwu, Minister of Finance and Economic Development, Nigeria
PAY PAY wa Syakassighe, Governor, Banque du Zaïre
Niels Helveg Petersen, Minister of Economic Affairs, Denmark
W.F. Duisenberg, President, De Nederlandsche Bank, N.V. (Alternate for H.O. Ruding, Minister of Finance, Netherlands)
Kamchorn Sathirakul, Governor, Bank of Thailand
Gerhard Stoltenberg, Federal Minister of Finance, Federal Republic of Germany
Michael H. Wilson, Minister of Finance, Canada
Ricardo Zerbino Cavajani, Minister of Economy and Finance, Uruguay

Observers

Horst Bockelmann, Economic Advisor and Head of the Monetary and Economic Department, BIS
B.T.G. Chidzero, Chairman, Development Committee
Barber B. Conable, President, World Bank
John Croome, Director, Trade and Finance Division, GATT
Kenneth K.S. Dadzie, Secretary-General, UNCTAD
Taiwo D. Idemudia, Head, Economics Section, Economics and Finance Department, OPEC
Markus Lusser, Chairman of the Governing Board, Swiss National Bank
Alain Morisset, First Secretary for Economic and Financial Affairs, Delegation in Washington, CEC
Göran Ohlin, Assistant Secretary-General, Department of International Economic and Social Affairs, UN
Jean-Claude Paye, Secretary-General, OECD

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

Thirty-Fourth Meeting, Berlin (West), September 26, 1988

1. The Development Committee met in Berlin (West) on September 26, 1988, under the chairmanship of the Hon. B.T.G. Chidzero, Senior Minister of Finance, Economic Planning and Development of Zimbabwe.[1]

2. The Committee focused its attention on three topics: (a) poverty issues, including the impact of adjustment policies on the poor; (b) the impact of industrial policies of developed countries on developing countries; and (c) developments in low- and middle-income heavily indebted countries.

3. The Committee agreed that the problems facing developing countries could only be addressed through achievement of sustained growth. It noted that while much has been done over the years to combat the worst forms of poverty in developing countries, the number of people living in absolute poverty has increased, particularly in low-income countries. Members agreed that reduction of poverty is a crucial objective of development and that intensified efforts are necessary to achieve this goal. While governments of developing countries have prime responsibility for adopting anti-poverty policies, including accelerated mobilization and efficient allocation of domestic resources, members agreed that the international community should strongly support these efforts, by providing additional and well-targeted concessional resources and a favorable external environment to stimulate growth and strengthen poverty programs, particularly in low-income countries. The renewed emphasis given by the World Bank to poverty reduction and food security in its policies and operations was welcomed. Members agreed that the Committee should periodically review progress made in addressing poverty issues.

4. Members emphasized that, while the poor benefit from growth-oriented adjustment programs over time, special attention needs to be paid to protecting the vulnerable poor during periods of adjustment. The Committee welcomed the positive response of the Bank and the Fund to this concern. Members urged them to intensify their efforts, working closely together, in helping to design adjustment programs and assisting with the adoption, as needed, of well-targeted compensatory measures which would help shield the poor from adverse effects. Members also encouraged, in the context of structural adjustment programs, further development of complementary measures, particularly income-generating activities and investments in human resources, which reinforce the positive impact of growth on poverty reduction. Members recognized furthermore the important role played by the International Fund for Agricultural Development in the fight against poverty. They called on all member countries to conclude the negotiations on the third replenishment successfully and expeditiously.

5. The Committee stressed the crucial importance of developed countries' trade and industrial policies for adjustment, growth, and development of developing countries. Outward-looking industrial policies not only would enhance output and improve allocation of resources in both industrial and developing countries but also are integral to progress on global adjustment and on efforts to resolve debt problems. Members noted with concern that protectionist and other trade-distorting measures particularly affect developing countries and have an adverse impact on their export earnings and national income, often substantial compared with the level of official development assistance (ODA) flows. Members agreed there was need for greater liberalization of both international trade and industrial policies affecting agricultural and manufactured goods of developing countries. The Committee emphasized the particular responsibility of industrial countries to promote a more open multilateral trading system. Members also stressed that actions to liberalize trade were required by developing countries in order to maximize their gains from trade. The Committee emphasized the crucial importance of the Uruguay Round and the active participation by all countries in these negotiations. Members urged a positive outcome at the December 1988 midterm review, including concrete agreements, and requested to be informed of the outcome.

6. The Bank was encouraged to include assessments of the impact on developing countries' export prospects of their trading partners' trade policies in the analyses the Bank prepares in support of development and growth-oriented adjustment programs. The Fund was called upon to increase the priority it gives to industrial and trade liberalization policies, both in the context of Fund surveillance—in cooperation with the relevant international organizations—and in the design of Fund-supported adjustment programs.

7. The Committee discussed the problem of debt and its impact on the prospects for growth and development of the heavily indebted developing countries. Members reiterated their support for a case-by-case, growth-oriented approach to the debt problem. They noted that the burden of debt service has become more severe owing to the recent increase in interest rates. Members underscored the need to ensure adequate support for the process of adjustment in order to enhance prospects for renewed and durable growth. The Committee emphasized that the primary contribution of the Bank and Fund in the resolution of debt problems is the financial support and advice they provide for design and execution of growth-oriented programs. In the case of highly indebted middle-income countries, the Committee encouraged debtors and their creditors to broaden the menu of market-based and voluntarily negotiated options, blending new money where appropriate with techniques which have the effect of reducing the stock of debt without transferring

[1] Mr. Barber B. Conable, President of the World Bank, Mr. Michel Camdessus, Managing Director of the International Monetary Fund, Mr. Yves L. Fortin, Executive Secretary of the Development Committee, and Mr. Mailson Ferreira da Nobrega, Chairman of the Group of Twenty-Four, participated in the meeting. Observers from Switzerland and a number of international and regional organizations also attended.

risks from private to official creditors. Members reaffirmed the importance they attach to efforts by the Bank and the Fund in facilitating developments in the menu approach, thereby catalyzing financial support for a growth-oriented debt strategy. The Committee reiterated that the debt strategy should be kept under review.

8. Members also agreed that further actions were needed to support the adjustment efforts of low-income heavily indebted countries. Recalling the consensus at the Toronto economic summit, they warmly welcomed that arrangements have now been worked out by the Paris Club on the framework of comparability between various options providing additional debt relief. Members encouraged full implementation of the World Bank's Special Program of Assistance to debt-distressed countries in sub-Saharan Africa. It was agreed that donors should take additional steps to ensure that commitments are translated into disbursements as quickly and effectively as possible. Developed donor countries in a position to do so were urged to convert ODA loans into grants for the poorest countries undertaking appropriate growth-oriented programs, or to adopt measures with a similar effect such as increasing grants and the concessionality of their ODA.

9. While welcoming certain positive developments in the transfer of resources to developing countries, the Committee noted the decline in overall flows to these countries and the negative net transfers to some of them. Members reiterated that enlarged flows of all types of financial resources to developing countries are needed for economic growth, poverty reduction, structural adjustment, resolution of debt difficulties, and environmental conservation. The Committee recognized that foreign private investment could play a much greater role in the transfer of resources and stressed the importance of creating an enabling environment for this purpose. They expressed support for World Bank Group and Fund efforts to help revitalize markets and the private sector in developing countries, thereby assisting in the creation of an environment favorable to increased financial flows, particularly private investment. Members welcomed the recent decision by the International Development Association (IDA) to allocate future repayments to enlarge available IDA resources and to allocate part of these repayments as well as IDA's investment income to supplement IDA credits to those countries undertaking adjustment programs, only eligible for IDA, and still servicing World Bank loans. They encouraged the Bank to explore further possibilities of financing poverty-reduction programs, particularly in low-income countries.

10. The shareholders of the Bank were urged to take early action to subscribe their shares of the general capital increase. In light of the growing need for concessional resources, the Committee welcomed the launching of negotiations for the ninth replenishment of IDA and asked the President of the Bank to report regularly to the Committee on the progress achieved in the negotiations. Members welcomed the contributions to the IMF's enhanced structural adjustment facility (ESAF), but stressed the need for all potential contributors to reach decisions quickly on additional amounts. Countries eligible for the ESAF were urged to come forward with well-designed programs to make early use of the concessional resources of this facility. The Committee stressed the adverse impact of overdue obligations on the effectiveness of the Fund. It urged all members to lend their active and tangible support to the cooperative endeavor which is being put in train so as to bring countries with overdue obligations back into the mainstream of economic relations.

11. The Committee reviewed a report by the World Bank on its environmental program. Members stressed the importance of the sustainable use of natural resources and environmental protection for both developing and developed countries, within and across national borders. They welcomed the concrete steps taken by the Bank in integrating environmental considerations in its lending operations, by strengthening the review of the environmental and social impact of the projects it finances, and by supporting the development and implementation of environmental strategies by developing countries. The Committee stressed the importance of continued and improved coordination between developing countries, donors, nongovernmental organizations, and multilateral development agencies in this field. In light of the links between poverty and environmental degradation, the Committee urged that steps be taken to increase both bilateral and multilateral assistance measures. They emphasized the necessity of strengthening public confidence in the Bank's commitment to support sound environmental practices. The Committee called on the Bank's Executive Board to review and publish an annual report on the environmental aspects of its operations which would include an assessment of selected projects having major environmental impact.

12. The Committee considered the priorities for its future work program. Members agreed that the main theme for 1989 would be structural adjustment. The staffs of the Bank and the Fund were accordingly requested to prepare in a closely coordinated and integrated manner background documentation for each of the next two meetings which will permit, on the basis of experience gained, a thorough consideration of various aspects of the subject such as design, external environment, implementation, and resource requirements of growth-oriented structural adjustment programs. Members also called on the Bank and Fund to present a progress report on various initiatives which have benefited sub-Saharan Africa.

13. Members expressed their appreciation to the Government of the Federal Republic of Germany for its warm hospitality and excellent arrangements made for hosting this meeting of the Committee in the historic city of Berlin (West).

14. The Committee agreed to meet again in Washington, D.C., on April 4, 1989.

Thirty-Fifth Meeting, Washington, April 4, 1989

1. The Development Committee met in Washington on April 4, 1989, under the chairmanship of the Hon. B.T.G. Chidzero, Senior Minister of Finance, Economic Planning and Development of Zimbabwe.[1]

2. The Committee discussed three closely interrelated issues: (a) problems and issues in structural adjustment; (b) development prospects in the severely indebted countries; and (c) progress on initiatives intended to benefit sub-Saharan African countries. It also

[1] Mr. Barber B. Conable, President of the World Bank, Mr. Michel Camdessus, Managing Director of the International Monetary Fund, Mr. Yves L. Fortin, Executive Secretary of the Development Committee, and Mr. Lemboumba-Lepandou, Chairman of the Group of Twenty-Four, participated in the meeting. Observers from Switzerland and a number of international and regional organizations also attended.

considered reports on recent developments in international trade, trends in the transfer of resources to developing countries, and the status of negotiations for the ninth replenishment of IDA.

3. The Committee initiated its first global review of experience with growth-oriented structural adjustment programs assisted by the Bank and the Fund and focused at this meeting mainly on design and implementation of programs. Members agreed that, while results varied, structural adjustment programs adopted by developing countries generally have helped to make their economies more efficient and to lay the foundation for the resumption of growth, which would lead to an improvement in living standards. They underlined the central roles which the Bank and the Fund had to play in contributing to the adjustment process by policy advice and financial support for sound reform programs.

4. The Committee concluded that the essential ingredients for successful structural adjustment programs were:

(a) government-owned programs and sustained political commitment to sound macroeconomic policies;

(b) well-designed programs with broad public understanding, drawn up with a realistic time frame, taking into account the deep-seated structural problems and the country's social, demographic, and political environment;

(c) the integration of poverty reduction objectives and environmental considerations into the design of programs as well as ways of mitigating the adverse effects on the most vulnerable groups, preferably by income-generating programs;

(d) administrative and institutional capacity adequate for their implementation, which could be strengthened where necessary with the assistance of the Bank, the Fund, and donors; and

(e) adequate and timely financing, a supportive external environment, including open markets, and structural adjustment in the industrial countries.

5. The Committee welcomed the benefits derived by a number of countries from the introduction of structural adjustment programs. Accordingly, they called on all governments to reaffirm their commitment to growth-oriented adjustment, which could build confidence in the investment community at home and abroad.

6. Given the central roles of the Bank and the Fund in assisting the design and the financing of structural adjustment programs, members welcomed the efforts by the institutions to develop further their collaboration, while avoiding cross-conditionality, and to make full use of their comparative advantage in respect of the advice they offer borrowing countries on the design, financing, and monitoring of programs.

7. The Committee reviewed the development prospects of the severely indebted countries. In spite of the improvement in trade earnings, prospects were adversely affected by the low level of investment and rising interest rates. The Committee welcomed the fact that new proposals had been made by France, Japan, and, more recently, the United States to review and strengthen the current strategy through stronger emphasis on a broader-based approach to voluntary debt and debt-service reduction, new investment, adjustment measures, and the repatriation of flight capital, together with new lending by commercial banks. Efforts in these areas could help to ease debt-service burdens, reduce negative transfers, and produce more manageable new financing needs. Members agreed that the strengthening of the debt strategy required a cooperative effort by debtor and creditor governments, commercial banks, and international institutions. The Committee stressed that official creditors should not substitute for private lenders. Members also felt that the development needs of low- and lower middle-income countries whose debts are mainly to official creditors had to be given special attention. They agreed to discuss the evolving debt strategy and its impact on development prospects at their next meeting with the assistance of appropriate analyses covering all indebted countries.

8. Members recognized that an increased level of investment in debtor countries was critical to improving growth and development prospects. Priority should be given to the adoption of economic policies that will restore investor confidence, encourage domestic savings and the repatriation of flight capital, stimulate foreign investment in these countries, and expedite their return to international capital markets. Members called on debtor countries to consider the potential benefits of debt-equity conversion programs and to implement or strengthen such programs, consistent with the need to maintain appropriate macroeconomic frameworks.

9. Members agreed that active support by the commercial banks remained critical. The Committee called on commercial banks to provide more diversified financial support, including new lending and debt/debt-service reduction, to debtor countries implementing sound economic reform programs. Members felt that the prospect of an improvement in the quality of commercial banks' claims should encourage them to move expeditiously in removing legal impediments to debt and debt-service reduction in loan agreements. The Committee encouraged debtor countries and commercial banks to work closely together to achieve this objective.

10. Members agreed that, as part of the critical assistance the World Bank and the International Monetary Fund can offer for adjustment programs, the two institutions should provide support for voluntary, market-based debt-reduction transactions. The Committee agreed that the Bank and the Fund should set aside a portion of members' policy-based financing to support debt-reduction operations. In addition, the Bank and the Fund should examine the possibility of limited interest support for transactions involving significant debt or debt-service reduction. The Committee stressed that this should be done in a way that would preserve the financial integrity of the institutions and should not adversely affect the availability of resources for their traditional operations. The qualification criteria for the support of such debt-alleviation operations should be carefully examined. Members requested the Bank and Fund to move expeditiously to develop and implement specific proposals to achieve this objective. Members recognized that these efforts by the institutions needed to be supplemented by other financial sources and warmly welcomed the intention of Japan to extend additional finance in parallel to Fund arrangements.

11. Governments of creditor countries were encouraged to continue to provide financial support through Paris Club reschedulings and export credit cover policies. They were also encouraged to examine their tax, accounting, and regulatory measures with a view to reducing unnecessary impediments to voluntary debt and debt-service reductions. Members encouraged financial support to strengthen the debt strategy from countries in a position to do so.

12. Members welcomed the recent further development of cooperative efforts in helping countries with overdue obligations to the Bank and the Fund to become current with multilateral financial institutions and to regain access to international financial resources. They encouraged the two institutions and bilateral donors to continue to cooperate closely in pursuing these objectives.

