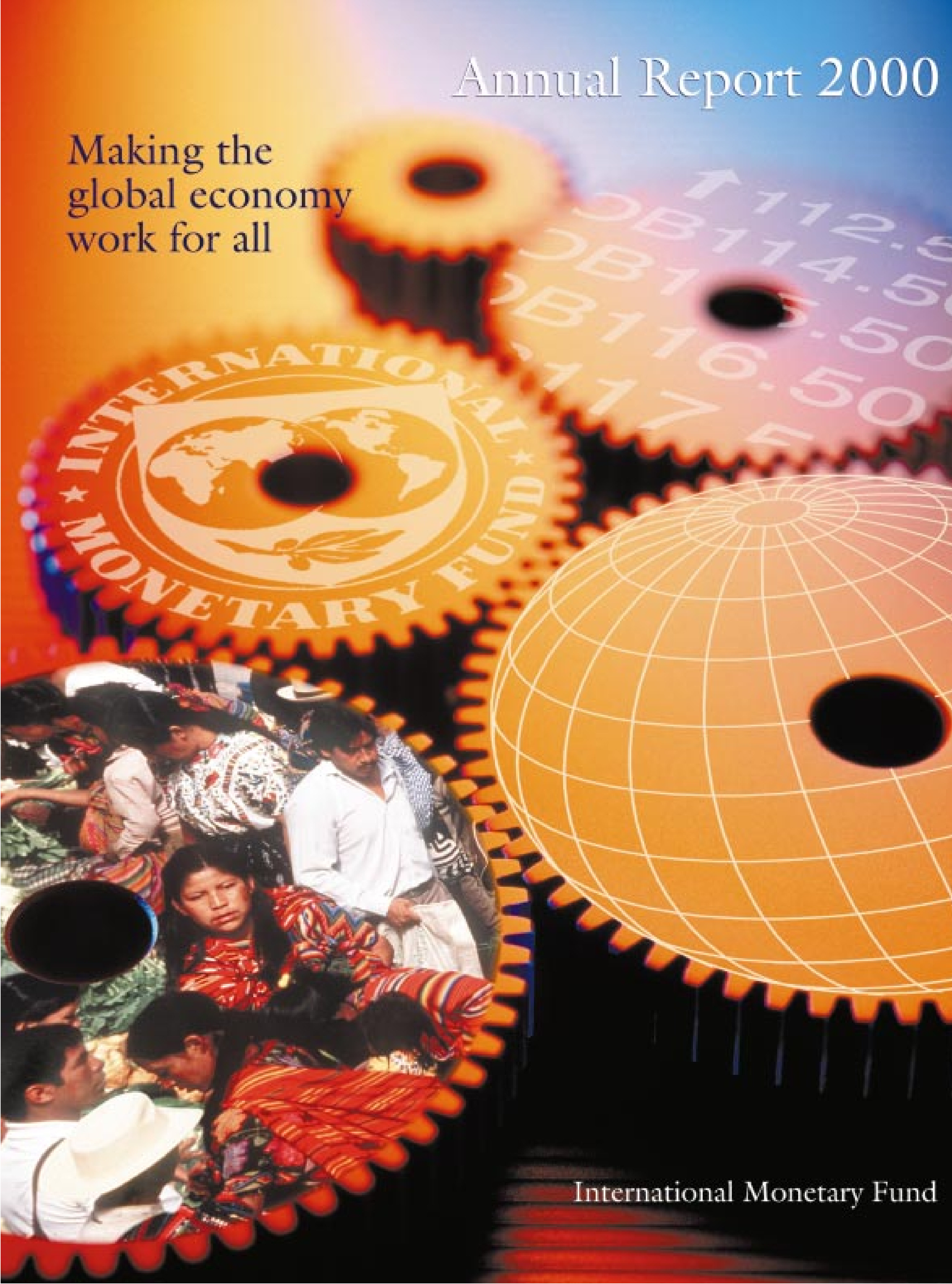
Annual Report 2000

Making the global economy work for all



International Monetary Fund

Purposes of the IMF

(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 IMF's Articles of Agreement

IMF HIGHLIGHTS FY2000

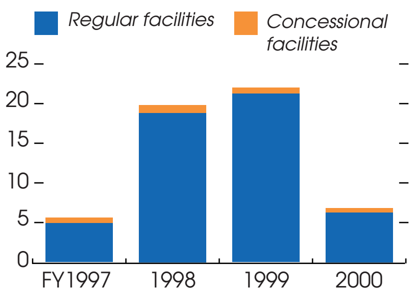
In FY2000,[1] the public debate on the role of the international financial institutions in the changing world economy escalated. In response, the IMF continued to adapt to better serve its member countries' needs and to help its members benefit from—and cope with—economic globalization. It made notable strides in its own transparency, publishing an unprecedented amount of information on its member countries' policies and IMF-supported reform programs and on its own operations and financial position—much of it on the IMF's external website. Among the year's highlights were the following:

- IMF regular and concessional lending fell in FY2000 from its exceptionally high level in FY1999. Member drawings under regular policies and facilities dropped to SDR 6.3 billion[2] from SDR 21.4 billion in FY1999. This was partly because of faster-than-expected recoveries in some emerging market economies—notably the Asian crisis countries with IMF-supported reform programs. Under the IMF's concessional facility for poor countries, drawings declined to SDR 0.5 billion from SDR 0.8 billion in FY1999.
- Net IMF credit outstanding decreased to SDR 50.4 billion at the end of FY2000 from SDR 67.2 billion a year earlier. Owing to reduced lending and a high level of scheduled and advance repayments, the IMF's liquidity ratio rose to 153.1 percent at the end of FY2000, approximating the level prevailing before the Asian financial crisis.

