Chapter 1

Chapter 1 Overview

During the financial year beginning on May 1, 2006, and ending on April 30, 2007, the Executive Board focused on adapting Fund policies and operations to better meet the evolving needs of the IMF's member countries, whose number increased to 185 in January 2007, when Montenegro joined. Although many of the IMF's members experienced another year of strong economic growth and favorable market conditions, the economic and financial environment was not without risk. Large global imbalances persisted, the U.S. economy slowed, prices for oil and nonfuel commodities remained high, and investors continued to show a large appetite for risky assets.

The IMF made considerable progress in implementing the objectives set out in the Medium-Term Strategy (MTS) launched by the Managing Director in FY2006 (Box 1.1). With capital flows to emerging market economies reaching unprecedented levels in recent years, and demand for Fund lending declining as a result, the IMF has been increasingly concentrating on surveillance,[1] policy advice, and technical assistance. During FY2007, it developed a new surveillance vehicle—the multilateral consultation—with which it sought to help its members address the problem of global imbalances. It also began a review of its framework for surveillance and moved to better integrate financial sector work into its surveillance activities to help members manage the risks associated with, and reap the benefits from, globalized financial markets.

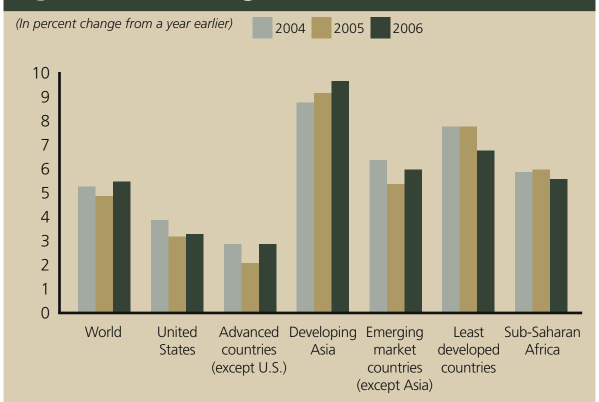
In recognition of the growing economic weight of some Fund members, the Executive Board undertook quota and governance-related reforms designed to ensure the fair distribution of quotas and adequate representation of all members. The Board also took steps to improve the Fund's internal governance, enhance the efficiency of Fund operations, and develop a new income model more closely aligned with the variety of functions the institution now performs.

1 The monitoring of global, regional, and national economic policies; see Box 2.1.

Key Economic and Financial Developments

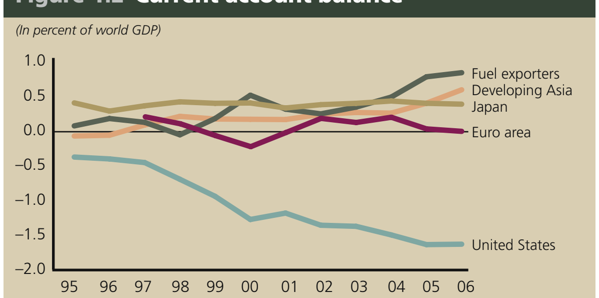
Global economic growth accelerated to 5.4 percent in 2006—up from 4.9 percent in 2005—marking the fourth successive year of a strong global expansion (Figure 1.1). Moreover, the expansion became better balanced, as a slowing in the U.S. economy was offset by firming of growth elsewhere. Emerging market countries grew particularly fast, supported by benign international financial conditions and, in many cases, high commodity prices. Inflation in the advanced economies declined in the second half of 2006 as oil prices fell from a peak in August.

Figure 1.1 Real GDP growth



Current account imbalances continued to be large (Figure 1.2). The external deficit of the United States stabilized at 6½ percent of GDP in 2006, with a marked narrowing toward the end of the year. The surpluses of the oil-exporting and East Asian countries continued to rise, while deficits grew in both western and emerging Europe[2] and in rapidly growing emerging market economies such as India.

Figure 1.2 Current account balance



Growth in the *United States* slowed markedly, declining from an annual rate of 2½ percent in the second half of 2006 to 0.6 percent in the first quarter of 2007, primarily because of declines in net exports, inventories, and residential investment. Although export growth remained solid, faster import growth reversed some of the improvement that had been made in the trade balance after August 2006. Rising oil imports accounted for more than half of the increase in imports. Business investment also slowed. However, private consumption remained solid, supported by continued employment growth and rising equity prices.