13. The Committee reviewed the progress on initiatives intended to benefit sub-Saharan African countries. It took note of recent positive economic developments, particularly in countries which have adopted adjustment programs with the joint support of the Bank and donors in the framework of the Special Program of Assistance (SPA) and of the Fund through its structural adjustment facilities. It encouraged these countries to persevere in the adjustment effort. Members welcomed the implementation by the Paris Club of the recent agreement to provide concessional debt rescheduling, including debt and interest rate reduction, to low-income debt-distressed countries undertaking adjustment programs. In view of the financial needs of sub-Saharan Africa, the Committee urged bilateral donors and multilateral agencies to speed up commitments and disbursements in the SPA and further harmonize their procedures.

14. Members agreed that the international community should work toward facilitating external financial support to African governments' adjustment efforts in the period beyond 1990. This should include continuation of the collaborative framework for donor action developed under the SPA and coordinated by the Bank as well as the examination of possible additional measures to address the economic and debt problems of these countries. Members also underlined the need to supplement quick-disbursing assistance to support adjustment in sub-Saharan Africa with adequate investment financing and technical assistance to help deal with the longer-term problems of the region.

15. The Committee received an account from the Director-General of the GATT on recent international trade developments and on the multilateral trade negotiations in the framework of the Uruguay Round. Members welcomed the overall growth in the volume of world trade and the improvement in the prices of some commodities exported by developing countries while the price of certain other commodities remained depressed. The Committee, however, reiterated its concern about the harm that protectionism continues to impose on the world economy and particularly on the developing countries. The Committee called for a speedy resolution of the outstanding issues to allow a successful conclusion of the midterm review of the Uruguay Round. Commitment by both developed and developing countries to the liberalization objectives of the Uruguay Round is necessary for the success of these multilateral trade negotiations.

16. The Committee reviewed recent trends in resource transfers to developing countries. Members called for efforts, especially by donors whose assistance levels are below the 0.7 percent target, to reverse the current declining trend in financial flows to the developing countries, and the negative transfers of several developing countries. They stressed the urgency of the need for poverty reduction on which the Committee had called for priority attention, particularly in the heavily populated Asian region and in Africa. Members reiterated the importance of a favorable climate for foreign private investment and called on the World Bank, the International Finance Corporation, and the Multilateral Investment Guarantee Agency to strengthen their efforts to stimulate such flows.

17. Members emphasized the need in the case of the low-income countries for increased concessional resources to promote growth, poverty reduction, and adjustment objectives. Given the central role of IDA in this respect, members welcomed the start of negotiations for the ninth replenishment of IDA. The Committee underscored the importance of reaching agreement on IDA's ninth replenishment, at a level commensurate with the pressing needs of IDA-eligible countries, possibly by the next meeting of the Committee so that it could have effect from July 1990.

18. The Committee agreed to continue its review of experience with growth-oriented structural adjustment programs at its next meeting, at which time the focus will be mainly on the resource requirements of such programs and the external environment in which programs are implemented. Documentation will be prepared by the Bank and the Fund. Having in mind the important contribution that private saving and investment can play in such programs, members also agreed to discuss in spring 1990 the support the Bank and the Fund can provide in enhancing the role of the private sector in development. They also agreed to consider the economic role of women in development at a future meeting.

19. Members stressed the increasing importance attached to environmental issues and to the timely dissemination of environmental information on Bank-supported operations. They welcomed the fact that the World Bank would provide a comprehensive report annually on the environmental aspects of its operations as requested at the September 1988 meeting of the Committee. They agreed to discuss at their next meeting the Bank's efforts to support the environment, including the integration of environmental concerns in Bank operations and measures to increase public awareness of Bank environmental activities.

20. The Committee agreed to meet again in Washington, D.C., on September 25, 1989.

Executive Directors and Voting Power on April 30, 1989

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of Fund Total[2]
APPOINTED				
Charles H. Dallara *Charles S. Warner*	United States	179,433	179,433	19.14
Frank Cassell *Charles Enoch*	United Kingdom	62,190	62,190	6.63
Guenter Grosche *Bernd Goos*	Germany, Federal Republic of	54,287	54,287	5.79
Hélène Ploix *Dominique Marcel*	France	45,078	45,078	4.81
Koji Yamazaki *Shinichi Yoshikuni*	Japan	42,483	42,483	4.53
Yusuf A. Nimatallah *Ibrahim A. Al-Assaf*	Saudi Arabia	32,274	32,274	3.44
ELECTED				
Renato Filosa (Italy)	Greece	4,249		
Nikos Kyriazidis (Greece)	Italy	29,341		
	Malta	701		
	Poland	7,050		
	Portugal	4,016	45,357	4.84
Leonor Filardo (Venezuela)	Costa Rica	1,091		
Miguel A. Fernández Ordóñez	El Salvador	1,140		
(Spain)	Guatemala	1,330		
	Honduras	928		
	Mexico	11,905		
	Nicaragua	932		
	Spain	13,110		
	Venezuela	13,965	44,401	4.74
G. A. Posthumus (Netherlands)	Cyprus	947		
G. P. J. Hogeweg (Netherlands)	Israel	4,716		
	Netherlands	22,898		
	Romania	5,484		
	Yugoslavia	6,380	40,425	4.31
Jacques de Groote (Belgium)	Austria	8,006		
Johann Prader (Austria)	Belgium	1,054		
	Hungary	5,557		
	Luxembourg	1,020		
	Turkey	4,541	40,178	4.29
Mohamed Finaish (Libya)	Bahrain	739		
Abdul Moneim Othman (Iraq)	Egypt	4,884		
	Iraq	5,290		
	Jordan	989		
	Kuwait	6,603		
	Lebanon	1,037		
	Libya	5,407		
	Maldives	270		
	Oman	881		

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of Fund Total[2]
ELECTED (continued)				
	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	39,526	4.22
Marcel Massé (Canada)	Antigua and Barbuda	300		
Dara McCormack (Ireland)	The Bahamas	914		
	Barbados	591		
	Belize	345		
	Canada	29,660		
	Dominica	290		
	Grenada	310		
	Ireland	3,684		
	Jamaica	1,705		
	St. Kitts and Nevis	295		
	St. Lucia	325		
	St. Vincent	290	38,709	4.13
E.A. Evans (Australia)	Australia	16,442		
Chang-Yuel Lim (Korea)	Kiribati	275		
	Korea	4,878		
	New Zealand	4,866		
	Papua New Guinea	909		
	Philippines	4,654		
	Seychelles	280		
	Solomon Islands	300		
	Vanuatu	340		
	Western Samoa	310	33,254	3.55
Jorgen Ovi (Denmark)	Denmark	7,360		
Markus Fogelholm (Finland)	Finland	5,999		
	Iceland	846		
	Norway	7,240		
	Sweden	10,893	32,338	3.45
Bimal Jalan (India)	Bangladesh	3,125		
L. Eustace N. Fernando (Sri Lanka)	Bhutan	275		
	India	22,327		
	Sri Lanka	2,481	28,208	3.01
Alexandre Kafka (Brazil)	Brazil	14,863		
Luis Manuel Piantini (Dominican Republic)	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	2.94

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of Fund Total[2]
ELECTED (continued)				
J.E. Ismael (Indonesia)	Fiji	615		
Ekamol Kiriwat (Thailand)	Indonesia	10,347		
	Lao People's Democratic Republic	543		
	Malaysia	5,756		
	Myanmar	1,620		
	Nepal	623		
	Singapore	1,174		
	Thailand	4,116		
	Tonga	282		
	Viet Nam	2,018	27,094	2.89
El Tayeb El Kogali (Sudan)	Botswana	471		
L.B. Monyake (Lesotho)	Burundi	677		
	Ethiopia	956		
	The Gambia	421		
	Kenya	1,670		
	Lesotho	401		
	Liberia	963		
	Malawi	622		
	Mozambique	860		
	Nigeria	8,745		
	Sierra Leone	829		
	Sudan	1,947		
	Swaziland	497		
	Tanzania	1,320		
	Uganda	1,246		
	Zambia	2,953		
	Zimbabwe	2,160	26,738	2.85
DAI Qianding (China)	China	24,159	24,159	2.58
ZHANG Zhixiang (China)				
Ernesto V. Feldman (Argentina)	Argentina	11,380		
Ricardo J. Lombardo (Uruguay)	Bolivia	1,157		
	Chile	4,655		
	Paraguay	734		
	Peru	3,559		
	Uruguay	1,888	23,373	2.49
Mohammad Reza Ghasimi (Islamic Republic of Iran)	Afghanistan	1,117		
Omar Kabbaj (Morocco)	Algeria	6,481		
	Ghana	2,295		
	Iran, Islamic Republic of	6,850		
	Morocco	3,316		
	Tunisia	1,632	21,691	2.31
MAWAKANI Samba (Zaïre)	Benin	563		
Corentino V. Santos (Cape Verde)	Burkina Faso	566		
	Cameroon	1,177		
	Cape Verde	295		
	Central African Republic	554		
	Chad	556		
	Comoros	295		

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of Fund Total[2]
ELECTED (concluded)				
	Congo	623		
	Côte d'Ivoire	1,905		
	Djibouti	330		
	Equatorial Guinea	434		
	Gabon	981		
	Guinea	829		
	Guinea-Bissau	325		
	Madagascar	914		
	Mali	758		
	Mauritania	589		
	Mauritius	786		
	Niger	587		
	Rwanda	688		
	Sao Tome and Principe	290		
	Senegal	1,101		
	Togo	634		
	Zaïre	3,160	18,940	2.02
			927,718[3]	98.94[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 the SDR Department (937,625).

[3] This total does not include the votes of Democratic Kampuchea and South Africa, which did not participate in the 1988 Regular Election of Executive Directors. The combined votes of those members total 9,907—1.06 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.

Changes in Membership of Executive Board

Changes in membership of the Executive Board between May 1, 1988 and April 30, 1989 were as follows:

Charles S. Warner (United States) was appointed Alternate Executive Director to Charles H. Dallara (United States), effective July 15, 1988.

Jiang Hai (China) resigned as Alternate Executive Director to Dai Qianding (China), effective August 31, 1988.

Zhang Zhixiang (China) was appointed Alternate Executive Director to Dai Qianding (China), effective September 1, 1988.

Ahmed Abdallah (Kenya) completed his term of service as Executive Director for Botswana, Burundi, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Nigeria, Sierra Leone, Sudan, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe, effective October 31, 1988.

Alvaro Donoso (Chile) completed his term of service as Executive Director for Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay, effective October 31, 1988.

Guillermo Ortiz (Mexico) completed his term of service as Executive Director for Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, and Venezuela, effective October 31, 1988.

Janardana Reddy (Fiji) completed his term of service as Alternate Executive Director to J.E. Ismael (Indonesia), effective October 31, 1988.

Ghassem Salehkhou (Islamic Republic of Iran) completed his term of service as Executive Director for Afghanistan, Algeria, Ghana, the Islamic Republic of Iran, Morocco, and Tunisia, effective October 31, 1988.

Arjun K. Sengupta (India) completed his term of service as Executive Director for Bangladesh, Bhutan, India, and Sri Lanka, effective October 31, 1988.

Dai Qianding (China) was re-elected Executive Director by China, effective November 1, 1988.

Jacques de Groote (Belgium) was re-elected Executive Director by Austria, Belgium, Hungary, Luxembourg, and Turkey, effective November 1, 1988.

El Tayeb El Kogali (Sudan), formerly Alternate Executive Director to Ahmed Abdallah (Kenya), was elected Executive Director by Botswana, Burundi, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Nigeria, Sierra Leone, Sudan, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe, effective November 1, 1988.

Ernesto V. Feldman (Argentina), formerly Alternate Executive Director to Alvaro Donoso (Chile), was elected Executive Director by Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay, effective November 1, 1988.

Miguel A. Fernández-Ordóñez (Spain) was appointed Alternate Executive Director to Leonor Filardo (Venezuela), effective November 1, 1988.

L. Eustace N. Fernando (Sri Lanka), formerly Alternate Executive Director to Arjun K. Sengupta (India), was appointed Alternate Executive Director to Bimal Jalan (India), effective November 1, 1988.

Leonor Filardo (Venezuela), formerly Alternate Executive Director to Guillermo Ortiz (Mexico), was elected Executive Director by Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, and Venezuela, effective November 1, 1988.

Mohamed Finaish (Libya) was re-elected Executive Director by Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Pakistan, Qatar, Somalia, Syrian Arab Republic, United Arab Emirates, Yemen Arab Republic, and People's Democratic Republic of Yemen, effective November 1, 1988.

Markus Fogelholm (Finland) was reappointed Alternate Executive Director to Jorgen Ovi (Denmark), effective November 1, 1988.

Mohammad Reza Ghasimi (Islamic Republic of Iran) was elected Executive Director by Afghanistan, Algeria, Ghana, the Islamic Republic of Iran, Morocco, and Tunisia, effective November 1, 1988.

G.P.J. Hogeweg (Netherlands) was reappointed Alternate Executive Director to G.A. Posthumus (Netherlands), effective November 1, 1988.

Jerry Hospedales (Trinidad and Tobago) was reappointed Alternate Executive Director to Alexandre Kafka (Brazil), effective November 1, 1988.

J.E. Ismael (Indonesia) was re-elected Executive Director by Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, and Viet Nam, effective November 1, 1988.

Bimal Jalan (India) was elected Executive Director by Bangladesh, Bhutan, India, and Sri Lanka, effective November 1, 1988.

Omar Kabbaj (Morocco), formerly Alternate Executive Director to Ghassem Salehkhou (Islamic Republic of Iran), was appointed Alternate Executive Director to Mohammed Reza Ghasimi (Islamic Republic of Iran), effective November 1, 1988.

Alexandre Kafka (Brazil) was re-elected Executive Director by Brazil, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, and Trinidad and Tobago, effective November 1, 1988.

Ekamol Kiriwat (Thailand) was appointed Alternate Executive Director to J.E. Ismael (Indonesia), effective November 1, 1988.

Nikos Kyriazidis (Greece) was reappointed Alternate Executive Director to Salvatore Zecchini (Italy), effective November 1, 1988.

Chang-Yuel Lim (Korea) was reappointed Alternate Executive Director to C.R. Rye (Australia), effective November 1, 1988.

Ricardo J. Lombardo (Uruguay) was appointed Alternate Executive Director to Ernesto V. Feldman (Argentina), effective November 1, 1988.

Marcel Massé (Canada) was re-elected Executive Director by Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent, effective November 1, 1988.

Mawakani Samba (Zaïre) was re-elected Executive Director by Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, Sao Tome and Principe, Senegal, Togo, and Zaïre, effective November 1, 1988.

Dara McCormack (Ireland) was reappointed Alternate Executive Director to Marcel Massé (Canada), effective November 1, 1988.

L.B. Monyake (Lesotho) was appointed Alternate Executive Director to El Tayeb El Kogali (Sudan), effective November 1, 1988.

Abdul Moneim Othman (Iraq) was reappointed Alternate Executive Director to Mohamed Finaish (Libya), effective November 1, 1988.

Jorgen Ovi (Denmark) was re-elected Executive Director by Denmark, Finland, Iceland, Norway, and Sweden, effective November 1, 1988.

G.A. Posthumus (Netherlands) was re-elected Executive Director by Cyprus, Israel, Netherlands, Romania, and Yugoslavia, effective November 1, 1988.

Johann Prader (Austria) was reappointed Alternate Executive Director to Jacques de Groote (Belgium), effective November 1, 1988.

C.R. Rye (Australia) was re-elected Executive Director by Australia, Kiribati, Korea, New Zealand, Papua New Guinea, Philippines, Seychelles, Solomon Islands, Vanuatu, and Western Samoa, effective November 1, 1988.

Corentino V. Santos (Cape Verde) was reappointed Alternate Executive Director to Mawakani Samba (Zaïre), effective November 1, 1988.