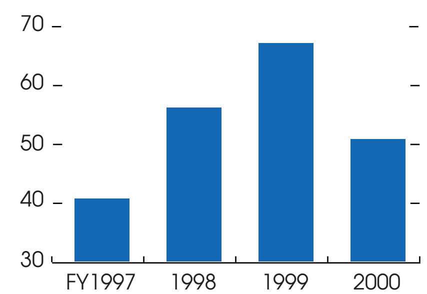
[1]May 1, 1999, to April 30, 2000.
[2]As of April 30, 2000, SDR 1 = US$1.31921.

- The IMF intensified its surveillance (oversight) of its members' policies in FY2000, expanding the coverage of issues addressed and stepping up global and regional surveillance. An external evaluation of surveillance called attention to whether IMF surveillance should refocus on such core concerns as exchange rate and associated macroeconomic policies, or whether its recent expanded coverage was appropriate. This issue, along with others, was also taken up in the IMF's regular internal review of surveillance in March 2000.
- In further efforts to obtain external perspective on its operations and policies, the Executive Board commissioned an external review of IMF research activities, completed in FY2000, and an external evaluation of IMF formulas for calculating its members' quota shares. The IMF also decided to establish an independent evaluation office to complement its internal and external evaluations.
- Together with other international and regional institutions and groups, the IMF acted to reinforce the global financial architecture in FY2000, in large part to prevent, or better manage, potential financial crises. Progress was made with:
    - *transparency*. Member countries released more information on IMF staff and Board assessments of their policies, and the IMF published more on its operations and financial position.
    - *implementing and monitoring the observance of standards and codes of good practice* to guide member countries' economic and financial policies.
    - *helping countries strengthen their financial systems*. The IMF and World Bank set up an

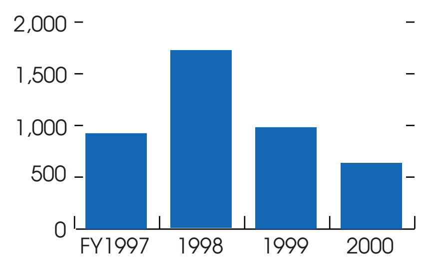
Regular and Concessional Lending
(Billion SDRs)



Net IMF Credit Outstanding
(Billion SDRs, year-end)



Commitments Under PRGF[1]
(Million SDRs)



[1]Before November 1999, Enhanced Structural Adjustment Facility.

experimental program to conduct detailed assessments of member countries' financial systems.

- *assessing vulnerabilities and risks* at the national and international levels by improving data quality and reporting.
- *involving the private sector in preventing and resolving financial crises*. Work is continuing on further development of an operational framework for securing involvement.
- *reform of its lending facilities.* The IMF eliminated four facilities that had outlived their usefulness—and allowed the temporary Year 2000 (Y2K) facility to expire. It also began reassessing the full range of its facilities, including exploring modifications to Contingent Credit Lines.

■ In cooperation with the World Bank, the IMF elevated poverty reduction to a central role in its support for poor countries' reform efforts. Under the IMF's concessional lending facility—the new Poverty Reduction and Growth Facility (PRGF)—pro-growth stabilization and reform programs are explicitly linked, with focused antipoverty programs developed by member countries in collaboration with their civil society and bilateral and multilateral donors. Lending in support of social programs will be the responsibility of the World Bank and regional development banks. As of end-FY2000, the IMF had committed SDR 3.5 billion to 31 countries under the PRGF.

■ The IMF and World Bank enhanced their joint strategy to reduce the debt burdens of heavily indebted poor countries by offering deeper, broader, and more rapid debt relief to countries pursuing sound economic policies. As of end-FY2000, 37 countries could qualify for assistance under the enhanced "HIPC Initiative"; as of that date, the IMF had committed SDR 467 million to nine countries.

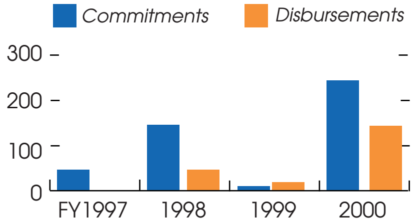
■ Progress was made in securing the financing for PRGF operations and the enhanced HIPC Initiative. By the end of FY2000, 60 percent of member countries' pledged contributions were either in hand or being paid, and the IMF had raised part of its share of the financing through "off-market" transactions involving some of its gold.

■ Responding to instances of misreporting of information and allegations regarding misuse of its financing, the IMF acted to broaden the application and use of legal measures to deal with misreporting, and to strengthen safeguards on the use of its resources.