Economic activity in the *euro area* gained momentum during the same period. GDP growth reached 2½ percent (seasonally adjusted annual rate) in the first quarter of 2007, almost double the pace in 2005 and the highest rate since 2000, driven by strong investment and net exports, while consumption spending slowed significantly, reflecting in part the impact of the increase in the German value-added tax.

Japan's economic expansion hit a soft patch in the middle of 2006, mainly because of an unexpected decline in consumption, but growth rebounded strongly in the fourth quarter of 2006 as domestic demand regained momentum. The pace of activity moderated in early 2007, but growth remained above potential.

Activity in *emerging Asia* continued to expand briskly, led by strong growth in China and India. In China, real GDP grew by 10.7 percent in 2006. The pace of fixed-asset investment cooled in the second half of 2006 but gathered pace again in early 2007. India's growth of 9.7 percent in 2006 was supported by strong consumption and, especially, investment. In the newly industrialized economies (Korea, Taiwan Province of China, Hong Kong SAR, and Singapore), resilient external demand supported activity, notably in the electronics sector. GDP growth also increased in the ASEAN-4 economies (Indonesia, Malaysia, the Philippines, and Thailand).

Growth in *Latin America* accelerated to 5.5 percent in 2006 from 4.6 percent in 2005, bringing the average growth rate for the past three years to 5¼ percent, the best performance since the late 1970s. Growth picked up in Brazil and Mexico, although it remained below the regional average. As Latin America's recovery matured, domestic demand became the main engine of growth. Net exports exerted a downward pull

2 *As used in Fund publications, this term includes Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic, and Turkey.*

Box 1.1 Progress on implementing the Medium-Term Strategy

	Objective	Action
Surveillance	Modernizing the framework	Review of 1977 Decision on Surveillance over Exchange Rate Policies and work on a "remit" (statement of surveillance priorities)
	Taking a multilateral perspective and strengthening financial sector surveillance	First multilateral consultation; expansion of regional surveillance; greater analysis of cross-country spillovers; increased financial sector coverage; report of task force on integrating financial sector work into surveillance
	Making country surveillance sharper and more focused	Surveillance agendas; experimentation with streamlined consultations
Emerging markets and crisis prevention	Deepening financial sector and capital market surveillance	Development of a framework for addressing financial sector issues in country surveillance
	Reassessing the adequacy of existing instruments for crisis prevention	Board discussions and outreach on the development of a new contingent financing instrument for liquidity problems as part of the IMF's crisis-prevention toolkit
Low-income countries	Supporting the international community's effort to help low-income countries achieve the Millennium Development Goals	Policy advice, concessional lending, debt relief, and technical assistance to help low-income countries achieve macroeconomic stability and accelerate growth; tracking progress toward Millennium Development Goals jointly with the World Bank *(Global Monitoring Report)*
	Deepening involvement in dealing with aid flows	Policy advice on the effective use of increased aid; following up on the recommendations of the Independent Evaluation Office's report on the IMF's advice and actions with respect to aid flows to sub-Saharan Africa
	Helping countries that have received debt relief avoid reaccumulating unsustainable debt	Improvements in the Debt Sustainability Framework and greater outreach; technical assistance on improving public debt management practices and enhancing statistical capacity
Capacity building	Bolstering capacity building in developing countries; better integrating technical assistance and training with surveillance in accordance with country priorities	Implementing the MTS for capacity building; integrating country needs and technical assistance resources with the IMF's budget process; working closely with donor partners to leverage internal resources for capacity building; expanding regional technical assistance and training activities, including with the opening of the third regional technical assistance center in Africa (the sixth worldwide), and a new regional training center in India (the seventh worldwide)
Quota and voice reform	Reinforcing IMF effectiveness and legitimacy through progress on quota and voice reform	Ad hoc quota increases for four clearly underrepresented countries—China, Korea, Mexico, and Turkey; consideration of principles for new quota formula; discussion of the legal framework for increasing basic votes; increasing staff resources for Executive Directors elected by a large number of members
Governance and management	Strengthening communication and transparency	Beginning of review of communication strategy; release of second transparency annual report
	Making the IMF more cost-effective and efficient	Consideration of recommendations of external committee report on Bank-Fund collaboration; implementation of output-oriented budget framework with real reduction in resources over the medium term; improved risk-management framework; streamlining procedures
	Putting the IMF's finances on a sustainable footing	Report on the IMF's income model by Committee of Eminent Persons