Salvatore Zecchini (Italy), formerly Executive Director to Greece, Italy, Malta, and Portugal, was elected Executive Director by Greece, Italy, Malta, Poland, and Portugal, effective November 1, 1988.

Zhang Zhixiang (China) was reappointed Alternate Executive Director to Dai Qianding (China), effective November 1, 1988.

Salvatore Zecchini (Italy) resigned as Executive Director for Greece, Italy, Malta, Poland, and Portugal, effective January 16, 1989.

Renato Filosa (Italy) was elected Executive Director by Greece, Italy, Malta, Poland, and Portugal, effective January 17, 1989.

Nikos Kyriazidis (Greece), formerly Alternate Executive Director to Salvatore Zecchini (Italy), was appointed Alternate Executive Director to Renato Filosa (Italy), effective January 17, 1989.

Jerry Hospedales (Trinidad and Tobago), resigned as Alternate Executive Director to Alexandre Kafka (Brazil), effective March 31, 1989.

Luis Manuel Piantini (Dominican Republic) was appointed Alternate Executive Director to Alexandre Kafka (Brazil), effective April 1, 1989.

C.R. Rye (Australia), resigned as Executive Director for Australia, Kiribati, Korea, New Zealand, Papua New Guinea, Philippines, Seychelles, Solomon Islands, Vanuatu, and Western Samoa, effective April 28, 1989.

E.A. Evans (Australia) was elected Executive Director by Australia, Kiribati, Korea, New Zealand, Papua New Guinea, Philippines, Seychelles, Solomon Islands, Vanuatu, and Western Samoa, effective April 29, 1989.

Chang-Yuel Lim (Korea) formerly Alternate Executive Director to C.R. Rye (Australia), was appointed Alternate Executive Director to E.A. Evans (Australia), effective April 29, 1989.

The following served at certain meetings of the Executive Board during 1988/89 as Temporary Alternate Executive Directors to the Executive Directors indicated:

Temporary Alternate Executive Director	**Executive Director for whom Temporary Alternate Served**
N. Adachi (*Japan*)	Koji Yamazaki (*Japan*)
Ali Asghar Agah (*Iran, Islamic Republic of*)	Ghassem Salehkhou (*Iran, Islamic Republic of*)
Felix Enrico R. Alfiler (*Philippines*)	C.R. Rye (*Australia*)
Muhammad Al-Jasser (*Saudi Arabia*)	Yusuf A. Nimatallah (*Saudi Arabia*)
José Roberto Novaes de Almeida (*Brazil*)	Alexandre Kafka (*Brazil*)
Gino P. Alzetta (*Belgium*)	Jacques de Groote (*Belgium*)
Sandro Appetiti (*Italy*)	Salvatore Zecchini (*Italy*) Renato Filosa (*Italy*)
Patrick E. Archibong (*Nigeria*)	Ahmed Abdallah (*Kenya*) El Tayeb El Kogali (*Sudan*)
Edgar Ayales (*Costa Rica*)	Guillermo Ortiz (*Mexico*) Leonor Filardo (*Venezuela*)
David Barr (*United Kingdom*)	Frank Cassell (*United Kingdom*)
Hasan Sukru Binay (*Turkey*)	Jacques de Groote (*Belgium*)
George Bindley-Taylor (*Trinidad and Tobago*)	Alexandre Kafka (*Brazil*)
Mohamad Bahaa Chatah (*Lebanon*)	Mohamed Finaish (*Libya*)
Richard Comotto (*United Kingdom*)	Frank Cassell (*United Kingdom*)
Edgardo Carlos Demaestri (*Argentina*)	Alvaro Donoso (*Chile*) Ernesto V. Feldman (*Argentina*)
Di Weiping (*China*)	Dai Qianding (*China*)
Do Tran Trong (*Viet Nam*)	J.E. Ismael (*Indonesia*)
Fakhry El Fiky (*Egypt*)	Mohamed Finaish (*Libya*)
Abda Y. El Mahdi (*Sudan*)	El Tayeb El Kogali (*Sudan*)
Walter N. Engert (*Canada*)	Marcel Massé (*Canada*)
Miki Eran (*Israel*)	G.A. Posthumus (*Netherlands*)
Angelo G.A. Faria (*Kenya*)	Ahmed Abdallah (*Kenya*)
Salam K. Fayyad (*Jordan*)	Mohamed Finaish (*Libya*)
Vicente J. Fernandez (*Spain*)	Guillermo Ortiz (*Mexico*)
Basil Fuleihan (*United Kingdom*)	Yusuf A. Nimatallah (*Saudi Arabia*)
Gustavo García (*Venezuela*)	Leonor Filardo (*Venezuela*)
Judith Gold (*Canada*)	Marcel Massé (*Canada*)
Parviz Gorjestani (*Iran, Islamic Republic of*)	Ghassem Salehkhou (*Iran, Islamic Republic of*) Mohammad Reza Ghasimi (*Iran, Islamic Republic of*)
Steinar Guribye (*Norway*)	Jorgen Ovi (*Denmark*)
Mohamed Ali Hammoudi (*Algeria*)	Ghassem Salehkhou (*Iran, Islamic Republic of*) Mohammad Reza Ghasimi (*Iran, Islamic Republic of*)
Mary Elizabeth Hansen (*United States*)	Charles Dallara (*United States*)
Sabir Mohamed Hassan (*Sudan*)	Ahmed Abdallah (*Kenya*) El Tayeb El Kogali (*Sudan*)
Cleviston L. Haynes (*Barbados*)	Marcel Massé (*Canada*)
Margarita Hepp (*Chile*)	Alvaro Donoso (*Chile*) Ernesto V. Feldman (*Argentina*)
Jeremy Heywood (*United Kingdom*)	Frank Cassell (*United Kingdom*)
Graham K. Hodges (*Australia*)	C.R. Rye (*Australia*)
Chee-Won Hon (*Singapore*)	J.E. Ismael (*Indonesia*)
Luc K. Hubloue (*Belgium*)	Jacques de Groote (*Belgium*)
A. Iljas (*Indonesia*)	J.E. Ismael (*Indonesia*)
Abdel Rehman Ismael (*Mauritius*)	Mawakani Samba (*Zaïre*)
Christopher J. Jarvis (*United Kingdom*)	Frank Cassell (*United Kingdom*)
Joseph Mills Jones (*Liberia*)	Ahmed Abdallah (*Kenya*) El Tayeb El Kogali (*Sudan*)
Martin E. Jones (*United Kingdom*)	Frank Cassell (*United Kingdom*)

Temporary Alternate Executive Director	Executive Director for whom Temporary Alternate Served
Planinko Kapetanović (*Yugoslavia*)	G.A. Posthumus (*Netherlands*)
Kim Nyoon Khong (*Malaysia*)	J.E. Ismael (*Indonesia*)
Stuart Howard King (*United Kingdom*)	Frank Cassell (*United Kingdom*)
Karl-Heinz Kleine (*Germany, Federal Republic of*)	Guenter Grosche (*Germany, Federal Republic of*)
Kwassivi Kpetigo (*Togo*)	Mawakani Samba (*Zaïre*)
Margareta A. Kyhlberg (*Sweden*)	Jorgen Ovi (*Denmark*)
Christopher Y. Legg (*Australia*)	C.R. Rye (*Australia*)
V.K. Malhotra (*India*)	Arjun K. Sengupta (*India*)
	Bimal Jalan (*India*)
Roberto Marino (*Mexico*)	Leonor Filardo (*Venezuela*)
Jean-Luc Menda (*France*)	Hélène Ploix (*France*)
Gina Montiel (*Venezuela*)	Leonor Filardo (*Venezuela*)
Pedro O. Montórfano (*Paraguay*)	Ernesto V. Feldman (*Argentina*)
Raymundo Morales (*Peru*)	Alvaro Donoso (*Chile*)
Tokio Morita (*Japan*)	Koji Yamazaki (*Japan*)
Nader Morshed (*Pakistan*)	Mohamed Finaish (*Libya*)
James A.K. Munthali (*Malawi*)	Ahmed Abdallah (*Kenya*)
Do Van Nhien (*Viet Nam*)	J.E. Ismael (*Indonesia*)
Carlos Noriega (*Mexico*)	Guillermo Ortiz (*Mexico*)
Jean-Christian Obame (*Gabon*)	Mawakani Samba (*Zaïre*)
John Kobina Orleans-Lindsay (*Ghana*)	Mawakani Samba (*Zaïre*)
Abdessatar Ouanes (*Tunisia*)	Yusuf A. Nimatallah (*Saudi Arabia*)
William Koaya Parmena (*Tanzania*)	Ahmed Abdallah (*Kenya*)
Patrick D. Peroz (*France*)	Yusuf A. Nimatallah (*Saudi Arabia*)
Pál Péterfalvy (*Hungary*)	Jacques de Groote (*Belgium*)
Magnús Pétursson (*Iceland*)	Jorgen Ovi (*Denmark*)
Luis M. Piantini (*Dominican Republic*)	Alexandre Kafka (*Brazil*)
Georges Pineau (*France*)	Hélène Ploix (*France*)
Salvatore Rebecchini (*Italy*)	Salvatore Zecchini (*Italy*)
Alexis Rieffel (*United States*)	Charles H. Dallara (*United States*)
S. Rouai (*Tunisia*)	Ghassem Salehkhou (*Iran, Islamic Republic of*)
	Mohammed Reza Ghasimi (*Iran, Islamic Republic of*)
Vincent Rousset (*France*)	Hélène Ploix (*France*)
Daniel Saha (*Cameroon*)	Mawakani Samba (*Zaïre*)
Bassirou A. Sarr (*Mauritania*)	Mawakani Samba (*Zaïre*)
Ciro Schioppa (*Italy*)	Renato Filosa (*Italy*)
Jean-Pierre Schoder (*Luxembourg*)	Jacques de Groote (*Belgium*)
Georges Serre (*France*)	Hélène Ploix (*France*)
Guy Seyler (*Luxembourg*)	Jacques de Groote (*Belgium*)
M.J. Shaffrey (*New Zealand*)	C.R. Rye (*Australia*)
Shao Zhengkang (*China*)	Dai Qianding (*China*)
S.P. Shrestha (*Nepal*)	J.E.Ismael (*Indonesia*)
Ian E. Sliper (*New Zealand*)	C.R. Rye (*Australia*)
Donald Charles Templeman (*United States*)	Charles H. Dallara (*United States*)
Norbert Toé (*Burkina Faso*)	Mawakani Samba (*Zaïre*)
Carel C.A. van den Berg (*Netherlands*)	G.A. Posthumus (*Netherlands*)
A. Vasudevan (*India*)	Arjun K. Sengupta (*India*)
	Bimal Jalan (*India*)
Emily Landis Walker (*United States*)	Charles H. Dallara (*United States*)
Rolf Wenzel (*Germany, Federal Republic of*)	Guenter Grosche (*Germany, Federal Republic of*)
David Andrew Woodward (*United Kingdom*)	Frank Cassell (*United Kingdom*)
Yang Jingping (*China*)	Dai Qianding (*China*)
Yang Weimin (*China*)	Dai Qianding (*China*)
Koffi Yao (*Côte d'Ivoire*)	Mawakani Samba (*Zaïre*)
Jaime E. Zeas (*Ecuador*)	Alexandre Kafka (*Brazil*)

Administrative and Capital Budgets

Administrative Budget as Approved by the Executive Board for the Financial Year Ending April 30, 1990 Compared with Actual Expenses for the Financial Years Ended April 30, 1988 and April 30, 1989 and Capital Budget as Approved by the Executive Board for Capital Projects Beginning in Financial Year 1990

(Values expressed in thousands of SDRs)[1]

	Financial Year Ended April 30, 1988	Financial Year Ended April 30, 1989		Financial Year Ending April 30, 1990
	Actual Expenses	Revised Budget	Actual Expenses	Budget
ADMINISTRATIVE BUDGET				
I. Personnel Expenses				
Salaries	78,798	83,459	82,658	89,975
Other personnel expenses	43,873	47,219	45,005	43,557
Subtotal	122,671	130,678	127,663	133,532
II. Travel Expenses				
Business travel	11,118	14,789	14,787	14,057
Other travel	9,210	9,955	9,722	9,918
Subtotal	20,328	24,744	24,509	23,975
III. Other Administrative Expenses				
Communications	4,336	5,079	4,759	4,944
Building occupancy	9,681	11,791	10,943	12,710
Books and printing	1,491	1,656	1,516	1,768
Supplies and equipment	3,727	3,977	3,910	3,567
Data processing	11,873	12,561	10,935	10,396
Miscellaneous	6,601	3,186	2,251	3,233
Subtotal	37,710	38,249	34,314	36,618
TOTAL ADMINISTRATIVE BUDGET	180,709	193,672	186,486	194,125
Less: Reimbursement for administering the SDR Department	3,700	3,800	3,700	4,100
Reimbursement for administering the SAF/ESAF	6,900	9,200	11,100	12,700
Net Administrative Budget Expenses[2]	170,109	180,672	171,686	177,325

Capital Projects Beginning in Financial Year 1990

	Total Budget	Financial Year 1990	Financial Year 1991	Financial Year 1992
CAPITAL BUDGET				
Building Space Facilities				
Headquarters	2,872	2,174	615	83
Other locations	1,540	1,260	281	—
TOTAL CAPITAL BUDGET	4,413	3,434	895	83

[1] The administrative and capital budgets are expressed in terms of U.S. dollars and converted to SDR equivalents.
[2] Net administrative budget expenses exclude fixed property expenditures which are approved in separate capital budgets and a valuation gain or loss on administrative currency holdings. For the financial year ended April 30, 1989, fixed property expenditures were SDR 1,951,000 and the valuation gain on administrative currency holdings was SDR 946,000.

Financial Statements

REPORT OF THE EXTERNAL AUDIT COMMITTEE

Washington, D.C.
June 30, 1989

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 covering the

—General Department (including the General Resources Account, Borrowed Resources Suspense Accounts, and Special Disbursement Account) for the year ended April 30, 1989,
—SDR Department for the year ended April 30, 1989, and
—Accounts administered by the Fund, which consist of the Supplementary Financing Facility Subsidy Account, the Trust Fund, the Enhanced Structural Adjustment Facility Trust, and the Voluntary Contribution Accounts for the year ended April 30, 1989; and the Enhanced Structural Adjustment Facility Administered Accounts for the period July 27, 1988 to April 30, 1989, the Administered Account—Japan for the period March 3, 1989 to April 30, 1989, and the Administered Account—Guyana for the period April 5, 1989 to April 30, 1989.

Our 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 the Independent Accountants, 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 (except for the Enhanced Structural Adjustment Facility Administered Accounts, the Administered Account—Japan, and the Administered Account—Guyana, which were established in financial year 1989) and give a true and fair view of the respective financial positions and the allocations and holdings of SDRs as at April 30, 1989, and of the financial results of operations and transactions during the respective periods.

In connection with our examination of the Voluntary Contribution Accounts, in our opinion the operation of the Voluntary Contribution Account administered on behalf of Bolivia has been conducted in accordance with the Instrument establishing the Account.