■ Technical assistance and training continued at a high pace in FY2000, spurred by demands associated with the effort to strengthen the global financial architecture. The Executive Board published its first-ever Policy Statement on Technical Assistance, and the IMF established joint training institutes and programs with member countries in Asia, Africa, and the Middle East.

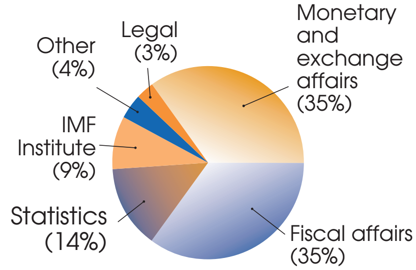
■ FY2000 saw major changes on the IMF's management team. The Executive Board, on March 23, 2000, appointed Horst Köhler of Germany the new Managing Director, and he began work on May 1, 2000. His predecessor, Michel Camdessus of France, who resigned after 13 years of service, left the IMF in February 2000. Also in FY2000, Alassane Ouattara of Côte d'Ivoire, former Deputy Managing Director, left at the end of his appointment. Subsequently, Eduardo Aninat of Chile was appointed Deputy Managing Director.

Assistance Under the HIPC Initiative
(Million SDRs)



Note: Includes amounts to be committed subject to satisfactory assurances by other creditors.

Technical Assistance, FY2000
(As percent of total technical assistance resources in effective person-years)



Managing Director and Deputy Managing Directors

Left to right: Deputy Managing Director Shigemitsu Sugisaki; Deputy Managing Director Eduardo Aninat; Managing Director Horst Köhler; First Deputy Managing Director Stanley Fischer

Letter of Transmittal

Letter of Transmittal to the Board of Governors

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, 2000, in accordance with Article XII, Section 7*(a)* of the Articles of Agreement of the International Monetary Fund and Section 10 of the IMF's By-Laws. In accordance with Section 20 of the By-Laws, the administrative and capital budgets of the IMF approved by the Executive Board for the financial year ending April 30, 2001, are presented in Chapter 8. The audited financial statements for the year ended April 30, 2000, of the General Department, the SDR Department, and the accounts administered by the IMF, together with reports of the external audit firm thereon, are presented in Appendix IX.

Yours sincerely,

Horst Köhler
Chairman of the Executive Board

Executive Board

on April 30, 2000

Karin Lissakers
(Vacant)
United States

Yukio Yoshimura
Haruyuki Toyama
Japan

Bernd Esdar
Wolf-Dieter Donecker
Germany

Jean-Claude Milleron
Gilles Bauche
France

Stephen Pickford
Stephen P. Collins
United Kingdom

Willy Kiekens
Johann Prader
Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovak Republic, Slovenia, Turkey

J. de Beaufort Wijnholds
Yuriy G. Yakusha
Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, FYR Macedonia, Moldova, Netherlands, Romania, Ukraine

Agustín Carstens
Hernán Oyarzábal
Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, R.B. Venezuela

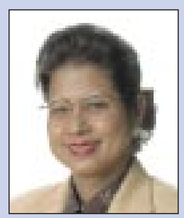
Riccardo Faini
Harilaos Vittas
Albania, Greece, Italy, Malta, Portugal, San Marino

Thomas A. Bernes
Peter Charleton
Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines

Olli-Pekka Lehmussaari
Åke Törnqvist
Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden

Gregory F. Taylor
Jong Nam Oh
Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Palau, Papua New Guinea, Philippines, Samoa, Seychelles, Solomon Islands, Vanuatu

Sulaiman M. Al-Turki
Ahmed Saleh Alosaimi
Saudi Arabia



Kleo-Thong Hetrakul
Cyrillus Harinowo
Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao P.D.R., Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, Vietnam

José Pedro de Morais, Jr.
Cyrus D.R. Rustomjee
Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe

Note: Alternate Executive Directors are indicated in italics

A. Shakour Shaalan
Abdelrazaq Faris Al-Faris
Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Yemen

Aleksei V. Mozhin
Andrei Lushin
Russia

Roberto F. Cippa
Wieslaw Szczuka
Azerbaijan, Kyrgyz Republic, Poland, Switzerland, Tajikistan, Turkmenistan, Uzbekistan

Murilo Portugal
Roberto Junguito
Brazil, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, Trinidad and Tobago

Vijay L. Kelkar
A.G. Karunasena
Bangladesh, Bhutan, India, Sri Lanka

Abbas Mirakhor
Mohammed Dairi
Algeria, Ghana, I.R. of Iran, Morocco, Pakistan, Tunisia

WEI Benhua
JIN Qi
China

Ana María Jul
A. Guillermo Zoccali
Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay

Alexandre Barro Chambrier
Damian Ondo Mañe
Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé and Príncipe, Senegal, Togo