on activity, partly as a consequence of weaker growth in the United States, the region's largest trading partner, although commodity exporters continued to benefit from buoyant world commodity prices.

In ***emerging Europe,*** growth accelerated to 6 percent in 2006. Domestic demand increased as consumption was boosted by rising employment and real wages. Current account deficits widened further but, in most cases, were financed without difficulty by bank inflows and foreign direct investment. However, concerns about large external deficits in Hungary and Turkey led to downward pressure on the exchange rates for those two countries, and policies were tightened. Activity in the ***Commonwealth of Independent States,*** the group formed by 12 of the former Soviet republics, also continued to expand briskly, supported by high prices for oil and non-oil commodities.

Middle Eastern oil exporters enjoyed another year of solid growth in 2006, accompanied by strong external and fiscal balances. Oil revenues continued to grow rapidly, the strong momentum of the non-oil sector continued, and governments planned large expenditures on social programs and investment in the oil and non-oil sectors.

Growth in ***sub-Saharan Africa*** moderated somewhat in 2006 but remained robust, driven increasingly by domestic investment, rising productivity, and, to a lesser degree, government consumption. Higher oil revenues and debt relief supported government spending in many countries. Inflation remained subdued for most, owing to prudent macroeconomic policies and another good harvest.

Oil prices continued to be high and volatile. After reaching a record high of $76 a barrel in August 2006, the average petroleum spot price declined in subsequent months, reflecting a combination of slowing demand in industrial countries, a recovery of non-OPEC supply, and some easing of geopolitical tensions. However, OPEC's production cuts after November and a recovery in demand in the first quarter of 2007 caused prices to rebound. Renewed geopolitical tensions in the Middle East pushed prices up even further in March and April of 2007, to $65 a barrel by the end of April. Prices of ***nonfuel commodities,*** led by metals, also rose sharply during the second half of 2006 and the first four months of 2007, as did prices of some agricultural commodities—notably corn—reflecting, in part, the prospect of growing demand for biofuels.

Container terminal, Hamburg, Germany

The ***monetary policies*** adopted by IMF member countries reflected different cyclical positions. The U.S. Federal Reserve kept the Fed funds rate on hold from June 2006 on, balancing the risks of a cooling economy against continued concerns about inflation. With inflation in Japan continuing to hover around zero, the Bank of Japan raised its policy rate to 0.5 percent in two quarter-point moves, after abandoning its zero interest rate policy in July 2006. By contrast, the European Central Bank and European national central banks steadily tightened monetary policy. Some emerging market countries—notably China, India, and Turkey—also tightened monetary conditions, China and Turkey because of concerns about overly rapid growth, India because of concerns about inflationary pressures. Turkey was also responding to external pressures. Regarding ***fiscal policies,*** industrial countries made some progress in reducing structural deficits, largely as a result of unusually strong revenue growth. Nonetheless, with their aging populations, these countries will need to make further substantial adjustments going forward to achieve fiscal sustainability.

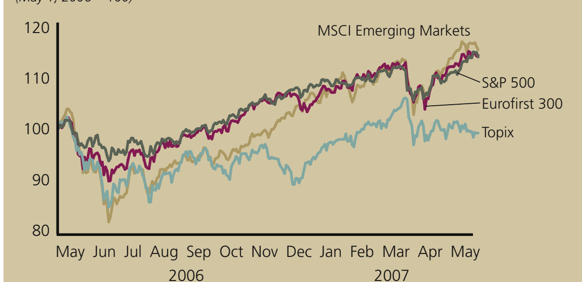
In ***foreign exchange markets,*** slower growth in the United States contributed to a weakening of the U.S. dollar. Between May 2006 and the end of April 2007, the dollar depreciated 8.4 percent against the euro and 9.5 percent against the British pound. The yen also weakened further, as low interest rates continued to encourage capital outflows. The renminbi depreciated slightly in real effective terms, despite a mild acceleration in its rate of nominal appreciation against the U.S. dollar and a further rise in China's current account surplus to 9½ percent of GDP in 2006. Overall, currency market conditions remained orderly and volatility, low.