EXTERNAL AUDIT COMMITTEE

/s/ Khin Than Tin, Chairperson (*Myanmar*)
/s/ Abdulaziz Al-Nasrullah (*Saudi Arabia*)
/s/ Pierre Coenraets (*Belgium*)

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT

BALANCE SHEET

as at April 30, 1989

(In thousands of SDRs)

(Note 1)

	1989	1988
ASSETS		
GENERAL RESOURCES ACCOUNT		
Currencies and securities (Notes 2 and 5)	92,016,728	95,609,684
SDR holdings (Note 3)	975,951	770,306
Gold holdings (Note 4)	3,620,396	3,620,396
Borrowed resources held in suspense	350,362	298,423
Charges receivable and accrued (Note 5)	491,646	486,105
Deferred charges (Note 5)	716,237	465,399
Accrued interest on SDR holdings	19,904	15,070
Other assets	17,462	15,060
TOTAL GENERAL RESOURCES ACCOUNT	98,208,686	101,280,443
SPECIAL DISBURSEMENT ACCOUNT		
Currency deposits	3,232	49
Interest-earning deposits	1,072,473	1,007,104
Structural adjustment facility loans	964,555	584,210
Accrued income on investments and loans	40,679	27,524
TOTAL SPECIAL DISBURSEMENT ACCOUNT	2,080,939	1,618,887
TOTAL GENERAL DEPARTMENT	100,289,625	102,899,330
QUOTAS, RESERVES, LIABILITIES, AND SPECIAL DISBURSEMENT ACCOUNT RESOURCES		
GENERAL RESOURCES ACCOUNT		
Quotas		
Subscriptions of members	89,987,550	89,987,550
Reserves (Note 6)	1,311,467	1,257,243
Special Contingent Account (Note 5)	149,816	86,954
Liabilities		
Borrowing (Note 7)	5,607,483	9,070,418
Accrued remuneration payable (Note 5)	272,717	185,949
Accrued interest on borrowing	113,954	165,900
Other liabilities and deferred credits	49,462	61,030
	6,043,616	9,483,297
Deferred income from charges (Note 5)	716,237	465,399
TOTAL GENERAL RESOURCES ACCOUNT	98,208,686	101,280,443
SPECIAL DISBURSEMENT ACCOUNT		
Accumulated resources	2,080,739	1,618,771
Deferred income	200	116
TOTAL SPECIAL DISBURSEMENT ACCOUNT	2,080,939	1,618,887
TOTAL GENERAL DEPARTMENT	100,289,625	102,899,330

The accompanying notes and Schedules 1–4 are an integral part of the financial statements.

/s/ Gerhard Laske
Treasurer

/s/ M. Camdessus
Managing Director

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT

STATEMENT OF INCOME AND EXPENSE

for the year ended April 30, 1989

(In thousands of SDRs)
(Note 1)

	1989	1988
GENERAL RESOURCES ACCOUNT		
OPERATIONAL INCOME (Note 5)		
Periodic charges	1,786,166	1,915,699
Addition to periodic charges	141,648	99,686
Special charges	42,457	20,067
Deduct: Income deferred, net	250,839	170,480
	1,719,432	1,864,972
Interest on SDR holdings (Note 3)	61,286	66,031
Service charges	10,641	20,588
Other	2,001	2,807
	1,793,360	1,954,398
OPERATIONAL EXPENSE		
Remuneration (Note 5)	1,130,046	994,772
Reduction of remuneration (Note 5)	141,415	99,615
	988,631	895,157
Interest on borrowing, net of income from temporary investments in Borrowed Resources Suspense Accounts (SDR 24,397 in 1989 and SDR 26,092 in 1988)	514,952	774,588
Allocation to the Special Contingent Account (Note 5)	62,862	60,407
	1,566,445	1,730,152
NET OPERATIONAL INCOME	226,915	224,246
ADMINISTRATIVE EXPENSE (Note 9)		
Personnel	127,663	122,671
Travel	24,509	20,328
Other, net (Note 1)	20,519	32,138
	172,691	175,137
NET INCOME OF GENERAL RESOURCES ACCOUNT	54,224	49,109
SPECIAL DISBURSEMENT ACCOUNT		
Investment income	71,719	60,064
Interest and special charges on loans	3,561	1,719
	75,280	61,783
Gain in SDR value pending investment and loan disbursements	247	42
Administrative expense (Note 9)	11,100	6,900
NET INCOME OF SPECIAL DISBURSEMENT ACCOUNT	64,427	54,925

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, 1989

(In thousands of SDRs)
(Note 1)

	1989	1988
RESERVES—GENERAL RESOURCES ACCOUNT		
SPECIAL RESERVE (Note 6)		
Balance at beginning of the year	891,663	842,554
Net income	54,224	49,109
Balance at end of the year	945,887	891,663
GENERAL RESERVE (Note 6)		
Balance at beginning and end of the year	365,580	365,580
TOTAL RESERVES OF THE GENERAL RESOURCES ACCOUNT	1,311,467	1,257,243
RESOURCES—SPECIAL DISBURSEMENT ACCOUNT		
Balance at beginning of the year	1,618,771	1,092,229
Transfers from Trust Fund	452,482	534,998
Transfers from SFF Subsidy Account	5,000	26,628
Transfers to ESAF Trust	(59,941)	(90,009)
	2,016,312	1,563,846
Net income	64,427	54,925
TOTAL RESOURCES OF THE SPECIAL DISBURSEMENT ACCOUNT	2,080,739	1,618,771

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

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, 1989. 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 or have made use of the Fund's resources under decisions on:

- Compensatory and contingency 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. In August 1988, the compensatory and contingency financing facility was established. This facility supersedes the compensatory financing facility, yet keeps its essential elements and adds a mechanism for contingency financing to support adjustment programs supported by the Fund.
- 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 not exceeding three years (and where appropriate, at the request of a member, up to four 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 and contingency 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, 1989, borrowed resources held in suspense amounted to SDR 350.36 million (SDR 298.42 million at April 30, 1988) and included accrued income of SDR 7.85 million (SDR 2.40 million at April 30, 1988).

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. In July 1985, the Fund determined that the resources of the Supplementary Financing Facility Subsidy Account were sufficient to meet its estimated needs, and transfers to that account from the Special Disbursement Account were 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.

Within the Special Disbursement Account a structural adjustment facility (SAF) was established in March 1986 to provide balance of payments assistance to qualifying low-income developing members. Resources are committed to qualifying members for a three-year period, upon approval by the Fund, in support of a three-year macroeconomic and structural adjustment program presented by the member.

Loans disbursed under the structural adjustment facility are repayable in ten semiannual installments commencing not later than the end of the first six months of the sixth year, and to be completed at the end of the tenth year after the date of the disbursement. Interest is charged on the outstanding loan balances at the rate of ½ of 1 percent per annum.

Members are not obligated to maintain the SDR value of their currency held by the Fund in the Special Disbursement Account. Pending their use, the resources held in the Special Disbursement Account 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 placed to the Special Disbursement Account.

The Fund administers the Enhanced Structural Adjustment Facility Trust (ESAF Trust), which was established in December 1987 to provide loans on concessional terms to certain members to support programs to strengthen substantially and in a sustainable manner their balance of payments position and to foster growth. Upon receipt, the Special Disbursement Account transfers the following resources to the Reserve Account of the ESAF Trust: (i) all income received or to be received from the investment of the resources available for the structural adjustment facility; (ii) all interest received or to be received, including from special charges, on loans under the structural adjustment facility; (iii) all repayments of loans under the structural adjustment facility; and (iv) all the resources held in the Special Disbursement Account that are derived from the termination of the 1976 Trust Fund and that can no longer be used under the structural adjustment facility. Resources of the ESAF Trust Reserve Account which are determined to be in excess of its estimated needs are to be transferred back to the Special Disbursement Account. Upon liquidation of the ESAF Trust, the amounts remaining in the Reserve Account after the discharge of authorized liabilities shall be transferred to the Special Disbursement Account. Transfers to the ESAF Trust Reserve Account commenced in March 1988. For the year ended April 30, 1989, SDR 60 million (SDR 90 million at April 30, 1988) had been transferred from the Special Disbursement Account to the ESAF Trust Reserve 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 specific 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. The currencies comprising the basket and their amounts in the basket are as follows:

Currencies	Amounts
U.S. dollar	0.452
Deutsche mark	0.527
French franc	1.02
Japanese yen	33.4
Pound sterling	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 (see Note 4).

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 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 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, 1989, the cost of building improvements and equipment in excess of US$100,000 amounted to SDR 2.0 million (SDR 3.5 million in 1988). The total historical cost of land and buildings acquired in the past and still in use amounts to SDR 96 million.

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, 1989 were as follows:

	April 30, 1989	April 30, 1988	Net Change
	In millions of SDRs		
Members' quotas	89,988	89,988	—
Members' use of Fund resources	23,700	27,829	(4,129)
Members' reserve tranche positions	(21,675)	(22,213)	538
Administrative currency balances	4	6	(2)
Currencies and securities	92,017	95,610	(3,593)

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, 1989 accounts receivable to maintain SDR values of currency holdings amounted to SDR 14,369.41 million and accounts payable amounted to SDR 2,117.77 million (SDR 16,876.99 million and SDR 812.00 million, respectively, at April 30, 1988). At June 22, 1989 the amounts receivable were SDR 7,997.58 million and the amounts payable were SDR 1,387.90 million.

The Fund's holdings of members' currencies at April 30, 1989 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, 1989 and 1988, the Fund held 3,217,341 kilograms of gold at designated depositories.

5. Fund Operations

For the year ended April 30, 1989, members' purchases amounted to SDR 2,541 million, of which SDR 413 million were reserve tranche purchases. Over the same period, repurchases by members totaled SDR 6,257 million. Members' purchases subject to repurchase are shown in Schedule 2.

The outstanding use of Fund credit under various facilities and changes during the year ended April 30, 1989 were as follows:

	April 30, 1988	Purchases	Repurchases	April 30, 1989
	In millions of SDRs			
Regular facilities	5,732	1,549	1,317	5,964
Compensatory and contingency financing	4,342	238	891	3,689
Buffer stock financing	3	—	3	—
Extended Fund facility	5,762	188	895	5,055
Supplementary financing facility	2,161	—	1,035	1,126
Enlarged access	9,829	153	2,116	7,866
Total	27,829	2,128	6,257	23,700

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 proportionally to purchases made under an arrangement. If the full amount of an 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, 1989 amounted to SDR 2.0 million (SDR 2.8 million in 1988).

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, 1989, the total holdings on which the Fund levied charges amounted to SDR 23,700 million (SDR 27,829 million at April 30, 1988) and total creditor positions on which the Fund paid remuneration amounted to SDR 15,892 million (SDR 16,262 million in 1988).

Overdue Obligations

At April 30, 1989, eleven members were six months or more overdue to the Fund (nine members at April 30, 1988). Credit outstanding to these members amounted to SDR 3,067 million as of April 30, 1989 (SDR 2,360 million as of April 30, 1988). Overdue repurchases and charges of these members were as follows:

	Repurchases		Charges	
	1989	1988	1989	1988
	In millions of SDRs			
Total overdue, of which:	1,951	1,367	643	418
Overdue for more than six months	1,698	1,108	524	326
Overdue for more than three years	348	121	98	26

The type and duration of arrears of these members are as follows:

Member	Repurchases	Charges and SAF Interest	Total	Longest Overdue Obligation
	In millions of SDRs			
Guyana	62.2	24.3	86.5	May 1983
Kampuchea, Democratic	18.8	9.9	28.7	March 1975
Liberia	165.5	67.9	233.4	January 1985
Panama	88.4	26.4	114.8	December 1987
Peru	428.3	144.4	572.7	December 1985
Sierra Leone	39.7	9.4	49.1	January 1987
Somalia	42.5	13.0	55.5	July 1987
Sudan	507.6	191.3	698.9	July 1984
Viet Nam	28.4	11.5	39.9	February 1984
Zaïre	108.9	—	108.9	June 1988
Zambia	460.9	144.9	605.8	June 1986
Total	1,951.2	643.0	2,594.2	

It is the policy of the Fund to exclude from current income charges owed by members that are six months or more overdue in meeting payments to the Fund unless the member is current in the payment of charges. Charges subsequently accrued will also be excluded from income unless the member becomes current in the payment of charges. Charges excluded from income are recorded as deferred charges and deferred income. Charges due and accrued by members that are six months or more overdue and that have been deferred amounted to SDR 716 million.

Effective May 1, 1986, the Fund adopted a policy under which debtor and creditor members share the financial consequences of overdue obligations ("burden sharing"). Since that date, an amount equal to deferred charges (excluding special charges) is generated each quarter by an adjustment of the rate of charge and the rate of remuneration. However, the average rate of remuneration is not to be reduced below 85 percent of the SDR interest rate. The amounts received in settlement of overdue charges are distributed to members that paid additional charges or received reduced remuneration when (and to the extent that) deferred charges that gave rise to adjustments are paid. The cumulative amount of deferred charges outstanding which have arisen subsequent to May 1, 1986 and have resulted in adjustments to charges and remuneration amounts to SDR 539 million.

In view of protracted overdue obligations, the Fund decided at the end of financial year 1987 to strengthen further its financial position by, inter alia, placing SDR 26.5 million into a Special Contingent Account. An additional amount of SDR 60.4 million, generated through adjustments of the rate of charge and the rate of remuneration, was allocated to the Special Contingent Account in financial year 1988. An amount of SDR 62.9 million also generated through adjustments of the rate of charge and the rate of remuneration was allocated to this account in financial year 1989. Balances in the Special Contingent Account are to be distributed to the members that contributed to the balances in the account when there are no outstanding overdue charges and repurchases, or at such earlier time as the Fund may decide.

During the year ended April 30, 1989, new deferred charges net of settlement amounted to SDR 251 million, of which SDR 42 million were deferred special charges. Reflecting the adjustments described in the preceding paragraphs, an amount of SDR 299 million was recorded as additional periodic charges and reduced remuneration during the same period and SDR 17 million of proceeds of settlements was refunded to members that paid additional charges or received reduced remuneration payments. This amount includes a shortfall in the recovery of deferred charges from the previous financial year of SDR 11 million, which was included in the adjustment to charges and remuneration in the quarter ending October 31, 1988.

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:

	April 30, 1988	Borrowing	Repayment	April 30, 1989
		In millions of SDRs		
Supplementary financing facility	1,727	—	1,088	639
Enlarged access	7,328	200	2,575	4,953
Other	15	—	—	15
	9,070	200	3,663	5,607

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 entered into borrowing agreements with seven 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, of which SDR 2 billion remains available, 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.

Bilateral Arrangements with Japan

In December 1986, the Fund and the Government of Japan agreed to an arrangement under which Japan will make available to the Fund SDR 3 billion to help finance the Fund's support of adjustment programs of member countries. Calls under the agreement may be made by the Fund over a period of four years beginning March 31, 1987. This period may be extended for up to two years if an extension is considered to be warranted in the light of the Fund's liquidity and borrowing needs. Each call is for a period of six months and will be renewable, at the option of the Fund, on the same basis. The final maturity of each call, including renewals, will be five years from the initial date of the call. Interest on amounts borrowed under the arrangement is based on the weighted average of six-month domestic interest rates in the countries that make up the currency basket of the SDR.

General Arrangements to Borrow

Under the General Arrangements to Borrow (GAB) and an associated agreement with a nonparticipant to the GAB, the Fund may borrow up to SDR 17 billion when supplementary resources are needed to forestall or to cope with an impairment of the international monetary system. The GAB became effective from October 24, 1962 and has been renewed until December 25, 1993.

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, 1989 was equal to 25.3 percent of quotas (29.3 percent of quotas at April 30, 1988).

8. Arrangements Under the General Department

At April 30, 1989, 46 arrangements were in effect and undrawn balances under these arrangements amounted to SDR 3,177.04 million. These arrangements are listed in Schedule 4.

9. Administrative Expenses

The Fund incurs administrative expenses, primarily for salaries, travel, and other administrative needs, in accordance with an administrative budget approved by the Executive Board. The General Resources Account is reimbursed for expenses incurred in administering the SDR Department, the Special Disbursement Account, and the Enhanced Structural Adjustment Facility Trust.

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.

In addition to the payment of various allowances to or on behalf of Executive Directors and staff, the Fund has a contributory 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 only for the benefit of the participants in the Plan and their beneficiaries. Participants contribute a fixed percentage of pensionable remuneration. The Fund contributes the remainder of the cost of funding the Plan, except for the costs of investment management and custodial fees that have been paid for by the Plan from May 1, 1988.