Senior Officers

Michael Mussa
Economic Counsellor

G.E. Gondwe
Director, African Department

Yusuke Horiguchi
Director, Asia and Pacific Department

Michael C. Deppler
Director, European I Department

John Odling-Smee
Director, European II Department

Thomas C. Dawson II
Director, External Relations Department

Vito Tanzi
Director, Fiscal Affairs Department

Margaret R. Kelly
Director, Human Resources Department

Mohsin S. Khan
Director, IMF Institute

François P. Gianviti
General Counsel, Legal Department

Paul Chabrier
Director, Middle Eastern Department

Stefan Ingves
Director, Monetary and Exchange Affairs Department

Jack Boorman
Director, Policy Development and Review Department

Michael Mussa
Director, Research Department

Shailendra Anjaria
Secretary, Secretary's Department

Carol S. Carson
Director, Statistics Department

Brian C. Stuart
Director, Technology and General Services Department

Eduard Brau
Treasurer, Treasurer's Department

Claudio M. Loser
Director, Western Hemisphere Department

Ernst-Albrecht Conrad
Director, Office of Budget and Planning

Rafael Muñoz
Director, Office of Internal Audit and Inspection

Kunio Saito
Director, Regional Office for Asia and the Pacific

Flemming Larsen
Director, Office in Europe (Paris)

Grant B. Taplin
Acting Director and Special Trade Representative,
Office in Geneva

Reinhard Munzberg
Director and Special Representative to the UN, Office at the United Nations

David M. Cheney
Chief, Editorial Division

Former Managing Director
January 1987–February 2000
Michel Camdessus

In the April 2000 communiqué of the International Monetary and Financial Committee, "the members of the Committee unanimously paid tribute to Michel Camdessus for the vision, skill, and energy with which he led the IMF as Managing Director through 13 years of unprecedented challenges. Over this period, international monetary and financial cooperation was tested by the growing openness of the world economy; the rapid spread of market economy principles throughout much of the world; financial crises of unexpected virulence and scope; and the growing danger of marginalization of the poorest economies. Under [Mr. Camdessus's] leadership, the IMF moved on many fronts: strengthening surveillance; launching greater openness and transparency; and introducing innovative financial facilities to help resolve the debt crisis of the 1980s and the financial crises of the 1990s, and, through the establishment of the Enhanced Structural Adjustment Facility (now the Poverty Reduction and Growth Facility), to support and sustain the integration of the IMF's low-income members into the world economy. The members of the Committee wish to record their deep appreciation of Mr. Camdessus's many contributions, which were always marked by his personal enthusiasm and optimism, and his characteristic blend of commitment to financial discipline with devotion to alleviating the hardships of the most vulnerable."

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Prefatory Notes

This *Annual Report of the Executive Board of the IMF* reports on the activities of the Board during the financial year May 1, 1999, through April 30, 2000. Most of the Report consists of reviews of Board discussions of the whole range of IMF policy and operations. The discussions are based on papers prepared by the staff. Typically, a staff paper includes background factual and analytical material on various aspects of the issue at hand. It may also present proposals by the IMF's management on how the Board and the institution should move forward on an issue. Although a staff paper presents the positions of staff and management, it does not necessarily represent the IMF's position on the issue. The Board may or may not agree with the analysis or the proposals. The position of the IMF is, rather, the position of the Board as reflected in a decision, or as explained in a statement summarizing the discussion (usually referred to in the IMF as the "summing up").

Many documents discussed in this Report can be found on the IMF's website (www.imf.org) and/or are available in print from IMF Publication Services.

The unit of account of the IMF is the SDR; conversions of IMF financial data to U.S. dollars are approximate and are provided for convenience. As of April 30, 2000, the SDR/U.S. dollar exchange rate was US$1 = SDR 0.758030, and the U.S. dollar/SDR exchange rate was SDR 1 = US$1.31921. The year-earlier rates (April 30, 1999) were US$1 = SDR 0.740066 and SDR 1 = US$1.35123.

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

The following conventions are used in this Report:

. . . to indicate that data are not available;

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

– between years or months (for example, 1999–2000 or January–June) to indicate the years or months covered, including the beginning and ending years or months;

/ between years or months (for example, 1999/00) to indicate a fiscal or financial year.

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

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

Board of Governors, Executive Board, International Monetary and Financial Committee, and Development Committee

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

The *Executive Board* (the Board) is responsible for conducting the day-to-day business of the IMF. It is composed of 24 Directors, who are appointed or elected by member countries or by groups of countries, and the Managing Director, who serves as its Chairman. The Board usually meets several times each week. It carries out its work largely on the basis of papers prepared by IMF management and staff. In financial year 2000, the Board spent more than half of its time on member country matters (regular country consultations and reviews and approvals of financial arrangements) and most of its remaining time on global surveillance and policy issues (such as the world economic outlook exercise, developments in international capital markets, the IMF's financial resources, the architecture of the international monetary and financial system and the IMF's role, debt of the heavily indebted countries, and issues concerning IMF facilities and program design).

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

The *Development Committee* (the Joint Ministerial Committee of the Boards of Governors of the World Bank and the IMF on the Transfer of Real Resources to Developing Countries) is composed of 24 members—finance ministers or other officials of comparable rank—and generally meets the day after the International Monetary and Financial Committee. It advises and reports to the Boards of Governors of the World Bank and the IMF on all aspects of the transfer of real resources to developing countries.