Financial market stability continued to be underpinned by favorable global economic prospects. Despite bouts of nervousness in May/June 2006 and again in February/March 2007, market volatility generally remained at low levels. The latter episode was triggered by a variety of factors against a backdrop of growing concern about the impact of the rapidly slowing U.S. housing market on housing-related securities, as mortgage delinquencies and default rates picked up, particularly in loans to lower-quality (subprime) borrowers.

Corporate bond spreads remained low. Strong corporate balance sheets, including ample cash cushions, supported a wave of mergers and acquisitions. This activity, combined with higher-than-expected corporate profits, contributed to double-digit returns in most ***global equity markets,*** Japan being a notable exception (Figure 1.3). During the IMF's financial year 2007, the S&P 500 gained 13.1 percent and the Eurofirst 300 gained 13.9 percent, while the Topix lost 0.9 percent.

Figure 1.3 Equity market performance

(May 1, 2006 = 100)

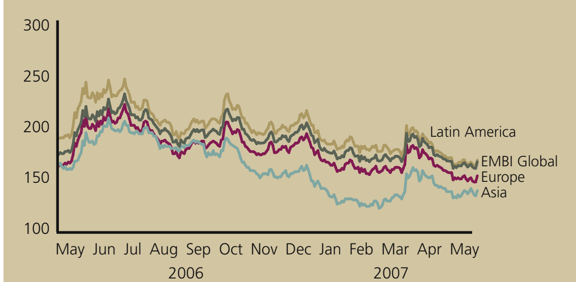


Source: Bloomberg L.P.

In emerging markets,[3] yield spreads declined to new historical lows (Figure 1.4). The market was supported by continued improvements in credit quality (with rating upgrades far exceeding downgrades), more sovereign debt buybacks (and, in the process, the continued reduction of the stock of Brady bonds), and reduced sovereign issuance. Global investors increased their portfolio allocations in local emerging markets. Net flows to emerging equity markets fluctuated. In particular, sharp outflows were recorded during the corrections of May/June 2006 and February/March 2007, with the largest outflows experienced in those markets that had run up the most. Nonetheless, emerging market equities produced strong returns, with the MSCI local currency emerging market equity index gaining 15.2 percent between May 1, 2006, and end-April 2007.

Figure 1.4 Sovereign spreads

(In basis points)



Source: JPMorgan Chase & Co.

Highlights of the Work of the Executive Board

The common thread running through the IMF's activities in FY2007 was the continued acceleration of globalization, the greatest challenge facing both the IMF and its members in the early twenty-first century. With this challenge in mind, the Executive Board made considerable progress toward key objectives set forth in the Fund's MTS: strengthening and modernizing surveillance; seeking new ways to support emerging market countries; deepening Fund engagement with low-income countries; reforming governance and strengthening internal management to make the Fund a more efficient and effective institution; and placing the IMF's finances on a sustainable footing.[4]

3 *Emerging market economies are mainly developing countries that have advanced far enough in capital market development to attract foreign portfolio investment and/or borrow significantly in international capital markets.*

4 *The Executive Board's calendar and work program can be found on the CD-ROM. General information on the Board's responsibilities and activities can be found in the* IMF Handbook, *also on the CD-ROM.*

Strengthening and modernizing surveillance

To serve the purposes of the IMF's membership, surveillance must be focused, candid, transparent, evenhanded, and accountable, and devote careful attention to cross-country spillovers. In FY2007, the Executive Board took steps to strengthen and modernize the framework for surveillance. It began a review of the 1977 Decision on Surveillance over Exchange Rate Policies, the framework adopted by the Board in 1977 that has guided the IMF's work in this area, to ensure that it reflects best practice and sets out a coherent vision of the IMF's core activity. In their review, Executive Directors found important areas of broad agreement, and, during the period covered by this *Report,* worked to build common ground in other areas. They also examined possible ways to introduce more explicit priorities for surveillance and more rigor in the IMF's methodologies for assessing the effectiveness of its surveillance work.