The Fund uses the aggregate actuarial method for determining its pension cost and for funding the Plan. Under this method the employer's contributions, including those for cost of living adjustments and for experience gains and losses, are spread over the expected future working lifetimes of the active participants in the Plan and are determined annually as a percent of pensionable remuneration of the active participants. The funding and cost of the Plan in the year ended April 30, 1989 was based upon an actuarial valuation as at April 30, 1987.

The Fund also has established a Supplemental Retirement Benefit 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 maintained separately from other assets of the Fund and are held on behalf of the participants and beneficiaries entitled to these payments.

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. These amounts are accounted for as they are earned and entitlements have been accrued.

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, 1989

(In thousands of SDRs)

		Fund's Holdings of Currencies[1]			
	Quotas	Total	Percent of quota	Use of Fund Resources	Reserve Tranche Positions
Afghanistan	86,700	81,846	94.4	—	4,854
Algeria	623,100	623,100	100.0	—	3
Antigua and Barbuda	5,000	4,999	100.0	—	1
Argentina	1,113,000	3,721,704	334.4	2,608,684	—
Australia	1,619,200	1,419,793	87.7	—	199,435
Austria	775,600	507,449	65.4	—	268,153
Bahamas, The	66,400	57,363	86.4	—	9,042
Bahrain	48,900	20,750	42.4	—	28,151
Bangladesh	287,500	667,720	232.3	402,620	22,403
Barbados	34,100	37,821	110.9	5,894	2,175
Belgium	2,080,400	1,742,292	83.7	—	338,113
Belize	9,500	12,489	131.5	4,895	1,908
Benin	31,300	29,281	93.5	—	2,024
Bhutan	2,500	1,930	77.2	—	570
Bolivia	90,700	198,701	219.1	107,979	4
Botswana	22,100	8,903	40.3	—	13,200
Brazil	1,461,300	3,816,336	261.2	2,354,907	—
Burkina Faso	31,600	24,067	76.2	—	7,535
Burundi	42,700	33,557	78.6	—	9,156
Cameroon	92,700	162,016	174.8	69,525	217
Canada	2,941,000	2,590,720	88.1	—	350,298
Cape Verde	4,500	4,500	100.0	—	1
Central African Republic	30,400	47,338	155.7	17,030	111
Chad	30,600	35,590	116.3	5,250	264
Chile	440,500	1,418,524	322.0	978,024	—
China	2,390,900	2,686,029	112.3	597,725	302,608
Colombia	394,200	394,203	100.0	—	—
Comoros	4,500	4,501	100.0	—	—
Congo	37,300	46,332	124.2	9,500	482
Costa Rica	84,100	130,942	155.7	46,822	—
Côte d'Ivoire	165,500	495,736	299.5	330,238	2
Cyprus	69,700	58,402	83.8	—	11,313
Denmark	711,000	474,259	66.7	—	236,751
Djibouti	8,000	6,765	84.6	—	1,237
Dominica	4,000	7,421	185.5	3,429	9
Dominican Republic	112,100	251,508	224.4	139,406	—
Ecuador	150,700	433,111	287.4	282,381	—
Egypt	463,400	579,403	125.0	116,000	6
El Salvador	89,000	89,003	100.0	—	—
Equatorial Guinea	18,400	22,559	122.6	4,150	—
Ethiopia	70,600	106,714	151.2	36,101	—
Fiji	36,500	30,415	83.3	1,781	7,872
Finland	574,900	410,760	71.4	—	164,141
France	4,482,800	3,363,896	75.0	—	1,119,184
Gabon	73,100	171,752	235.0	98,685	33
Gambia, The	17,100	28,928	169.2	11,859	46
Germany, Federal Republic of	5,403,700	2,906,119	53.8	—	2,498,117
Ghana	204,500	596,371	291.6	391,866	2
Greece	399,900	322,397	80.6	—	77,503
Grenada	6,000	6,423	107.1	422	—

Schedule 1 (*continued*)

	Quotas	Fund's Holdings of Currencies[1] Total	Percent of quota	Use of Fund Resources	Reserve Tranche Positions
Guatemala	108,000	168,735	156.2	60,729	—
Guinea	57,900	78,910	136.3	21,000	—
Guinea-Bissau	7,500	7,967	106.2	467	[2]
Guyana	49,200	120,948	245.8	71,745	—
Haiti	44,100	65,182	147.8	21,126	70
Honduras	67,800	91,437	134.9	23,636	—
Hungary	530,700	994,274	187.4	463,571	—
Iceland	59,600	55,581	93.3	—	4,025
India	2,207,700	3,489,254	158.0	1,768,750	487,201
Indonesia	1,009,700	1,400,180	138.7	462,900	72,425
Iran, Islamic Republic of	660,000	660,008	100.0	—	—
Iraq	504,000	504,015	100.0	—	—
Ireland	343,400	213,537	62.2	—	129,875
Israel	446,600	446,606	100.0	—	—
Italy	2,909,100	1,910,738	65.7	—	998,366
Jamaica	145,500	481,158	330.7	335,592	—
Japan	4,223,300	1,700,037	40.3	—	2,523,268
Jordan	73,900	95,423	129.1	21,525	2
Kampuchea, Democratic	25,000	37,494	150.0	12,500	7
Kenya	142,000	409,593	288.4	279,797	12,218
Kiribati	2,500	2,501	100.0	—	—
Korea	462,800	462,150	99.9	—	676
Kuwait	635,300	472,717	74.4	—	162,593
Lao People's Democratic Republic	29,300	29,300	100.0	—	—
Lebanon	78,700	59,869	76.1	—	18,833
Lesotho	15,100	13,811	91.5	—	1,294
Liberia	71,300	275,419	386.3	204,138	28
Libyan Arab Jamahiriya	515,700	272,200	52.8	—	243,505
Luxembourg	77,000	64,769	84.1	—	12,231
Madagascar	66,400	177,200	266.9	110,798	—
Malawi	37,200	97,052	260.9	62,054	2,203
Malaysia	550,600	391,018	71.0	—	159,604
Maldives	2,000	1,996	99.8	—	4
Mali	50,800	80,517	158.5	38,403	8,688
Malta	45,100	18,729	41.5	—	26,402
Mauritania	33,900	64,959	191.6	31,050	—
Mauritius	53,600	121,897	227.4	68,332	36
Mexico	1,165,500	4,594,859	394.2	3,429,337	—
Morocco	306,600	932,960	304.3	626,391	33
Mozambique	61,000	61,000	100.0	—	7
Myanmar	137,000	137,003	100.0	—	—
Nepal	37,300	48,968	131.3	17,369	5,707
Netherlands	2,264,800	1,737,816	76.7	—	526,987
New Zealand	461,600	453,424	98.2	—	8,182
Nicaragua	68,200	68,210	100.0	—	—
Niger	33,700	62,811	186.4	37,672	8,561
Nigeria	849,500	849,491	100.0	—	68
Norway	699,000	253,138	36.2	—	445,864
Oman	63,100	35,433	56.2	—	27,716
Pakistan	546,300	1,041,816	190.7	495,563	50
Panama	102,200	345,595	338.2	243,394	14
Papua New Guinea	65,900	58,955	89.5	—	6,954
Paraguay	48,400	33,978	70.2	—	14,426
Peru	330,900	926,344	279.9	595,412	—
Philippines	440,400	1,149,781	261.1	748,163	38,826
Poland	680,000	680,002	100.0	—	—
Portugal	376,600	334,850	88.9	—	41,752
Qatar	114,900	95,356	83.0	—	19,545
Romania	523,400	523,405	100.0	—	—
Rwanda	43,800	36,717	83.8	—	7,084

Schedule 1 (*concluded*)

	Quotas	Fund's Holdings of Currencies[1] Total	Percent of quota	Use of Fund Resources	Reserve Tranche Positions
St. Kitts and Nevis	4,500	4,488	99.7	—	15
St. Lucia	7,500	7,500	100.0	—	[2]
St. Vincent	4,000	4,000	100.0	—	—
Sao Tome and Principe	4,000	4,003	100.1	—	—
Saudi Arabia	3,202,400	2,747,697	85.8	—	454,703
Senegal	85,100	231,148	271.6	147,037	994
Seychelles	3,000	2,964	98.8	—	38
Sierra Leone	57,900	115,747	199.9	57,858	24
Singapore	92,400	17,511	19.0	—	74,898
Solomon Islands	5,000	5,729	114.6	1,250	524
Somalia	44,200	144,011	325.8	99,805	—
South Africa	915,700	915,674	100.0	—	26
Spain	1,286,000	449,905	35.0	—	836,097
Sri Lanka	223,100	423,058	189.6	199,986	32
Sudan	169,700	774,998	456.7	605,301	11
Suriname	49,300	49,301	100.0	—	—
Swaziland	24,700	24,694	100.0	—	7
Sweden	1,064,300	817,082	76.8	—	247,220
Syrian Arab Republic	139,100	139,103	100.0	—	5
Tanzania	107,000	152,484	142.5	45,470	—
Thailand	386,600	780,558	201.9	422,759	28,804
Togo	38,400	83,506	217.5	45,312	209
Tonga	3,250	2,512	77.3	—	738
Trinidad and Tobago	170,100	297,649	175.0	127,550	3
Tunisia	138,200	343,913	248.9	205,710	—
Turkey	429,100	528,234	123.1	131,406	32,275
Uganda	99,600	204,909	205.7	105,302	—
United Arab Emirates	202,600	74,942	37.0	—	127,659
United Kingdom	6,194,000	4,934,351	79.7	—	1,259,673
United States	17,918,300	11,003,445	61.4	—	6,916,513
Uruguay	163,800	369,316	225.5	205,509	—
Vanuatu	9,000	7,404	82.3	—	1,597
Venezuela	1,371,500	1,714,380	125.0	342,875	—
Viet Nam	176,800	205,195	116.1	28,395	5
Western Samoa	6,000	7,969	132.8	1,977	9
Yemen Arab Republic	43,300	43,289	100.0	—	15
Yemen, People's Democratic Republic of	77,200	77,201	100.0	—	—
Yugoslavia	613,000	1,477,295	241.0	864,275	—
Zaïre	291,000	764,628	262.8	473,627	—
Zambia	270,300	944,780	349.5	674,498	22
Zimbabwe	191,000	228,319	119.5	37,357	39
Totals[3]	89,987,550	92,016,728		23,699,847	21,674,410

[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, 1989

(In thousands of SDRs)

	Ordinary Resources			Borrowed Resources		
Financial Year Ending April 30	Credit tranches	Extended Fund facility	Compensatory and contingency financing	Supplementary financing	Enlarged access	Total
1990	1,838,065	1,280,863	1,278,843	949,102	2,535,961	7,889,078[2,3]
1991	1,511,564	1,065,480	839,284	176,613	1,952,237	5,545,178
1992	1,136,180	971,569	1,014,988	—	1,410,261	4,532,997
1993	954,152	781,606	491,398	—	940,607	3,167,763
1994	523,703	557,663	64,541	—	645,787	1,791,694
1995	—	197,013	—	—	357,284	554,297
1996	—	79,487	—	—	24,672	104,159
1997	—	59,586	—	—	—	59,586
1998	—	42,572	—	—	—	42,572
1999	—	18,750	—	—	—	18,750
Totals[4]	5,963,664	5,054,589	3,689,054	1,125,714	7,866,809	23,706,075

[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 improve.
[2] This total includes SDR 6.244 million of 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 6.22 million because certain purchases made prior to the Second Amendment of the Articles of Agreement effective 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, 1989

(In thousands of SDRs)

Periods of Repayment[1] Financial Years Ending April 30	Supplementary Financing Facility	Enlarged Access Resources	Other	Total
1990	515,694	2,618,000[2]	—	3,133,694
1991	123,788	1,035,000	—	1,158,788
1992	—	575,000	15,000	590,000
1993	—	350,000	—	350,000
1994	—	300,000	—	300,000
1995	—	75,000	—	75,000
Totals[3]	639,483	4,953,000	15,000	5,607,483

[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.
[3] Details may not add to totals due to rounding.

Schedule 4

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT

STATUS OF ARRANGEMENTS

as at April 30, 1989

(In thousands of SDRs)

Member	Date of Arrangement	Expiration	Total Amount Agreed	Undrawn Balance
GENERAL RESOURCES ACCOUNT				
STAND-BY ARRANGEMENTS				
Brazil	August 23, 1988	February 28, 1990	1,096,000	730,700
Cameroon	September 19, 1988	March 31, 1990	69,525	46,350
Guatemala	October 26, 1988	February 28, 1990	54,000	30,840
Hungary	May 16, 1988	May 15, 1989	265,350	50,000
Jamaica	September 19, 1988	May 31, 1990	82,000	68,300
Kenya	February 1, 1988	July 31, 1989	85,000	22,400
Madagascar	September 2, 1988	July 1, 1989	13,300	10,500
Malawi	March 2, 1988	May 30, 1989	13,020	3,770
Mali	August 5, 1988	October 4, 1989	12,700	10,160
Morocco	August 30, 1988	December 31, 1989	210,000	140,000
Nigeria	February 3, 1989	April 30, 1990	475,000	475,000
Pakistan	December 28, 1988	March 27, 1990	273,150	104,890
Trinidad and Tobago	January 13, 1989	February 28, 1990	99,000	56,500
Yugoslavia	June 28, 1988	June 27, 1989	306,000	183,600
			3,054,045	1,933,010
EXTENDED ARRANGEMENTS				
Chile	August 15, 1985	August 14, 1989	825,000	37,500
Tunisia	July 25, 1988	July 24, 1991	207,300	207,300
			1,032,300	244,800
TOTAL GENERAL RESOURCES ACCOUNT			4,086,345	2,177,810
SPECIAL DISBURSEMENT ACCOUNT				
STRUCTURAL ADJUSTMENT FACILITY				
Bangladesh	February 6, 1987	February 5, 1990	201,250	18,688
Burundi	August 8, 1986	August 7, 1989	29,890	8,540
Central African Republic	June 1, 1987	May 31, 1990	21,280	6,080
Chad	October 30, 1987	October 29, 1990	21,420	15,300
Dominica	November 26, 1986	November 25, 1989	2,800	260
Equatorial Guinea	December 7, 1988	December 6, 1991	12,880	9,200
Guinea	July 29, 1987	July 28, 1990	40,530	11,580
Guinea-Bissau	October 14, 1987	October 13, 1990	5,250	3,750
Haiti	December 17, 1986	December 16, 1989	30,870	22,050
Kenya	February 1, 1988	January 31, 1991	99,400	71,000
Lesotho	June 29, 1988	June 28, 1991	10,570	7,550
Madagascar	August 31, 1987	August 30, 1990	46,480	33,200
Mali	August 5, 1988	August 4, 1991	35,560	25,400
Mauritania	September 22, 1986	September 21, 1989	23,730	6,780
Mozambique	June 8, 1987	June 7, 1990	42,700	—
Nepal	October 14, 1987	October 13, 1990	26,110	7,460
Pakistan	December 28, 1988	December 27, 1991	382,410	273,150
Sierra Leone	November 14, 1986	November 13, 1989	40,530	28,950
Somalia	June 29, 1987	June 28, 1990	30,940	22,100
Sri Lanka	March 9, 1988	March 8, 1991	156,170	111,550
Tanzania	October 30, 1987	October 29, 1990	74,900	21,400
Togo	March 16, 1988	March 15, 1991	26,880	19,200
Zaïre	May 15, 1987	May 14, 1990	203,700	145,500
			1,566,250	868,688

Schedule 4 (*concluded*)

Member	Date of Arrangement	Expiration	Total Amount Agreed	Undrawn Balance
SPECIAL DISBURSEMENT ACCOUNT				
SAF RESOURCES COMMITTED UNDER ESAF ARRANGEMENTS[1]				
Bolivia	July 27, 1988	July 26, 1991	45,350	18,140
Gambia, The	November 23, 1988	November 22, 1991	3,420	2,266
Ghana	November 9, 1988	November 8, 1991	102,250	71,575
Malawi	July 15, 1988	July 14, 1991	26,040	18,600
Niger	December 12, 1988	December 11, 1991	6,740	4,465
Senegal	November 21, 1988	November 20, 1991	17,020	5,532
Uganda	April 17, 1989	April 16, 1992	19,920	9,960
			220,740	130,538
TOTAL SPECIAL DISBURSEMENT ACCOUNT[2]			1,786,990	999,225
TOTAL GENERAL DEPARTMENT[2]			5,873,335	3,177,035

[1] Resources under enhanced structural adjustment facility arrangements may be provided from the structural adjustment facility within the Special Disbursement Account and from the Enhanced Structural Adjustment Facility Trust.
[2] Details may not add due to rounding.