OVERVIEW

Reforming the Global Financial Architecture and Accelerating Poverty Reduction Dominate IMF Agenda in FY2000

The IMF Executive Board had a heavy agenda of reflection and reform in FY2000,[1] arising out of the IMF's central role in the international effort to strengthen the international monetary and financial system, and its efforts to enhance its support for its poorest member countries.

A stronger global financial architecture is widely seen as essential for helping countries both benefit from, and better cope with, the pressures of economic globalization—pressures that were given voice in public demonstrations against the IMF and World Bank at their April 2000 meetings. For the IMF itself, adaptation is critical for helping it deal more effectively with potential turbulence in emerging market economies, assist countries in transition from central planning to market-oriented systems, and promote growth and reduce poverty in the world's poorest countries.

The IMF's work in FY2000 coincided with a strengthened global environment. Economic and financial conditions improved in 1999 and early 2000 as the world economy proved more resilient to the financial crises that erupted in 1997–98 than initially believed. The turnaround in Asia was stronger than expected, with the recoveries in Korea, Malaysia, and Thailand helped by supportive fiscal and monetary policies and buoyant exports. And the expansions in China and India remained robust enough to sustain per capita income growth and reduce poverty.

The IMF acted on many fronts during the year to transform its operations. Many of these actions centered on:

- increasing the transparency of members' policies and of IMF activities, in large part by releasing an unprecedented amount of information;
- developing and strengthening international standards of good practice, and assessing members' observance of the standards;
- helping member countries strengthen their financial systems, and better evaluating financial sector risks and vulnerabilities;
- involving the private sector in preventing and resolving financial crises;
- improving its capacity to reduce poverty in the poorest countries by transforming the former Enhanced Structural Adjustment Facility into the

[1]May 1, 1999, to April 30, 2000.

Poverty Reduction and Growth Facility, which makes poverty reduction a key element of a growth-oriented strategy; and

- enhancing the joint IMF–World Bank Initiative for Heavily Indebted Poor Countries to provide faster, broader, and deeper debt relief.

These reforms took into account, as never before, the IMF's role in relation to other international institutions and groups—notably the World Bank, but also the Financial Stability Forum (FSF), the Bank for International Settlements (BIS), other Basel-based groups, the World Trade Organization (WTO), the Organization for Economic Cooperation and Development (OECD), and others.

The IMF also launched a reassessment of its lending policies and facilities in FY2000—eliminating some and considering ways to strengthen others—to ensure that they meet member country needs in the current global environment. In addition, the IMF moved to introduce new safeguards to protect its resources from potential misuse by member countries and to forestall instances of misreporting of information by its members, and it discussed ways to help its members adopt sound practices of external reserve management.

* * *

Following the increase in *IMF quotas* under the Eleventh General Review of Quotas to SDR 212 billion[2] from SDR 146 billion—which took effect in January 1999—the IMF's financial position strengthened throughout FY2000. This strengthening occurred against a backdrop of improved global economic and financial conditions and a return of investor confidence in many emerging market countries. Reflecting these developments, demands for *IMF financial support* fell substantially—with members' drawings of IMF general resources amounting to SDR 6.3 billion in FY2000, compared with SDR 21.4 billion in FY1999. Drawings consisted of SDR 5.7 billion under Stand-By and Extended Arrangements, SDR 0.2 billion under the Compensatory and Contingency Financing Facility (CCFF), and SDR 0.4 billion in emergency assistance for natural disasters and postconflict countries.

Drawings under the IMF's concessional Poverty Reduction and Growth Facility (PRGF) for poor countries also fell in FY2000, to SDR 0.5 billion, compared with SDR 0.8 billion in FY1999.

As of the end of FY2000, 16 Stand-By Arrangements, 11 Extended Arrangements, and 31 PRGF Arrangements were in effect with member countries. Outstanding IMF credit amounted to SDR 50.4 billion on April 30, 2000, compared with SDR 67.2 billion a year earlier.

The IMF's *net uncommitted usable resources* reached SDR 74.8 billion at the end of FY2000, compared with SDR 56.7 billion a year earlier. With the IMF's liquid liabilities falling to SDR 48.8 billion on April 30, 2000, from SDR 63.6 billion a year earlier, its "liquidity ratio" (the ratio of net uncommitted usable resources to liquid liabilities) increased to 153.1 percent.

* * *

[2]As of April 30, 2000, SDR 1 = US$1.31921.

The importance of effective and timely IMF *surveillance* (or oversight) has intensified in recent years, owing to the rapid growth of private capital markets, increased economic and monetary integration, and higher risks of domestic policy errors spilling over to other countries. The concerted international effort to strengthen the global financial architecture underscores the important role of IMF surveillance—notably in helping to avert, or minimize the effects of, financial crises, and also covering such issues as poverty, health and education, and governance when these have a sizable influence on macroeconomic developments. Effective surveillance depends on members' provision of timely and high-quality data; the continuity of surveillance throughout the course of the year; focusing surveillance on an appropriate set of concerns; assessing vulnerabilities, especially in emerging market countries; providing clear and candid policy advice to members and increasing the transparency of members' policies and of IMF policy advice; and promoting its member countries' voluntary adherence to international standards and codes of good practice.