The Board supported several innovations in the implementation of surveillance. Among these was the IMF's first multilateral consultation, which focused on fostering common understanding and cooperation on how to reduce global imbalances while sustaining strong global growth. In addition, the framework for surveillance of the financial sector and capital markets was strengthened, based in part on the recommendations of an internal task force on integrating the financial sector into the surveillance work of the IMF. The task force urged the IMF to make better use of the Financial Sector Assessment Program (a joint IMF–World Bank initiative described in detail in Chapter 2) in the context of country surveillance and to devote more attention to the links between the financial sector and the macroeconomy. As called for in the MTS, the IMF's analytical tools were increasingly applied to capturing cross-country spillovers and drawing policy lessons, while regional surveillance continued to be expanded, with a view to deepening understanding of the impact of regional developments on both the global economy and national economies. The Board advocated sharpening country surveillance, calling on staff to focus on the most important risks confronting members and on topics that are core to the IMF's mandate. The IMF also experimented with streamlined Article IV consultations for a small number of countries.

The IMF's first multilateral consultation focused on reducing global imbalances while sustaining strong global growth. China, the euro area, Japan, Saudi Arabia, and the United States participated.

High oil prices complicated policymaking, and the Board provided advice to both exporters and importers of oil on appropriate policy responses, bearing in mind that rising demand, production constraints, and supply disruptions could pose a threat to global growth or fuel inflationary pressures. The Board continued to emphasize the need for more investment in the oil sector and encouraged member countries to pass international oil prices through to consumers in order to avoid a distortion of consumption patterns.

The Board's discussions of the *World Economic Outlook* and the *Global Financial Stability Report,* the IMF's primary vehicles for global surveillance, and other issues related to the IMF's surveillance activities in FY2007 are described in greater detail in Chapter 2.

Program support

Many ***emerging market economies*** have strengthened their policies, addressed vulnerabilities, and improved debt structures. Some—particularly in Asia—have accumulated large reserves and expanded regional reserve pooling arrangements. The prospects for emerging market economies remain positive, with favorable financial conditions and further robust growth expected to continue. As a result, most are now able to meet their financing needs for the coming year in the international financial markets, and their demand for IMF lending has declined dramatically. Nonetheless, macroeconomic fundamentals still vary widely among emerging market economies and vulnerabilities remain.

In FY2007, the Executive Board considered ways to strengthen the IMF's support for emerging market economies. Given their growing reliance on international capital flows, the deepening of financial sector and capital market surveillance would have particular relevance for these economies' crisis-prevention efforts. The Board also made progress toward developing an instrument that would make financing available to emerging market economies with sound policies in the event of a temporary loss of liquidity. Recognizing that a member's own policies are central to crisis prevention, the Board considered a staff paper on the sources and costs of shocks and the policy options that can best insulate members from crisis.

Over the past few years, the IMF has broadened the array of financing and other instruments available to low-income countries.

The Executive Board also explored ways to deepen the IMF's engagement with ***low-income countries,*** in collaboration with the World Bank, while focusing on helping them achieve macroeconomic stability and accelerate growth, the areas in which the IMF is best equipped to assist as they strive to reduce poverty and achieve the Millennium Development Goals.

Over the past few years, the IMF has broadened the array of financing and other instruments available to low-income countries. In FY2007 the Executive Board focused on finding ways to help countries that have received debt relief—through the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI)—avoid building up new unsustainable debt burdens. The Board provided advice on putting in place the kinds of macroeconomic policies that will allow low-income countries to use aid effectively, and reviewed a report by the Independent Evaluation Office (IEO; see Box 5.3) on the IMF's prior advice and actions with respect to aid flows to sub-Saharan Africa (the IEO's findings are discussed in Chapter 3). Given that the economic development of low-income countries depends crucially on trade, the Executive Board urged Fund members to work toward a successful conclusion to the Doha Round of multilateral trade negotiations. The IMF also continued to offer technical assistance in such areas as tax and customs reform to enable low-income countries to benefit fully from trade liberalization, and stood ready to provide financial assistance to countries that might be harmed in the short run by other countries' trade liberalization.