INTERNATIONAL MONETARY FUND

SDR DEPARTMENT

STATEMENT OF ALLOCATIONS AND HOLDINGS

as at April 30, 1989

(In thousands of SDRs)

	1989	1988
ALLOCATIONS		
Net cumulative allocations of SDRs to participants	21,433,330	21,433,330
Charges due but not paid (Note)	35,400	25,437
	21,468,730	21,458,767
HOLDINGS		
Participants with holdings above allocations		
Allocations	10,453,514	10,920,340
Net receipt of SDRs	5,125,641	5,307,570
	15,579,155	16,227,910
Participants with holdings below allocations		
Allocations	10,979,816	10,512,990
Net use of SDRs	6,611,927	6,114,076
	4,367,889	4,398,914
Total holdings by participants	19,947,044	20,626,824
General Resources Account	975,951	770,306
Prescribed holders	545,735	61,637
	21,468,730	21,458,767

The accompanying note is an integral part of the financial statements.

/s/ Gerhard Laske
Treasurer

/s/ M. Camdessus
Managing Director

INTERNATIONAL MONETARY FUND

SDR DEPARTMENT

STATEMENT OF RECEIPT AND USE OF SDRs

for the year ended April 30, 1989

(In thousands of SDRs)

	Participants	General Resources Account	Prescribed Holders	Total 1989	Total 1988
Total holdings as of April 30, 1988	20,626,824	770,306	61,637	21,458,767	21,448,932
Receipt of SDRs					
Transfers among participants and prescribed holders:					
Transactions with designation					986,444
Transactions by agreement	6,420,179		266,109	6,686,288	7,335,280
Operations					
Loans					68,781
Forward operations	437		12,000	12,437	246,800
Settlement of financial obligations	91,539		62,986	154,525	224,678
Swaps	503,409		1,006,617	1,510,026	
Transfer of interest under swaps	12,410			12,410	
Fund-related operations					
Subsidy payments	34,968			34,968	27,553
SAF loan	165,277			165,277	215,380
SAF repayments and interest			1,397	1,397	697
Trust Fund repayments and interest			57,138	57,138	52,532
Special charges on SAF, ESAF, and Trust Fund			19	19	5
ESAF contributions	76		75,000	75,076	
ESAF repayment and interest			8	8	
Net interest on SDRs	339,709		15,810	355,519	305,097
Transfers from participants to General Resources Account					
Repurchases		2,465,717		2,465,717	2,517,902
Charges		1,733,707		1,733,707	2,002,086
Interest on SDRs		56,453		56,453	81,260
Assessment on SDR allocation		3,671		3,671	3,659
Adjustments					2,817
Transfers from General Resources Account to participants and prescribed holders					
Purchases	623,799			623,799	1,848,005
Repayments of Fund borrowings	1,618,368		164,000	1,782,368	1,999,464
Interest on Fund borrowings	489,850			489,850	584,686
In exchange for currencies of other members					
Acquisitions to pay charges	244,045			244,045	401,992
Remuneration	894,252			894,252	932,256
Other					
Refunds and adjustments	19,589			19,589	31,301
Total receipts	11,457,907	4,259,548	1,661,084	17,378,539	19,868,675

INTERNATIONAL MONETARY FUND

SDR DEPARTMENT

STATEMENT OF RECEIPT AND USE OF SDRs

for the year ended April 30, 1989 (*concluded*)

(In thousands of SDRs)

	Participants	General Resources Account	Prescribed Holders	Total 1989	Total 1988
Use of SDRs					
Transfers among participants and prescribed holders					
Transactions with designation					986,444
Transactions by agreement	6,316,935		369,353	6,686,288	7,335,280
Operations					
Loans					68,781
Forward operations	12,437			12,437	246,800
Settlement of financial obligations	63,032		91,493	154,525	224,678
Swaps	1,006,617		503,409	1,510,026	
Transfer of interest under swaps			12,410	12,410	
Fund-related operations					
Subsidy payments			34,968	34,968	27,553
SAF loan			165,277	165,277	215,380
SAF repayments and interest	1,397			1,397	697
Trust Fund repayments and interest	57,138			57,138	52,532
Special charges on SAF, ESAF, and Trust Fund	19			19	5
ESAF contributions	75,000		76	75,076	
ESAF repayment and interest	8			8	
Transfers from participants to General Resources Account					
Repurchases	2,465,717			2,465,717	2,517,902
Charges	1,733,707			1,733,707	2,002,086
Assessment on SDR allocation	3,671			3,671	3,659
Adjustments					2,817
Transfers from General Resources Account to participants and prescribed holders					
Purchases		623,799		623,799	1,848,005
Repayments of Fund borrowings		1,782,368		1,782,368	1,999,464
Interest on Fund borrowings		489,850		489,850	584,686
In exchange for currencies of other members					
Acquisitions to pay charges		244,045		244,045	401,992
Remuneration		894,252		894,252	932,256
Other					
Refunds and adjustments		19,589		19,589	31,301
Charges paid in the SDR Department					
Net charges due	411,972			411,972	386,357
Charges not paid when due	(40,835)			(40,835)	(34,428)
Settlement of unpaid charges	30,872			30,872	24,593
Total uses	12,137,687	4,053,903	1,176,986	17,368,576	19,858,840
Total holdings as of April 30, 1989	19,947,044	975,951	545,735	21,468,730	21,458,767

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. Allocations were made in 1970, 1971, and 1972, totaling SDR 9.3 billion. 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, 16 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 developments 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. Charges are levied at the same rate on each participant's net cumulative allocation plus any negative balance of the participants or unpaid charges. 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, 1989, six members were six months or more overdue to the SDR Department (six members at April 30, 1988). The amount of unpaid charges of these members to the SDR Department was as follows:

	1989	1988
	In millions of SDRs	
Total overdue, of which:	35.0	25.1
Overdue for more than six months	28.0	19.0
Overdue for more than three years	5.5	2.5

The duration of arrears of these members is as follows:

Member	Total	Longest Overdue Obligation
	In millions of SDRs	
Kampuchea, Democratic	5.0	November 1984
Liberia	3.1	February 1987
Panama	2.1	February 1988
Sierra Leone	2.2	May 1987
Viet Nam	13.8	May 1985
Zambia	8.8	May 1987
Total	35.0	

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. 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, 1989

(In thousands of SDRs)
(Note 1)

	1989	1988
ASSETS		
Interest-earning deposits (Note 2)	27,220	63,686
Accrued interest on deposits	1,206	2,250
Total	28,426	65,936
RESOURCES		
Resources—Account balance	28,426	65,936

The accompanying notes are an integral part of the financial statements.

/s/ Gerhard Laske
Treasurer

/s/ M. Camdessus
Managing Director

INTERNATIONAL MONETARY FUND

SUPPLEMENTARY FINANCING FACILITY

SUBSIDY ACCOUNT

STATEMENT OF CHANGES IN RESOURCES

for the year ended April 30, 1989

(In thousands of SDRs)
(Note 1)

	1989	1988
Balance at beginning of the year	65,936	115,229
Investment income	2,458	4,888
Transfers to the Special Disbursement Account	(5,000)	(26,628)
Balance before subsidy payments	63,394	93,489
Subsidy payments (Note 3)	34,968	27,553
Balance at end of the year	28,426	65,936

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 the Fund and are not used to discharge liabilities or to meet losses incurred in the administration of such 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 consist of 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. Cumulative contributions from members to the Supplementary Financing Facility Subsidy Account at April 30, 1989 amounted to SDR 57.39 million. In July 1985, the Fund determined that the resources of the Supplementary Financing Facility Subsidy Account were sufficient to meet its estimated needs, and transfers of resources from the Trust Fund ended. Resources considered to be in excess of the estimated needs are transferred back to the Special Disbursement Account. As of April 30, 1989, the cumulative amount of transfers from the Subsidy Account to the Special Disbursement Account amounted to SDR 72.1 million (SDR 67.1 million at April 30, 1988).

1. Accounting Practices

Unit of Account

The accounts of the Supplementary Financing Facility Subsidy Account are expressed in terms of the SDR. 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 as follows:

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

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' currency 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, 1989, subsidy payments totaling SDR 4.5 million had not been made to five members (at April 30, 1988, SDR 3.2 million to the same members).

INTERNATIONAL MONETARY FUND

TRUST FUND

BALANCE SHEET

as at April 30, 1989

(In thousands of SDRs)
(Note 1)

	1989	1988
ASSETS		
Loans (note 2)	682,168	1,129,401
Interest and special charges receivable and accrued (Note 3)	13,789	9,633
Investments, at cost (which approximates market value)	3,107	2,935
Accrued interest on investments	100	74
Total	699,164	1,142,043
TRUST RESOURCES AND LIABILITIES		
Trust resources	682,776	1,130,273
Liabilities—		
Undistributed profits from sale of gold (Note 4)	3,080	2,885
Deferred income (Note 3)	12,787	7,897
Borrowing (Note 5)	520	987
Accrued interest on borrowing	1	1
Total	699,164	1,142,043

The accompanying notes are an integral part of the financial statements.

/s/ Gerhard Laske
Treasurer

/s/ M. Camdessus
Managing Director

INTERNATIONAL MONETARY FUND

TRUST FUND

STATEMENT OF INCOME AND EXPENSE

for the year ended April 30, 1989

(In thousands of SDRs)
(Note 1)

	1989	1988
Income		
Interest and special charges on loans (Note 2)	9,662	9,802
Deduct income deferred (Note 3)	4,890	3,604
	4,772	6,198
Investment income	230	190
Exchange valuation gain (loss)	(14)	56
	4,988	6,444
Less—Interest expense on borrowing (Note 5)	3	5
Net income	4,985	6,439

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, 1989

(In thousands of SDRs)

(Note 1)

	1989	1988
Balance at beginning of the year	1,130,273	1,658,832
Net income	4,985	6,439
Balance before transfers to the Special Disbursement Account	1,135,258	1,665,271
Transfers to the Special Disbursement Account (Note 6)	452,482	534,998
Balance at end of the year	682,776	1,130,273

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 by the Fund each day by summing the values in U.S. dollars, based on market exchange rates, of a basket of the five specified currencies as follows:

Currencies	*Amounts*
U.S. dollar	0.452
Deutsche mark	0.527
French franc	1.02
Japanese yen	33.4
Pound sterling	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 3). 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 period.

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 semi-annual 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. Overdue Obligations

At April 30, 1989, and April 30, 1988, seven members 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 members the recognition of income from interest on the outstanding loans is being deferred. At April 30, 1989, the total amount of deferred income, reflected in the balance sheet as interest and special charges receivable and accrued and as deferred income amounts to SDR 12.8 million (SDR 7.9 million at April 30, 1988). Overdue loan repayments and interest and special charges due from these members were as follows:

	Loans		Interest and Special Charges	
	1989	1988	1989	1988
	In millions of SDRs			
Total overdue, of which:	161.2	125.6	11.0	6.8
Overdue for more than six months	147.8	101.4	8.6	4.9
Overdue for more than three years	42.3	17.9	1.2	0.5

The type and duration of the arrears of these members as at April 30, 1989 were as follows:

Member	Loans	Interest and Special Charges	Total	Longest Overdue Obligation
	In millions of SDRs			
Guyana	5.5	0.2	5.7	March 1987
Liberia	22.3	1.7	24.0	January 1985
Sierra Leone	8.4	0.4	8.8	January 1987
Somalia	4.2	0.1	4.3	July 1987
Sudan	60.9	4.8	65.7	July 1984
Viet Nam	43.1	3.4	46.5	February 1984
Zambia	16.8	0.4	17.2	July 1987
Total	161.2	11.0	172.2	

4. 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.

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.

INTERNATIONAL MONETARY FUND

ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST

COMBINED BALANCE SHEET

as at April 30, 1989

(In thousands of SDRs)

(Note 1)

	Loan Account	Reserve Account	Subsidy Account	Combined 1989	Combined 1988
ASSETS					
Currency	—	2	2	4	—
Investments (Note 2)	162,081	155,766	141,451	459,298	94,747
Loans	173,793	—	—	173,793	—
Accrued interest receivable	2,687	4,338	3,755	10,780	1,225
Total	338,561	160,106	145,208	643,875	95,972
LIABILITIES AND RESOURCES					
Resources	318	160,106	84,659	245,083	95,972
Borrowing (Note 4)	335,842	—	60,000	395,842	—
Accrued interest on borrowing	2,384	—	549	2,933	—
Other liabilities	17	—	—	17	—
Total	338,561	160,106	145,208	643,875	95,972

The accompanying notes and Schedules 1–4 are an integral part of the financial statements.

/s/ Gerhard Laske
Treasurer

/s/ M. Camdessus
Managing Director

INTERNATIONAL MONETARY FUND

ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST

COMBINED STATEMENT OF INCOME AND EXPENSE

for the year ended April 30, 1989

(In thousands of SDRs)

(Note 1)

	Loan Account	Reserve Account	Subsidy Account	Combined 1989	Combined 1988
Income:					
Investment income	3,933	8,181	6,913	19,027	560
Interest on loans	254	—	—	254	—
Exchange valuation gain	1	3	75	79	—
Deduct: Interest expense on borrowing	2,798	—	549	3,347	—
Other expenses	17	—	—	17	—
Net income	1,373	8,184	6,439	15,996	560

The accompanying notes and Schedules 1–4 are an integral part of the financial statements.

APPENDIX IX

INTERNATIONAL MONETARY FUND

ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST

COMBINED STATEMENT OF CHANGES IN RESOURCES

for the year ended April 30, 1989

(In thousands of SDRs)

(Note 1)

	Loan Account	Reserve Account	Subsidy Account	Combined 1989	Combined 1988
Balance, beginning of the year	—	90,541	5,431	95,972	—
Contributions (Note 3)	—	—	73,174	73,174	5,403
Transfers from Special Disbursement Account	—	59,941	—	59,941	90,009
Subsidy Account transfers	385	—	(385)	—	—
Loan Account transfers	(1,440)	1,440	—	—	—
Net income	1,373	8,184	6,439	15,996	560
Balance, end of the year	318	160,106	84,659	245,083	95,972

The accompanying notes and Schedules 1–4 are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST

NOTES TO THE FINANCIAL STATEMENTS

Purpose

The Enhanced Structural Adjustment Facility Trust, which is administered by the Fund as Trustee, was established in December 1987 to provide loans on concessional terms to low-income developing members that qualify for assistance in order to support programs to strengthen substantially and in a sustainable manner their balance of payments position and to foster growth. The resources of the Enhanced Structural Adjustment Facility Trust are separate from the assets of all other accounts of, or administered by, the Fund and may not be used to discharge liabilities or to meet losses incurred in the administration of other accounts.

The operations and transactions of the Enhanced Structural Adjustment Facility Trust are to be conducted through a Loan Account, a Reserve Account, and a Subsidy Account.