In FY2000, the Board discussed Article IV consultation reports for 127 member countries. With respect to promoting standards and codes, heightened attention was paid to helping members strengthen their financial systems—notably under the joint IMF–World Bank Financial Sector Assessment Program. The IMF also stepped up its regional surveillance over monetary unions, discussing policy developments in the European Economic and Monetary Union and in the Central African Economic and Monetary Community (one of the two monetary unions in the CFA franc zone). IMF staff also intensified discussions with regional authorities to supplement country consultations.

As part of its effort to strengthen IMF oversight, the Executive Board commissioned an external evaluation of surveillance, which it discussed in September 1999. Among the external evaluators' key recommendations were that surveillance should focus as much as possible on matters in which the IMF has a comparative advantage—the core issues of exchange rate policy and directly associated macroeconomic policies, including financial sector and capital account issues—and on the important systemic and international issues in the world financial arena. At the Board's biennial review of surveillance in March 2000, Executive Directors agreed that macroeconomic relevance remained a pertinent test for including issues in country staff reports. In parallel with the rapid integration of international financial markets, capital account and financial sector issues had been added to the set of core issues for IMF oversight in recent years; and given the continuing changes in the global economy, the set of core issues was likely to keep evolving. Nonetheless, all issues related to external sustainability and vulnerability to balance of payments or currency crises would remain priority concerns for IMF surveillance. Recognizing that the IMF may not have the breadth of expertise and experience needed to cover many areas that, while outside traditional core areas, might at times be critical to a country's macroeconomic stability, the Board concluded that IMF staff would have to draw increasingly on the expertise of other institutions.

Also in FY2000, as part of its series of external reviews looking at different aspects of IMF operations, a panel of outside experts evaluated IMF research activities to assess whether they contributed successfully to meeting the organization's main objectives. The evaluators found no major omissions in the IMF's research agenda but saw room for improvement with respect to relevance, quality, and dissemination. The Board cited a strong case for shifting the mix of research topics toward those that added most value and minimizing duplication of work done outside the IMF. Directors noted that a refocusing of research as proposed by the evaluators was already under way—especially with regard to financial sector research—and that this shift should be strengthened.

The Board also commissioned in FY2000 a review by outside experts of the current formulas used in IMF quota calculations and reviews.

* * *

While the international effort to *reform the world monetary and financial system—and the IMF*—is a long-term one, the IMF took important new steps in FY2000. It launched experimental pilot programs in several areas and promoted their implementation with the help of technical assistance. In such other areas as capital account liberalization, exchange rate systems, and involving the private sector in crisis prevention and resolution, progress was made on developing recommendations, with discussions to continue into FY2001. During the financial year, the IMF made good progress in the following areas:

Transparency and Accountability. The IMF published more about its surveillance of members. More than 80 percent of countries published Public Information Notices (PINs)[3] following their country (Article IV) consultations. At the same time, 60 member countries agreed to participate in the Article IV staff report pilot project—whereby they release their full Article IV reports—that began in April 1999. The IMF also published PINs on policy issues and documents with countries' requests for, and use of, IMF financing. It published as well internal and external evaluations of IMF policies and operations—notably, an external evaluation and internal review of IMF surveillance, and an external evaluation of IMF economic research activities. Finally, in the spring of 2000, the Board decided to establish an independent evaluation office in the IMF, whose terms of reference and scope would be determined by the time of the Prague Annual Meetings.

To improve its own transparency further, the IMF released more financial information—including timely information on every member country's financial position with the IMF; weekly updates of key statistics on IMF lending, resources, and arrangements with members; and regular information on the IMF's liquidity position. Beginning in August 2000, it will also publish regularly information on the sources of financing for IMF lending. And to enhance further its financial

[3]PINs are issued, at the request of a member country, following the conclusion of the country's Article IV consultation. They include an overview of recent economic developments and an assessment of economic policies by the IMF Executive Board.

transparency, the IMF moved to international accounting standards for its financial statements in this and future Annual Reports.

Standards and Codes. Countries' observance of internationally recognized standards and codes of good practice to guide their policies can contribute to better-informed lending and investment decisions, increased accountability of economic policymakers and private sector decision makers, and improved economic performance. Following the development of voluntary standards in areas of direct operational concern to the IMF—data dissemination; transparency of fiscal, monetary, and financial policies; and banking supervision—the IMF focused in FY2000 on disseminating and implementing these voluntary standards, including through technical assistance. It has prepared material to help countries implement the standards: a manual for the *Code of Good Practices on Fiscal Transparency* has been available on the IMF website since 1998, and the IMF is finalizing a supporting document to the *Code of Good Practices on Transparency in Monetary and Financial Policies.* The operational guidelines for a data template on international reserves and foreign currency liquidity for the IMF's Special Data Dissemination Standard (SDDS) will be finalized by the end of 2000, after taking into account members' experience with its implementation. Finally, to ensure that the design and implementation of standards remain appropriate, the Executive Board reviewed the experience with the SDDS and the General Data Dissemination System (GDDS) and agreed to changes in the areas of international reserves and external debt.