A table detailing the instruments through which the IMF provides financial and other assistance to member countries can be found in Chapter 3 (Table 3.1), along with more information about the IMF's lending activities and other program support in FY2007.

Capacity building

As country surveillance has become more focused, the close relationship between surveillance and capacity building has become increasingly apparent. The technical assistance and training provided by the IMF can help member countries implement the policy advice they receive during the course of surveillance. Work during FY2007 continued to focus on ensuring that technical assistance and training were more closely aligned with the priorities of both the IMF and recipient countries, and better coordinated with services provided by others.

In view of the critical need for additional capacity building in developing countries, the Central Africa Regional Technical Assistance Center (AFRITAC) was opened in Gabon to serve countries in that area and a new regional training program was established in India. The new AFRITAC—the third in Africa and the sixth regional technical assistance center worldwide—will complement the activities of the East AFRITAC and the West AFRITAC. The training center in India is the seventh such center worldwide, with other regional training centers located in Africa, East Asia, Europe, Latin America, and the

Middle East. The IMF began to develop a plan, in collaboration with the World Bank, to enhance capacity building in the design of medium-term debt strategies in both emerging market economies and low-income countries, to help them avoid the reaccumulation of unsustainable debt.

The process for allocating technical assistance resources has been improved with the introduction of medium-term regional plans that will be integrated with the IMF's budget process. The Board has also begun to explore ways to ensure adequate financing for capacity building amid growing demand, including by increasing external financing.

Quota and voice reform

If the IMF is to reinforce its legitimacy, it must truly represent—and must be seen as truly representing—all of its member countries. Thus, in FY2007, the Executive Board embarked on far-reaching quota and voice reforms, a central goal of the MTS, to better align members' quotas with their economic weight in the global economy and to enhance the participation and voice of low-income members.

In its communiqué of April 22, 2006, the International Monetary and Financial Committee (IMFC) emphasized the importance of governance reform to safeguard and enhance the IMF's effectiveness and credibility as a cooperative institution, and called for concrete proposals from the IMF's Executive Board by the time of the September 2006 Annual Meetings. In response to the Executive Board's recommendations,[5] on September 18, 2006, the Board of Governors adopted a Resolution on Quota and Voice Reform granting ad hoc quota increases for China, Korea, Mexico, and Turkey, the four most clearly underrepresented countries, and setting out a package of more fundamental reforms to be completed, if possible, by the Annual Meetings of 2007 and no later than the Annual Meetings of 2008.[6]

A work program involving consultations with the membership and informal and formal Board discussions on various elements of the package was initiated after agreement was reached on the Resolution. In a preliminary discussion in January 2007, the Board generally endorsed the overall framework proposed by Fund staff for an amendment to the IMF's Articles of Agreement related to an increase in basic votes.[7] It also considered additional staffing for Executive Directors representing large constituencies—namely, the two chairs for sub-Saharan Africa (see Chapter 5, footnote 58). In addition, the Board held two informal discussions on principles for a new quota formula that will form the basis for a second round of ad hoc increases. In its April 14, 2007, communiqué, the IMFC welcomed the progress to date and called on the Executive Board to continue its work on the reform package as a matter of priority.

Girl on bus, Tanzania

Communication and transparency

The MTS stresses the importance of communication and transparency in enhancing the effectiveness of surveillance and in building support for sound economic policies. The Executive

5 *See Press Release 06/189, "IMF Executive Board Recommends Quota and Related Governance Reforms," on the CD-ROM or at* www.imf.org/external/np/sec/pr/2006/pr06189.htm.