Loan Account

The resources of the Loan Account consist of the proceeds of loans made to the Enhanced Structural Adjustment Facility Trust for the Loan Account, and payments of principal and interest on loans extended by the Enhanced Structural Adjustment Facility Trust. Resources of the Loan Account are committed to qualifying member countries for a three-year period, upon approval by the Trustee, in support of a three-year macroeconomic and structural adjustment program submitted by the member. Loans disbursed under the Enhanced Structural Adjustment Facility Trust are repayable in ten semiannual installments commencing not later than the end of the first six months of the sixth year, and to be completed at the end of the tenth year after the date of disbursement. Interest is charged on the outstanding loan balances and is currently set at the rate of ½ of 1 percent per annum. At April 30, 1989, SDR 173.8 million in loans had been disbursed. No loans had been disbursed at April 30, 1988.

Reserve Account

The resources of the Reserve Account consist of transfers by the Fund from the Special Disbursement Account; net earnings from investment of resources held in the Reserve Account; net earnings from investment of any resources held in the Loan Account pending use of these resources in operations; payment of overdue principal or interest thereon under Loan Account loans; and payments of interest under Loan Account loans to the extent that payment has been made to a lender from the Reserve Account.

The resources held in the Reserve Account are to be used by the Trustee to make payments of principal and interest on its borrowings for the Loan Account to the extent that the amounts available from receipts of repayments and interest from borrowers under the Loan Account, together with the authorized interest subsidy, are insufficient to cover payments to lenders as they become due and payable.

Subsidy Account

The resources held in the Subsidy Account consist of the proceeds of donations made for the Subsidy Account; the proceeds of loans made to the Subsidy Account; and the net earnings from investment of donated or borrowed resources held in the Subsidy Account.

The resources available in the Subsidy Account are drawn by the Trustee to pay the difference, with respect to each interest period, between the interest due by the borrowers under the Enhanced Structural Adjustment Facility Trust and the interest due on resources borrowed for Loan Account loans.

1. Accounting Practices

Unit of Account

The accounts of the Enhanced Structural Adjustment Facility Trust 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 as follows:

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

Members are not obligated to maintain the SDR value of their currency held by the accounts of the Enhanced Structural Adjustment Facility Trust.

Basis of Accounting

The accounts of the Enhanced Structural Adjustment Facility Trust are maintained on the 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 Trustee to make all calculations on the basis of the exact number of days in the accounting period. The expenses of conducting the business of the Enhanced Structural Adjustment Facility Trust that are paid by the General Resources Account of the Fund are reimbursed on an annual basis by the Special Disbursement Account.

2. Investments

The resources of the Enhanced Structural Adjustment Facility Trust are invested pending their use in operations and transactions. Investments are denominated in SDRs or in currency. Balances held in currency-denominated investments may give rise to valuation gains and losses. Pending their investment, resources may be temporarily held in currency, which may give rise to valuation gains and losses.

3. Contributions

The Trustee accepts donations of resources for the Subsidy Account on such terms and conditions as agreed between the Trustee and the respective contributors. Cumulative contributions received as at April 30, 1989 amounted to SDR 78.6 million (SDR 5.4 million at April 30, 1988) and are listed in Schedule 1.

4. Borrowing

The Trustee borrows resources for the Loan Account and for the Subsidy Account on such terms and conditions as agreed between the Trustee and the respective lenders.

The following summarizes borrowing agreements concluded as at April 30, 1989 (in thousands of SDRs):

	Amounts Agreed	Amounts Borrowed	Amounts Available
Loan Account	4,575,000	335,842	4,239,158
Subsidy Account	100,000	60,000	40,000

At April 30, 1988 borrowing agreements had been concluded for the Loan Account and the Subsidy Account amounting to SDR 3.09 billion and SDR 60 million, respectively. There were no drawings under these agreements.

Scheduled repayments of outstanding borrowing by the Trustee are shown in Schedule 2.

5. Commitments Under Loan Arrangements

At April 30, 1989 resources of the Loan Account were committed to members under seven loan arrangements and undrawn balances under those arrangements amounted to SDR 560 million. No loan arrangements had been approved at April 30, 1988. Loan arrangements are listed in Schedule 3. Scheduled repayments of outstanding loans are shown in Schedule 4.

Schedule 1

INTERNATIONAL MONETARY FUND

ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST

CONTRIBUTIONS TO THE SUBSIDY ACCOUNT

as at April 30, 1989

(In thousands of SDRs)

Contributor	Cumulative Contributions
Belgium	947
Canada	1,300
Denmark	18,000
Finland	5,403
Japan	15,066
Luxembourg	500
Netherlands	760
Norway	6,819
Sweden	18,485
United Kingdom	11,296
Total contributions received	78,576

Schedule 2

INTERNATIONAL MONETARY FUND

ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST

SCHEDULE OF REPAYMENTS OF BORROWING

as at April 30, 1989

(In thousands of SDRs)

Periods of Repayment Financial Years Ending April 30[1]	Loan Account	Subsidy Account
1994	1,465	—
1995	67,169	—
1996	67,169	—
1997	67,169	—
1998	67,169	—
1999	65,703	60,000
Total[2]	335,842	60,000

[1] Dates of repayment are the dates provided in the borrowing agreements between the Trustee and lenders. The borrowing agreements also permit earlier repayment in certain circumstances.
[2] Details may not add to total due to rounding.

Schedule 3

INTERNATIONAL MONETARY FUND

ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST

STATUS OF LOAN ARRANGEMENTS[1]

as at April 30, 1989

(In thousands of SDRs)

			Amount Agreed			Undrawn Balance		
Member	Date of Arrangement	Expiration	ESAF Loan Account	Structural adjustment facility	Total	ESAF Loan Account	Structural adjustment facility	Total
Bolivia	July 27, 1988	July 26, 1991	90,700	45,350	136,050	72,560	18,140	90,700
Gambia	Nov. 23, 1988	Nov. 22, 1991	17,100	3,420	20,520	14,834	2,266	17,100
Ghana	Nov. 9, 1988	Nov. 8, 1991	265,850	102,250	368,100	210,225	71,575	281,800
Malawi	July 15, 1988	July 14, 1991	29,760	26,040	55,800	18,600	18,600	37,200
Niger	Dec. 12, 1988	Dec. 11, 1991	43,810	6,740	50,550	37,660	4,465	42,125
Senegal	Nov. 21, 1988	Nov. 20, 1991	127,650	17,020	144,670	79,568	5,532	85,100
Uganda	Apr. 17, 1989	Apr. 16, 1992	159,360	19,920	179,280	126,990	9,960	136,950
Totals[2]			734,230	220,740	954,970	560,437	130,538	690,975

[1] Resources under enhanced structural adjustment facility arrangements may be provided from the structural adjustment facility within the Special Disbursement Account and from the Enhanced Structural Adjustment Facility Trust.
[2] Details may not add to totals due to rounding.

Schedule 4

INTERNATIONAL MONETARY FUND

ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST

SCHEDULE OF REPAYMENTS OF LOANS

as at April 30, 1989

(In thousands of SDRs)

Periods of Repayment Financial Years Ending April 30	Loan Account
1994	1,465
1995	34,759
1996	34,759
1997	34,759
1998	34,759
1999	33,294
Total[1]	173,793

[1] Details may not add to total due to rounding.

INTERNATIONAL MONETARY FUND

ENHANCED STRUCTURAL ADJUSTMENT FACILITY

ADMINISTERED ACCOUNTS

BALANCE SHEET

as at April 30, 1989

(In thousands of SDRs)

(Note 1)

	Austria	Belgium	Greece
ASSETS			
Investments (Note 2)	60,000	65,028	35,000
Accrued interest receivable	1,504	1,460	988
Total	61,504	66,488	35,988
LIABILITIES AND RESOURCES			
Resources	1,404	1,392	922
Deposits (Note 3)	60,000	65,000	35,000
Accrued interest on deposits	100	96	66
Total	61,504	66,488	35,988

The accompanying notes are an integral part of the financial statements.

/s/ Gerhard Laske
Treasurer

/s/ M. Camdessus
Managing Director

INTERNATIONAL MONETARY FUND

ENHANCED STRUCTURAL ADJUSTMENT FACILITY

ADMINISTERED ACCOUNTS

STATEMENT OF INCOME AND EXPENSE

for the period July 27, 1988 to April 30, 1989

(In thousands of SDRs)
(Note 1)

	Austria	Belgium	Greece
Income			
Investment income	1,504	2,511	988
Deduct: Interest expense on deposits	100	172	66
Net income	1,404	2,339	922

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

ENHANCED STRUCTURAL ADJUSTMENT FACILITY

ADMINISTERED ACCOUNTS

STATEMENT OF CHANGES IN RESOURCES

for the period July 27, 1988 to April 30, 1989

(In thousands of SDRs)

(Note 1)

	Austria	Belgium	Greece
Opening balance	—	—	—
Net income	1,404	2,339	922
Transfer to Enhanced Structural Adjustment Facility Trust Subsidy Account	—	(947)	—
Balance, April 30, 1989	1,404	1,392	922

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

ENHANCED STRUCTURAL ADJUSTMENT FACILITY

ADMINISTERED ACCOUNTS

NOTES TO THE FINANCIAL STATEMENTS

Purpose

The Administered Accounts were established for the administration of resources deposited in the accounts. The difference, net of any investment cost, between interest earned by the Fund on the investment of resources and the interest on deposits due will be transferred to the Subsidy Account of the Enhanced Structural Adjustment Facility Trust.

The resources of each of the Administered Accounts are separate from the assets of all other accounts of, or administered by, the Fund and may not be 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 Administered Accounts 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 as follows:

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

Basis of Accounting

The accounts of the Administered Accounts are maintained on the 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.

2. Investments

The resources of the Administered Accounts are invested by the Fund in SDR-denominated deposits.

3. Deposits

The Administered Account Austria was established December 27, 1988 for the administration of resources deposited in the account by the Austrian National Bank. The deposit totaling SDR 60 million will be repaid in ten equal semiannual installments which begin five and one-half years after the date of the deposit and will be completed at the end of the tenth year after the date of the deposit. The deposit will bear interest at an annual rate of ½ of 1 percent per annum.

The Administered Account Belgium was established July 27, 1988 for the administration of resources deposited in the account by the National Bank of Belgium. The National Bank of Belgium will make deposits totaling SDR 100 million in three parts through June 30, 1989. Each deposit will have an initial maturity of six months and will be renewable, at the option of the Fund, on the same basis. The final maturity of each deposit, including renewals, will be ten years from the initial date of the deposit. The deposits will bear interest at an annual rate of ½ of 1 percent per annum.

The Administered Account Greece was established November 30, 1988 for the administration of resources deposited in the account by the Bank of Greece. The deposit totaling SDR 35 million will be repaid in ten equal semiannual installments which begin five and one-half years after the date of deposit and will be completed at the end of the tenth year after the date of the deposit. The deposit will bear interest at an annual rate of ½ of 1 percent per annum.

INTERNATIONAL MONETARY FUND

VOLUNTARY CONTRIBUTION ACCOUNTS

BALANCE SHEET

as at April 30, 1989

(In thousands of U.S. dollars)

(Note 1)

	1989		1988	
	Bolivia	Italy	Bolivia	Italy
ASSETS (Note 2)				
Investments	—	—	1,600	—
Interest-earning deposits	73	—	20,791	—
Total	73	—	22,391	—
RESOURCES				
Resources—Account balance	73	—	22,391	—

The accompanying notes are an integral part of the financial statements.

/s/ Gerhard Laske
Treasurer

/s/ M. Camdessus
Managing Director

INTERNATIONAL MONETARY FUND

VOLUNTARY CONTRIBUTION ACCOUNTS

STATEMENT OF CHANGES IN RESOURCES

for the year ended April 30, 1989

(In thousands of U.S. dollars)
(Note 1)

	1989		1988	
	Bolivia	Italy	Bolivia	Italy
Balance at beginning of the period	22,391	—	—	—
Contributions received	13,668	15,000	22,197	8,216
Income earned on investments and interest-earning deposits (Note 2)	681	98	194	2
Total resources available	36,740	15,098	22,391	8,218
Payments to beneficiary	36,667	15,098	—	8,218
Balance at end of the period	73	—	22,391	—

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

VOLUNTARY CONTRIBUTION ACCOUNTS

NOTES TO THE FINANCIAL STATEMENTS

Purpose

Voluntary Contribution Accounts may be established by the Fund at the request of a member to perform financial services, including the administration of contributed resources. The resources of each Voluntary Contribution Account are separate from the assets of all other accounts of, or administered by, the Fund and are not available to discharge liabilities or to meet losses incurred in the administration of other accounts. Contributions received are held in temporary investments pending the receipt of notification to the Fund that resources should be disbursed.

Bolivia

Effective October 21, 1987, the Fund established, at the request of Bolivia, a Voluntary Contribution Account to be administered by the Fund to assist Bolivia to discharge a portion of the external indebtedness owed or guaranteed by it to nonofficial creditors. Contributions received by the Voluntary Contribution Account are used solely to buy back Bolivia's external public debt at agreed amounts.

During the year ended April 30, 1989, and for the period October 21, 1987 to April 30, 1988, resources were received from contributors and paid out for the benefit of Bolivia.

Italy

On June 5, 1987, the Fund established a Voluntary Contribution Account at the request of Italy to administer resources contributed by them to support the adjustment efforts of Somalia. The resources of the Voluntary Contribution Account are to be used only to provide grants to Somalia to support their adjustment efforts.

During the year ended April 30, 1989 and for the period June 5, 1987 to April 30, 1988, contributions were received from Italy and resources were paid out for the benefit of Somalia.

1. Accounting Practices

Unit of Account

The accounts of the Voluntary Contribution Accounts are expressed in U.S. dollars. All transactions and operations of the Voluntary Contribution Accounts, including the transfers to and by the accounts, are denominated in U.S. dollars.

Basis of Accounting

The accounts of the Voluntary Contribution Accounts are maintained on the 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.

2. Investments and Interest-Earning Deposits

The assets of the accounts, pending their disbursement, are held in the form of repurchase agreements with the Federal Reserve Bank of New York or in the form of interest-earning deposits with the Bank for International Settlements. Interest paid on these assets varies and is market related.

3. Account Termination

The Voluntary Contribution Accounts can be terminated by the Fund or the members that requested the establishment of the Accounts at any time, effective upon the receipt by one party of a notice of termination from the other party. Any resources in the Voluntary Contribution Account for Italy at its termination are to be returned promptly to Italy whereas the remaining assets of the Voluntary Contribution Account for Bolivia are to be returned to Bolivia or to those that transferred assets to the Bolivia account.

INTERNATIONAL MONETARY FUND

ADMINISTERED ACCOUNT—JAPAN

BALANCE SHEET

as at April 30, 1989

(In thousands of U.S. dollars)

(Note 1)

ASSETS	
Investments (Note 2)	43,800
Currency deposit pending investment	27
Accrued interest on investments	25
Total	43,852
RESOURCES	
Resources—Account balance	43,852

The accompanying notes are an integral part of the financial statements.

/s/ Gerhard Laske
Treasurer

/s/ M. Camdessus
Managing Director

INTERNATIONAL MONETARY FUND

ADMINISTERED ACCOUNT—JAPAN

STATEMENT OF CHANGES IN RESOURCES

for the period March 3, 1989 to April 30, 1989

(In thousands of U.S. dollars)

(Note 1)

Contributions received	43,644
Income earned on investments (Note 2)	208
Balance at end of the period	43,852

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

ADMINISTERED ACCOUNT—JAPAN

NOTES TO THE FINANCIAL STATEMENTS

Purpose

At the request of Japan, the Fund established an account on March 3, 1989, to administer resources contributed by Japan that are to be used to assist certain members with overdue obligations to the Fund. The resources of the Administered Account are to be disbursed in amounts specified by Japan and only to members designated by Japan. The Fund performs financial services for the Administered Account, including the administration of the resources contributed, and the assets of the account are separate from the assets of all other accounts of, or administered by, the Fund and are not to be used to discharge liabilities or to meet losses incurred in the administration of other accounts.

Contributions received by the Administered Account are held in temporary investment accounts pending the receipt of notification to the Fund from Japan that resources should be disbursed.