Strengthening Financial Systems. Although the IMF has, for some time, assessed financial sector soundness in its surveillance and lending activities, it deepened and focused its work in this area in FY2000 in collaboration with the World Bank. Its priorities were to examine the health of financial sectors systematically and identify the linkages among macroeconomic policies, the real economy, and structural and developmental issues in the financial sector.

In a major development in FY2000, the IMF and World Bank introduced, as a one-year pilot, the Financial Sector Assessment Program. The program aims to underpin a more effective dialogue with national governments, to help countries reduce vulnerabilities in their financial sectors, and to help formulate priorities for financial sector development. Within the IMF, staff members began to prepare Financial System Stability Assessments—with a focus on potential vulnerabilities—based on the Financial Sector Assessment Program reports for each country. The pilot program was well under way by the end of FY2000. Of the planned pilot assessments for 12 countries that participated voluntarily—covering a range of financial systems and geographic regions—4 were completed and 8 were in progress. Feedback from national governments has been positive and their suggestions for improvements are helping refine the program.

Work on strengthening the financial system also progressed during the year in such other forums and institutions as the Basel Committee on Banking Supervision.

Assessing Vulnerabilities. Timely, frequent, and high-quality data are critical for the IMF's assessment of risks and vulnerabilities at both the national and international level. The IMF therefore directed much effort in FY2000 at improving both data quality and reporting and the use of vulnerability indicators in conjunction with standard economic analysis. Work to develop better methods for evaluating external vulnerability advanced on several fronts in the IMF, World Bank, and in other international institutions, and the IMF increased its emphasis on dissemination of comprehensive and timely data on external debt and official reserves of members under the Special Data Dissemination Standard.

The IMF and World Bank are also collaborating on the issue of external debt management. Drawing on research at the World Bank, the IMF, and elsewhere, the staff undertook work on debt- and reserve-related indicators of external vulnerability, which considers the analytical usefulness of various indicators and the scope for deriving simple benchmarks to better gauge countries' abilities to withstand external shocks. Also being prepared are guidelines on sovereign debt management, a study of sound practices in sovereign debt management, and a manual for developing domestic capital markets.

Involving the Private Sector in Crisis Prevention and Resolution. In FY2000, the Executive Board made concrete progress on the essential but sensitive issue of obtaining the participation of private creditors in providing financing for a country's adjustment program. Two efforts to secure private sector involvement through restructuring international sovereign bonds (in Pakistan and Ukraine) were encouraging, and the principle of appropriate private sector involvement seemed to be reasonably well accepted, including by the private financial community. The Board considered a framework for private sector involvement, proposed by staff, that builds on the principles articulated by the Group of Seven finance ministers in their report to the June 1999 Cologne Economic Summit and endorsed by the Interim Committee in its September 1999 communiqué. Under this framework, private sector involvement could be ensured mainly through reliance on the IMF's traditional catalytic financing role if the member's financing requirements are moderate or if the member has good prospects of rapidly regaining market access even when financing requirements are more substantial. More concerted forms of private sector involvement would be required if the financing requirement is large and the member has poor prospects of regaining market access in the near future, or if the member has an unsustainable debt burden in the medium term. Flexibility will be needed in handling individual cases, and the form of private sector involvement will depend on the circumstances of each case. The Board considered that the framework suggested by staff constituted a useful start, but pointed to several problems in making it operational, including the difficulty of the underlying analytical judgments. In this connection, the Board noted:

- contracts should be honored to the extent possible;

- members should seek cooperative solutions to emerging debt difficulties;
- no one category of private creditor should be regarded as inherently privileged relative to others; and
- the approach taken in individual cases should reflect a member's specific circumstances and should be based on an analysis of a country's medium-term balance of payments prospects and debt sustainability.

The Board is continuing to work on making the framework operational.

Capital Account Liberalization and Capital Controls. In several discussions during FY2000, the Executive Board underlined the benefits of capital account liberalization, but stressed the need to manage and sequence liberalization carefully to minimize potential risks. In September 1999, Directors agreed there was no single approach to securing the benefits of international capital flows while limiting the risks. Differences of view remained, however, as to the net benefit or cost of capital controls and, hence, the usefulness of controls as a policy measure. On the basis of case studies, the Board observed that:

- capital controls cannot substitute for sound macroeconomic policies, although they may provide a breathing space for corrective action;
- while comprehensive and wide-ranging controls appear more effective than selective controls, they also tend to be more distortionary, impede desirable transactions, dampen financial market development, and undermine investor confidence and access to international capital markets;
- building effective regulatory and supervisory institutions for financial markets may take a long time;
- strong prudential policies for the financial sector can play an important role in orderly and sustainable capital account liberalization, and in reducing the vulnerability of an economy to outside shocks; and
- a case-by-case approach to capital account liberalization is needed.