6 *See Press Release 06/205, "IMF Board of Governors Approves Quota and Related Governance Reforms," on the CD-ROM or at* www.imf.org/external/np/sec/pr/2006/pr06205.htm, *as well as the Board's Resolution, which can be found on the CD-ROM.*

7 *As stipulated in the Articles of Agreement, each member country's voting power in the IMF is the sum of its 250 basic votes (the same for each member) and one vote per SDR 100,000 of its quota in the IMF. Until the mid-1970s, each member's basic votes accounted for more than 10 percent of total votes; however, general increases in quotas have since reduced that share to about 2 percent.*

Board plays a key role in the Fund's communication efforts, providing strategic guidance, conducting regular reviews of the IMF's communication strategy (the fifth review began during FY2007), and, more generally, approving the IMF's budget, which includes the resources allotted to communication and outreach. During FY2007, the Board identified concrete steps for strengthening the links between the IMF's operations and its communications, and for increasing the impact of communication and outreach—for example, by making key IMF documents more readily available in languages other than English, as described in greater detail in Chapter 5. The Executive Board's Committee on the *Annual Report* took steps to make the *Report* a more effective communication vehicle, not only for the IMF's official stakeholders but also for a broader audience.[8]

Executive Directors led the Fund's efforts to increase its transparency. In FY2006, they called on the staff to publish annual updates on the implementation of the Fund's transparency policy. The second annual update, released in February 2007, shows that the number of member countries choosing to publish—publication is voluntary—all reports on their economies and use of Fund resources increased to 142 in 2006, from 136 in 2005, and the percentage of such reports that were published increased for the third consecutive year.

Improving internal governance

The IMF is committed to becoming a more cost-effective institution, without compromising its ability to deliver the key outputs called for in the MTS. Hence a collective effort by the whole institution—the Board, the management, and the staff—is in train to enhance efficiency.

As discussed in more detail in Chapter 5, during FY2007, the IMF continued to strictly limit administrative expenditures. The medium-term budget called for zero growth, in real terms, in FY2007, and real reductions in FY2008 and FY2009. A number of initiatives were undertaken to deliver the IMF's outputs more efficiently and at a lower cost, including increased outsourcing, offshoring of some support services, and a reexamination of travel expenditures.

The IMF took steps during the year to strengthen its risk-management framework. The Executive Board regularly reviews the IMF's risk-management policies, and, in 2006, it adopted measures to implement a comprehensive risk-assessment system based on the recommendations of a task force. These measures focus on four broad categories of risks—strategic, core mission, financial, and operational. In FY2007, the IMF conducted its first risk-assessment exercise, which identified the main risks facing the IMF and the measures in place to mitigate them. In their discussion, Executive Directors stressed their oversight role and critical fiduciary responsibility for the IMF's risk management.

The Executive Board also acted to streamline Fund procedures, lengthening the intervals between most policy reviews, consolidating some reports, and eliminating others. It considered a report on Bank-Fund collaboration, which was prepared by an external review committee commissioned by IMF and World Bank management, and sought possible improvements in the way the two institutions work together that would enable the IMF to deliver policy advice and capacity-building services to member countries more effectively and efficiently (see Chapter 5). In addition, the Board reviewed the report by the Independent Evaluation Office (IEO) on the IMF and aid to sub-Saharan Africa and endorsed a number of recommendations that in its view would enable the IMF to improve its policies and operations in this region (Chapter 3).

Reviewing the finances of the Fund

In May 2006, the Managing Director appointed a Committee of Eminent Persons to study the IMF's income model. The Committee's report, submitted to the Executive Board and issued in January 2007, concluded that the IMF's current income model, under which the main source of income is the interest charged on loans, is not appropriate given the wide range of the IMF's functions and responsibilities.[9] The committee recommended a new set of revenue measures, including expanded investment guidelines and operations, the creation of an endowment from limited IMF gold sales, and charges for services to member countries. In its April 2007 meeting, the IMFC indicated that the committee's report provided "a sound basis for further work on the development of a new income model." The Board's work on a model that can garner broad support across the IMF's membership is ongoing.

8 *Although the print version of the current* Annual Report *is much shorter than past* Reports*, the* Report *remains a comprehensive document of record because much of the material previously included in the print version has been transferred to the CD-ROM accompanying the* Report.

9 *The report can be found on the CD-ROM or on the IMF's Web site, at* www.imf.org/external/np/oth/2007/013107.pdf.