1. Accounting Practices

Unit of Account

The accounts of the Administered Account are expressed in U.S. dollars. All transactions and operations of the Administered Account, including the transfers to and by the account, are denominated in U.S. dollars.

Basis of Accounting

The accounts of the Administered Account are maintained on the 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.

2. Investments

The assets of the Administered Account, pending their disbursement, are held in the form of repurchase agreements with the Federal Reserve Bank of New York. Interest received on these assets varies and is market related.

3. Account Termination

The Administered Account can be terminated by the Fund or by Japan at any time, effective upon the receipt by one party of a notice of termination from the other party. Any resources in the account at termination are to be returned promptly to Japan.

INTERNATIONAL MONETARY FUND

ADMINISTERED ACCOUNT—GUYANA

STATEMENT OF CHANGES IN RESOURCES

for the period April 5, 1989 to April 30, 1989

(In thousands of U.S. dollars)

(Note 1)

Contribution received	1,000
Payment to beneficiary	1,000
Balance at end of the period	—

The accompanying notes are an integral part of the financial statement.

/s/ Gerhard Laske
Treasurer

/s/ M. Camdessus
Managing Director

INTERNATIONAL MONETARY FUND

ADMINISTERED ACCOUNT—GUYANA

NOTES TO THE FINANCIAL STATEMENT

Purpose

At the request of Guyana, the Fund established an account on April 5, 1989, to administer resources subsequently made available to Guyana to assist it in meeting its obligations to international financial institutions. The account facilitates the transfer of resources to Guyana from various contributors and it also serves as a depository for funds intended to facilitate the clearance of Guyana's arrears to the Fund. The Fund performs financial services at the request of Guyana on its behalf and the resources of the Administered 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.

During the period April 5, 1989 to April 30, 1989, one contribution was received by the Fund and immediately made available to Guyana at its request. Contributions received by the Account can be held in temporary investment accounts pending the receipt of notification to the Fund that resources should be disbursed.

1. Accounting Practices

Unit of Account

The accounts of the Administered Account are expressed in U.S. dollars. All transactions and operations of the Administered Account, including the transfers to and by the account, are denominated in U.S. dollars or in other freely usable currencies.

Basis of Accounting

The accounts of the Administered Account are maintained on the 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.

2. Account Termination

The Administered Account can be terminated by the Fund, by Guyana, or by the Chairman of the Support Group for Guyana at any time, effective three business days following the simultaneous notice, or at a later date indicated in the notice. Otherwise the Administered Account shall be terminated on December 31, 1991, or such later date as stipulated under the terms of the Instrument establishing the account. Any proceeds that remain in the account at termination shall be returned to the transferor, unless otherwise indicated by them.

REPORT OF THE EXTERNAL AUDIT COMMITTEE

STAFF RETIREMENT PLAN

Washington, D.C.
June 30, 1989

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, 1989.

Our 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 the Independent Accountants, and other audit procedures.

Audit Opinion

In our opinion, the financial statements of the Staff Retirement Plan 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, 1989 and of the changes in financial status for the year then ended.

EXTERNAL AUDIT COMMITTEE

/s/ Khin Than Tin, Chairperson (*Myanmar*)
/s/ Abdulaziz Al-Nasrullah (*Saudi Arabia*)
/s/ Pierre Coenraets (*Belgium*)

INTERNATIONAL MONETARY FUND

STAFF RETIREMENT PLAN

STATEMENT OF ACCUMULATED PLAN BENEFITS

AND NET ASSETS AVAILABLE FOR BENEFITS

as at April 30, 1989

(In thousands of U.S. dollars)

	1989	1988
Accumulated Plan Benefits (Note 1)		
Actuarial present value of accumulated Plan benefits		
Vested benefits		
Retired participants	256,400	244,300
Active participants	186,000	162,500
Nonvested benefits	284,000	267,100
Total actuarial present value of accumulated Plan benefits	726,400	673,900
Net Assets Available for Benefits		
Investments, at current value (Notes 1 and 3)		
Portfolio denominated in U.S. dollars	810,656	690,479
Portfolio denominated in other currencies	324,005	280,029
	1,134,661	970,508
Receivables		
Contributions	256	222
Accrued interest and dividends (Note 1)	9,188	6,476
Other	2,467	6,716
	11,911	13,414
Cash at banks	146	89
Total assets	1,146,718	984,011
Liabilities		
Accounts payable	1,734	1,192
Net assets available for benefits	1,144,984	982,819
Excess of net assets available for benefits over actuarial present value of accumulated Plan benefits (Note 2)	418,584	308,919

The accompanying notes are an integral part of the financial statements.

/s/ Gerhard Laske
Treasurer

/s/ M. Camdessus
Managing Director

INTERNATIONAL MONETARY FUND

STAFF RETIREMENT PLAN

STATEMENT OF CHANGES IN ACCUMULATED PLAN BENEFITS

for the year ended April 30, 1989

(In thousands of U.S. dollars)

	1989	1988
Actuarial present value of accumulated Plan benefits at beginning of the year	673,900	580,400
Increase (decrease) during the year attributable to		
Benefits accumulated	17,375	34,100
Increase for interest due to decrease in discount period	56,400	51,200
Benefits paid	(21,275)	(23,348)
Change in actuarial assumptions (Note 2)	—	31,548
Net increase	52,500	93,500
Actuarial present value of accumulated Plan benefits at end of the year (Note 1)	726,400	673,900

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, 1989

(In thousands of U.S. dollars)

	1989	1988
Investment Income (Note 1)		
Net gain (loss) in current value of investments (Note 3)	87,633	(49,211)
Interest and dividends	70,457	59,797
	158,090	10,586
Contributions (Note 2)		
International Monetary Fund	19,918	18,468
Participants	11,271	10,649
Participants restored to service	95	41
Net transfers to retirement plans of other international organizations	(78)	(1,296)
	31,206	27,862
Total additions	189,296	38,448
Benefits		
Pension	18,828	16,803
Withdrawal	1,853	1,846
Commutation	230	4,629
Death	364	70
	21,275	23,348
Investment Fees		
Custodian	771	—
Manager	5,085	—
	5,856	—
Total payments	27,131	23,348
Net additions	162,165	15,100
Net Assets Available for Benefits at		
Beginning of the year	982,819	967,719
End of the year	1,144,984	982,819

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 and their beneficiaries.

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. Whenever the cost of living for a financial year increases, pensions shall be augmented by a pension supplement which, expressed in percentage terms, shall be equal to the increase in the cost of living for the financial year. If the cost of living for a financial year should exceed 3 percent, the Employer has the right, for good cause, to reduce prospectively the additional supplement to not less than 3 percent.

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 certain administrative costs of the Plan, such as the actuary's fees, and contributes any additional amounts not provided by the contributions of participants to pay costs and expenses of the Plan not otherwise covered. Since May 1, 1988 the Plan has paid the cost of investment management and custodial fees. Prior to this date, these fees were paid by the Employer. In financial year 1989, the costs met by the Employer were approximately \$0.2 million (\$6.2 million in 1988).

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.

1. Accounting Practices

Accumulated Plan Benefits

The actuarial value of vested benefits is presented for two categories. For retired participants, the amount presented 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 active participants, the amount presented 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 of all participants with less than three years of eligible service together with the estimated effect of projected salary increases on benefits expected to be paid.

Valuation of Investments

Investments in securities listed on stock exchanges are valued at the last reported market 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 accounting period. Investments in real estate are valued at the last reported appraisal value. Purchases and sales of securities 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.

Investment Income

Dividend and interest income from investments are recorded as earned.

2. Actuarial Valuation and Funding Policy

Funding by the Employer is based upon a valuation method, known as the "aggregate method," which expresses liabilities and contribution requirements as single consolidated figures which include provision for experience gains and losses and cost of living increases. Required Employer contributions are expressed as a percentage to be applied to the gross remuneration of participants and are based upon the valuation completed 12 months previously. For the financial year which began on May 1, 1988 this rate was 12.62 percent based upon the valuation at April 30, 1987. It is 8.45 percent for the year beginning May 1, 1989.

The actuarial assumptions used in the valuation include (a) life expectancy based upon United Nations staff life expectancy, (b) withdrawal or retirement of a certain percentage of staff at each age, differentiated by sex, (c) an average rate of return on investments of 8.5 percent per annum, (d) an average inflation rate of 5 percent per annum, (e) salary increase percentages which vary with age, and (f) valuation of assets using the 5-year moving average method. Prior to the decision to pay the investment management and custodial fees from the Plan from May 1, 1988 the assumed rate of return on investments was 9 percent.

The results of the April 30, 1987 and 1988 valuations are:

	1988	1987
	In millions of U.S. dollars	
Present value of benefits payable	1,106	1,029
Less: Assets for valuation purposes	842	714
Required future funding	264	315
Less: Present value of prospective contributions from participants (7 percent of gross remuneration)	122	118
Present value of future funding required from the Employer	142	197

Under the actuarial valuation used for funding calculations, it is assumed that the Plan will continue to exist and that active participants will continue to earn pension benefits beyond the date of the valuation until the date of withdrawal, disability, death, or retirement.

In contrast to the actuarial valuation for funding purposes, the actuarial valuation used for the financial statements shows the portion of the benefit obligation which had been accumulated by April 30, 1989. It reflects only the service to that date and does not take into account the fact that the value of accumulated benefits, which are the Plan's liabilities, are expected to increase each year nor that the market value of investments may fluctuate from year to year. Accordingly, the financial statements do not measure the amount which the Employer will be required to fund in the future nor the excess of assets over the present value of accumulated benefits that is needed to meet the obligation to pay benefits in the future.

3. Investments

A summary of investments at market values is as follows:

	1989	1988
	In thousands of U.S. dollars	
Portfolio denominated in U.S. dollars		
U.S. Government securities	152,608	94,747
Corporate bonds and debentures	48,912	75,127
Common stock	480,555	335,768
Real estate	36,767	2,700
Venture capital	4,393	—
Short-term investments	87,421	182,137
	810,656	690,479
Portfolio denominated in other currencies	324,005	280,029
	1,134,661	970,508

The net gain (loss) in the current value of investments represents the gains and losses realized during the year from the sale of investments, the unrealized appreciation and depreciation 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. The net gain (loss) is as follows:

	1989	1988
	In thousands of U.S. dollars	
Portfolio denominated in U.S. dollars	60,400	(39,234)
Portfolio denominated in other currencies	27,233	(9,977)
Net gain (loss)	87,633	(49,211)

At April 30, 1989, the investments representing 5 percent or more of the net assets available for benefits were as follows:

	Market Value	Percentage
	In thousands of U.S. dollars	
Grantham, Mayo, Van Otterloo		
Foreign Equity Pooled Trust	212,018	18.5
Managed Market Trust	70,655	6.2

REPORT OF THE EXTERNAL AUDIT COMMITTEE

SUPPLEMENTAL RETIREMENT BENEFIT PLAN

Washington, D.C.
June 30, 1989

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 Supplemental Retirement Benefit Plan for the year ended April 30, 1989.

Our 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 the Independent Accountants, and other audit procedures.

Audit Opinion

In our opinion, the financial statements of the Supplemental Retirement Benefit Plan have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period, and give a true and fair view of the financial status of the Supplemental Retirement Benefit Plan as at April 30, 1989 and of the changes in financial status for the year then ended.

EXTERNAL AUDIT COMMITTEE

/s/ Khin Than Tin, Chairperson (*Myanmar*)
/s/ Abdulaziz Al-Nasrullah (*Saudi Arabia*)
/s/ Pierre Coenraets (*Belgium*)

INTERNATIONAL MONETARY FUND

SUPPLEMENTAL RETIREMENT BENEFIT PLAN

STATEMENT OF ACCUMULATED PLAN BENEFITS

AND ASSETS AVAILABLE FOR BENEFITS

as at April 30, 1989

(In thousands of U.S. dollars)

	1989	1988
Accumulated Plan Benefits (Note 1)		
Actuarial present value of accumulated Plan benefits		
Vested benefits	700	1,100
Nonvested benefits	100	100
Total actuarial present value of accumulated Plan benefits	800	1,200
Assets Available for Benefits		
Cash at bank (Note 3)	126	193
Assets available for benefits	126	193
Excess of actuarial present value of accumulated Plan benefits over assets available for benefits	674	1,007

The accompanying notes are an integral part of the financial statements.

/s/ Gerhard Laske
Treasurer

/s/ M. Camdessus
Managing Director

INTERNATIONAL MONETARY FUND

SUPPLEMENTAL RETIREMENT BENEFIT PLAN

STATEMENT OF CHANGES IN ACCUMULATED PLAN BENEFITS

for the year ended April 30, 1989

(In thousands of U.S. dollars)

	1989	1988
Actuarial present value of accumulated Plan benefits at the beginning of the year	1,200	—
Increase (decrease) during the period attributable to		
Benefits accumulated	(424)	1,295
Increase for interest due to decrease in discount period	100	—
Benefits paid	(76)	(95)
Actuarial present value of accumulated Plan benefits at the end of the year (Note 1)	800	1,200

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

SUPPLEMENTAL RETIREMENT BENEFIT PLAN

STATEMENT OF CHANGES IN ASSETS AVAILABLE FOR BENEFITS

for year ended April 30, 1989

(In thousands of U.S. dollars)

	1989	1988
Interest income (Note 1)	9	14
Contributions from the International Monetary Fund	—	274
Total additions	9	288
Pension benefits	76	95
Net increase (decrease)	(67)	193
Net assets available for benefits at		
Beginning of the year	193	—
End of the year	126	193

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

SUPPLEMENTAL RETIREMENT BENEFIT PLAN

NOTES TO THE FINANCIAL STATEMENTS

Description of Supplemental Retirement Benefit Plan

General

The Supplemental Retirement Benefit Plan (SRBP) began operation in December 1985. It is a defined benefit pension plan covering all participants of the Staff Retirement Plan of the International Monetary Fund (Employer) and operates as an adjunct to that Plan. All assets and income of the SRBP 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 and their beneficiaries.

Benefits

The Staff Retirement Plan has adopted limits to pensions payable from that plan. The SRBP provides for the payment of any benefit which would otherwise have been payable if these limits had not been adopted.

Contributions

The SRBP is entirely funded by the Employer. There is a partial prefunding, just prior to retirement, when non-U.S. citizens retire in the United States, so that the taxable income of the participant is approximately equal to, but not more than, such income that would have accrued if the entire benefit had been payable from the Staff Retirement Plan. The prefunded amounts are used to pay any of the benefits payable, whether for U.S. or non-U.S. staff. Should the prefunded assets of the SRBP be exhausted, benefits will be paid from current contributions by the Employer. The Employer also meets the administrative costs of the SRBP.

Termination

In the event of the termination of the SRBP by the Employer, the assets of the SRBP shall be used to satisfy all liabilities to participants, retired participants and their beneficiaries, and all other liabilities of the SRBP.

1. Accounting Practices

Accumulated Plan Benefits

The actuarial value of benefits is presented for two categories. The vested benefits relate to retired participants and the amount presented 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.

The nonvested benefits relate to active participants and the amount presented equals the present value of the supplemental deferred pension earned to the valuation date for a participant, taking into account the estimated effect of projected salary increases. For the purpose of determining the actuarial value of the benefits at the end of the period, it is assumed that the SRBP will continue to exist but that participants will not accumulate further contributory service beyond the date of the calculation.

Interest Income

Interest income is recorded as earned.

Comparative Figures

Comparative figures are for the 29 months from the date of establishment to April 30, 1988.

2. Actuarial Valuation

The actuarial assumptions include (a) life expectancy based upon the 1982 United Nations valuation, (b) withdrawal or retirement of a certain percentage of staff at each age, differentiated by sex, (c) an average inflation rate of 5 percent per annum, and (d) salary increase percentages which vary with age.

3. Assets

Cash balances are maintained in a money market account.