Exchange Rates. During FY2000, the Executive Board also considered the key issues concerning the choice of exchange rate regime in an environment of increasing international capital mobility. Directors concluded that:

- no single exchange rate regime is suitable for all countries or in all circumstances, but whatever exchange rate regime is adopted must be consistent with underlying macroeconomic policy;
- the existing system of flexible exchange rates among the three major currencies (the U.S. dollar, yen, and euro) is likely to continue; and
- in recent years, several emerging market countries have adopted flexible exchange rate regimes. The requirements for upholding a peg when capital is internationally mobile are exacting. Even with flexibility, supporting macroeconomic policies must be coherent and credible. An alternate framework to the peg, such as monetary or inflation targeting, may be needed to provide a nominal anchor.

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The IMF provides *financial support for its poorest member countries* in two ways: through concessional lending under the *Poverty Reduction and Growth Facility* (PRGF), and through debt relief under the World Bank–IMF-sponsored *Initiative for Heavily Indebted Poor Countries* (HIPC Initiative). During FY2000, both the HIPC Initiative and IMF concessional lending were strengthened significantly. The IMF and World Bank—and the international community—enhanced the debt initiative to provide faster, broader, and deeper debt relief, and the IMF transformed an earlier concessional lending facility (the Enhanced Structural Adjustment Facility, ESAF) into the Poverty Reduction and Growth Facility and focused it more explicitly on achieving poverty reduction and lasting economic growth, while maintaining the objective of strengthening the balance of payments position. As of the end of FY2000, SDR 467 million had been committed to nine countries under the enhanced HIPC Initiative, and SDR 3.5 billion in PRGF financing was committed to support the reform programs of 31 low-income countries.

During the year, the IMF sustained its efforts to mobilize the financing needed to continue concessional lending under the PRGF and to provide additional debt relief under the enhanced HIPC Initiative. As of the end of FY2000, about 60 percent of member countries' pledged contributions were in hand, or being received. The IMF's contribution will come largely from income on the investment of proceeds resulting from "off-market" transactions involving a portion of its gold holdings.

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During FY2000, in further efforts to strengthen its *support for member countries,* the Executive Board initiated a major review of the IMF's financial policies and facilities to assess the extent to which they were still needed or, if so, whether they required modification. The review of facilities is part of the broader effort to strengthen the global financial architecture. The Board discussions resulted in the elimination of the Buffer Stock Financing Facility, the contingency element of the Compensatory and Contingency Financing Facility, and IMF support for currency stabilization funds and for commercial bank Debt and Debt-Service Reduction operations. At the same time, the Board sought to strengthen IMF policies to prevent crises. It began exploring modifications to other facilities, particularly the design of Contingent Credit Lines and other precautionary facilities, to encourage greater efforts at crisis prevention.

Also in FY2000, several allegations regarding misuse of IMF resources and episodes of misreporting of information to the IMF led the Board to review the IMF's legal framework, policies, and procedures with the aim of enhancing safeguards on the use of IMF resources. The Board agreed on a multifaceted approach in this area that would:

- require the central banks of member countries using IMF resources to publish independently audited, annual financial statements; and

- introduce an experimental two-stage safeguards assessment to evaluate and strengthen control, accounting, reporting, and auditing systems of borrowing country central banks.

To address the problem of misreporting of information, the Board agreed to broaden the application of the IMF's existing legal measures and reinforce its procedures for handling member countries' economic and financial information.

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The IMF offers its member countries a broad range of *technical assistance and training* in macroeconomic management covering fiscal, monetary, statistical, and legal areas. Outside headquarters, it provides this assistance through missions by IMF staff from various departments, and by hiring consultants and experts. The IMF Institute and other departments conduct training courses and seminars both at headquarters and overseas. A Technical Assistance Committee—composed of senior staff from concerned IMF departments and assisted by a Technical Assistance Secretariat—advises IMF management on priorities and policies and coordinates technical assistance activities within the IMF.

Technical assistance to members remained a major part of the IMF's work in FY2000, as part of the international effort to strengthen the global financial architecture. Such assistance accounted for about 19 percent of total IMF administrative spending. Staff and experts supplied more than 300 staff-years of services, comparable to the annual average for the past five years and more than double that of the late 1980s and early 1990s. The share of technical assistance for Asia and Pacific area countries was lower in FY2000 as these countries' demand eased with the resolution of the Asian financial crisis. The Executive Board conducted a major review of technical assistance in June 1999 and issued a Policy Statement on Technical Assistance in March 2000, clarifying, among other things, the scope and focus of technical assistance and the criteria for its allocation.

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Financial year 2000 saw several important *staffing and organizational changes* at the IMF, most notably changes in the management team. On November 9, 1999, Managing Director Michel Camdessus of France announced his intention to resign in early 2000, after 13 years of service, and on March 23, 2000, the Executive Board named Horst Köhler, a German national, as Mr. Camdessus's successor. Mr. Köhler assumed office as Managing Director on May 1, 2000. Earlier in the financial year, on December 14, 1999, Eduardo Aninat, then–Finance Minister of Chile, assumed office for a five-year term as Deputy Managing Director, replacing Alassane D. Ouattara, a national of Côte d'Ivoire, who left the IMF at the end of his appointment on July 31, 1999.